Offering Memorandum **Not for General Distribution in the United States of America**

SCHAEFFLER

Schaeffler Holding Finance B.V.

€800,000,000 6.875% / 7.625% Senior Secured PIK Toggle Notes due 2018
$1,000,000,000 6.875% / 7.625% Senior Secured PIK Toggle Notes due 2018

guaranteed on a senior basis by Schaeffler Verwaltungs GmbH

Schaeffler Holding Finance B.V., a private limited liability company established under the laws of the Netherlands (the "**Issuer**"), will issue on July 24, 2013 (the "**Issue Date**") €800,000,000 in aggregate principal amount of its 6.875%/ 7.625% Senior Secured PIK Toggle Notes due 2018 (the "**Euro Notes**") and $1,000,000,000 in aggregate principal amount of its 6.875%/ 7.625% Senior Secured PIK Toggle Notes due 2018 (the "**Dollar Notes**" and, together with the Euro Notes, the "**Notes**"). The Issuer will pay interest on the Notes semi-annually in arrears on February 15 and August 15 of each year, commencing February 15, 2014. The first two and the final interest payments on the Notes will be made in cash. For each other interest payment the Issuer will be required to pay interest on the Notes entirely in cash ("**Cash Interest**"), unless the conditions described in this offering memorandum (the "**Offering Memorandum**") are satisfied, in which case the Issuer will be entitled to pay, to the extent described herein, interest for such interest period by increasing the principal amount of the Notes or by issuing Notes in a principal amount equal to such interest (in each case, "**PIK Interest**"). Cash interest on the Euro Notes will accrue at the rate of 6.875% per annum (the "**Euro Cash Interest Rate**") and cash interest on the Dollar Notes will accrue at the rate of 6.875% per annum (the "**Dollar Cash Interest Rate**" and, together with the Euro Cash Interest Rate, the "**Cash Interest Rate**"). PIK Interest will accrue at the respective Cash Interest Rate plus 0.75% per annum. If the Issuer pays all eligible interest in PIK Interest, it will increase the principal amount of the Notes or issue Notes in a principal amount up to a maximum of €240,054,026 and $300,067,533. Upon the payment of PIK Interest, a notice shall be published on the website of the Luxembourg Stock Exchange in the form of Appendix 1.

The Euro Notes will mature on August 15, 2018 and the Dollar Notes will mature on August 15, 2018. The Issuer may redeem the Euro Notes and the Dollar Notes in whole or in part at any time on or after August 15, 2014, at the redemption prices specified herein. Prior to August 15, 2014, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium. In addition, prior to August 15, 2014, the Issuer may redeem at its option up to 40% of the Euro Notes and Dollar Notes, respectively, using the proceeds of certain equity offerings.

In case of a change of control or certain asset sales, the Issuer may be required to make an offer to purchase the Notes. In the event of certain developments affecting taxation, the Issuer may redeem all, but not less than all, of the Notes.

The Notes will be senior obligations of the Issuer. The Notes will rank *pari passu* in right of payment to all of the Issuer's existing and future indebtedness that is not subordinated in right of payment to the Notes and will be senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes. The Notes will be guaranteed on a senior basis and will have the benefit of an unconditional and irrevocable guarantee (the "**Note Guarantee**") by Schaeffler Verwaltungs GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of the Federal Republic of Germany (the "**Parent Guarantor**"). The Notes will not be guaranteed by any of the subsidiaries of the Parent Guarantor and will be structurally subordinated to all existing and future indebtedness of such subsidiaries, including any amounts owing under the S-Group Senior Facilities Agreement and the Existing Notes (each as defined in this Offering Memorandum). Upon issuance, the Notes will be secured by pledges over all shares of the Issuer, Schaeffler AG, Schaeffler Vermögensverwaltungs GmbH and Continental Aktiengesellschaft held by the Parent Guarantor, pledges over certain bank accounts and assignments of certain intragroup loans and certain hedging receivables (the "**Collateral**") as described in this Offering Memorandum.

All or part of the Collateral may be released or impaired without the consent of the holders under certain circumstances and is subject to certain limitations.

Investing in the Notes involves risks. See "*Risk factors*" beginning on page 30.

Neither the Notes nor the Note Guarantee have been or will be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws. Accordingly, the Notes and the Note Guarantee are being offered and sold only to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the U.S. Securities Act ("Rule 144A") and to non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). Prospective purchasers that are QIBs are hereby notified that the seller of the Notes and the Note Guarantee may be relying on the exemption from the registration requirements under the U.S. Securities Act provided by Rule 144A. See "*Important information about this Offering Memorandum*" and "*Transfer restrictions*" for additional information about eligible offerees and transfer restrictions.

This Offering Memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg Act of July 10, 2005 on prospectuses for securities, as amended, and includes information on the terms of the Notes, including redemption and repurchase prices, covenants and transfer restrictions. The Issuer has applied to have the Notes listed on the Official List of the Luxembourg Stock Exchange (the "**LxSE**") and traded on the LxSE's Euro MTF market (the "**Euro MTF**"), which is not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments. There can be no assurance that this application will be accepted.

The Issuer expects that the Notes will be delivered in book-entry form through the Depository Trust Company ("**DTC**"), Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**") on or about the Issue Date.

Price for the Euro Notes: 98.428% plus accrued interest, if any, from the Issue Date.
Price for the Dollar Notes: 99.468% plus accrued interest, if any, from the Issue Date.

Lead Bookrunners

Deutsche Bank J.P. Morgan BNP PARIBAS Citigroup Commerzbank HSBC UniCredit Bank

Offering Memorandum dated July 24, 2013.

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Important information about this Offering Memorandum

The Issuer and the Parent Guarantor have prepared this Offering Memorandum based on information obtained from sources they believe to be reliable. Summaries of documents contained in this Offering Memorandum may not be complete. None of Deutsche Bank AG, London Branch, Deutsche Bank Securities Inc., J.P. Morgan Securities plc, J.P. Morgan Securities LLC, BNP Paribas, BNP Paribas Securities Corp., Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Commerz Markets LLC, HSBC Bank plc, HSBC Securities (USA) Inc. and UniCredit Bank AG (collectively, the "**Initial Purchasers**") represent that the information herein is complete or accurate. The information in this Offering Memorandum is current only as of the date on the cover page hereof, and our business or financial condition and other information in this Offering Memorandum may change after that date. Information in this Offering Memorandum is not legal, tax or business advice; accordingly, you should consult your own legal, tax and business advisors regarding an investment in the Notes.

You should base your decision to invest in the Notes solely on information contained in this Offering Memorandum. None of the Issuer, the Parent Guarantor and the Initial Purchasers have authorized anyone to provide you with any different information.

The Issuer is offering the Notes in reliance on an exemption from registration under the U.S. Securities Act for an offer and sale of securities that does not involve a public offering. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under this section. You may be required to bear the financial risk of an investment in the Notes for an indefinite period. None of the Issuer, the Parent Guarantor and the Initial Purchasers are making an offer to sell the Notes in any jurisdiction where the offer and sale of the Notes is prohibited or make any representation to you that the Notes are a legal investment for you. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose.

Each prospective purchaser of the Notes must comply with all applicable laws, rules and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Parent Guarantor and the Initial Purchasers shall have any responsibility therefor.

Neither the U.S. Securities and Exchange Commission, any U.S. state securities commission nor any non-U.S. securities authority nor other authority has approved or disapproved of the Notes or determined if this Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

The Issuer has applied to have the Notes listed on the Official List of the LxSE and traded on the Euro MTF, which is not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments.

The Issuer and the Parent Guarantor accept responsibility for the information contained in this Offering Memorandum. They have made all reasonable inquiries and confirm to the best of their knowledge, information and belief that the information contained in this Offering Memorandum with regard to the Parent Guarantor and its subsidiaries and affiliates and the Notes is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that we are not aware of any other facts the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

No representation or warranty is made or implied by the Initial Purchasers or any of their respective affiliates, and neither the Initial Purchasers nor any of their respective affiliates make any representation or warranty or accept any responsibility or any liability, as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Memorandum and any other information provided by the Issuer and the Parent Guarantor in connection with the issuance of the Notes. None of the Initial Purchasers accepts any responsibility or liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer and the Parent Guarantor in connection with the issuance of the Notes.

By receiving this Offering Memorandum, investors acknowledge that they have had an opportunity to request for review, and have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. Investors also acknowledge that they have not relied on the Initial Purchasers in connection with their investigation of the accuracy of this information or their decision whether to invest in the Notes. The content of this Offering Memorandum is not to be considered legal, business, financial, investment, tax or other advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, business, financial, investment, tax and other aspects of a purchase of the Notes. In making an investment decision, investors must rely on their own examination of the Issuer and the Parent Guarantor, the terms of the offering of the Notes and the merits and risks involved.

The Issuer and the Parent Guarantor have prepared this Offering Memorandum solely for use in connection with the offer of the Notes to qualified institutional buyers pursuant to Rule 144A and to non-U.S. persons (within the meaning of Regulation S) outside the United States in compliance with Regulation S. You may not distribute this Offering Memorandum to any person, other than a person retained to advise you in connection with the purchase of the Notes.

The Issuer, the Parent Guarantor and the Initial Purchasers may reject any offer to purchase the Notes in whole or in part, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed.

Certain exchange rate information presented in this Offering Memorandum includes extracts from information and data publicly released by official and other sources. While the Issuer and the Parent Guarantor accept responsibility for accurately summarizing the information concerning exchange rates, and as far as they are aware and able to ascertain no facts have been omitted which would render this information inaccurate or misleading, the Issuer and the Parent Guarantor accept no further responsibility in respect of such information. The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including the section entitled "*Book-entry, delivery and form*," is subject to change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and Clearstream currently in effect. While the Issuer and the Parent Guarantor accept responsibility for accurately summarizing the information concerning DTC, Euroclear and Clearstream, and, as far as they are aware, and able to ascertain, no facts have been omitted which would render this information inaccurate or misleading, they accept no further responsibility in respect of such information.

THE NOTES AND THE NOTE GUARANTEE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A AND CERTAIN NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S. YOU ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. See "*Transfer restrictions*."

IN CONNECTION WITH THIS OFFERING OF NOTES, DEUTSCHE BANK AG, LONDON BRANCH WITH RESPECT TO THE EURO NOTES AND J.P. MORGAN SECURITIES LLC WITH RESPECT TO THE DOLLAR NOTES (EACH A "STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO STABILIZING OR MAINTAINING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. SUCH STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFERING OF THE NOTES AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

Notice to New Hampshire residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES, AS AMENDED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to Brazilian investors

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (*COMISSÃO DE VALORES MOBILIÁRIOS*), OR THE CVM. THE NOTES MAY NOT BE OFFERED OR SOLD IN BRAZIL, EXCEPT IN CIRCUMSTANCES THAT DO NOT CONSTITUTE A PUBLIC OFFERING OR UNAUTHORIZED DISTRIBUTION UNDER BRAZILIAN LAWS AND REGULATIONS. THE NOTES ARE NOT BEING OFFERED INTO BRAZIL. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL, NOR BE USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF THE NOTES TO THE PUBLIC IN BRAZIL.

Notice to certain European investors

European Economic Area. This Offering Memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU (the "**2010 PD Amending Directive**"), to the extent implemented in the Relevant Member State (as defined below)), and includes any relevant implementing measures in the Relevant Member State (the "**Prospectus Directive**"), as implemented in member states of the European Economic Area (the "**EEA**"), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for us or the Initial Purchasers to produce a prospectus for such offer. Neither we nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the Notes contemplated in this Offering Memorandum.

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, the offer is not being made and will not be made to the public of any Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State, other than: (a) to any legal entity that is a "qualified investor" as defined in the Prospectus Directive, (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by us for any such offer, or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Notes shall require the publication by us or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of Notes to the public" in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State or a supplement to a prospectus pursuant to Article 16 of the Prospective Directive other than in reliance on Article 3(2)(b).

Each subscriber for or purchaser of the Notes in the offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. We, the Initial Purchasers and their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a "qualified investor" and who has notified the Initial Purchasers of such fact in writing may, with the consent of the Initial Purchasers, be permitted to subscribe for or purchase the Notes in the offering.

Austria. This Offering Memorandum has not been or will not be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*) as amended. Neither this Offering Memorandum nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Offering Memorandum nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria. Any offer of the Notes in Austria will only be made in compliance with the provisions of the Austrian Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

Germany. The Notes may be offered and sold in Germany only in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as amended, the Commission Regulation No (EC) 809/2004 of April 29, 2004 as amended, or any other laws applicable in Germany governing the issue, offering and sale of securities. This Offering Memorandum has not been approved under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) or the Prospectus Directive and accordingly the Notes may not be offered publicly in Germany.

France. This Offering Memorandum has not been prepared in the context of a public offering in France within the meaning of Article L. 411-1 of the *Code Monétaire et Financier* and Title I of Book II of the *Règlement Général* of the *Autorité des marchés financiers* (the "**AMF**") and therefore has not been submitted for clearance to the AMF. Consequently, the Notes have not been and will not be, directly or indirectly, offered or sold to the public in France, and neither this Offering Memorandum nor any other offering material relating to the Notes has been or will be distributed or caused to be distributed to the public in France. Such offers, sales and distribution of the Notes have been and will only be made in France to (a) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) other than individuals, acting for their own account, as defined in, and in accordance with, Articles L. 411-1, L. 411-2 and D. 411-1 of the *Code of Monétaire et Financier*.

Italy. No action has been or will be taken which could allow an offering of the Notes to the public in the Republic of Italy. Accordingly, the Notes may not be offered or sold directly or indirectly in the Republic of Italy, and neither this Offering Memorandum nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information relating to the Issuers or the Notes may be issued, distributed or published in the Republic of Italy, except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations. The Notes cannot be offered or sold to any natural persons or to entities other than qualified investors (according to the definition provided for by the Prospectus Directive) either on the primary or the secondary market.

Grand Duchy of Luxembourg. The terms and conditions relating to this Offering Memorandum have not been approved by and will not be submitted for approval to the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*) for the purposes of public offering or sale in the Grand Duchy of Luxembourg ("**Luxembourg**"). Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg except for the sole purpose of the admission to trading and listing of the Notes on the Official List of the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Luxembourg Act of July 10, 2005 on prospectuses for securities.

The Netherlands. The Notes (including rights representing an interest in each global note that represents the Notes) may only be offered to qualified investors within the meaning of article **5:3 (1)(a) in conjunction with article 1:1** of the Dutch Financial Supervision Act *(Wet op het financieel toezicht).*

Spain. This offering has not been registered with the Comision Nacional del Mercado de Valores and therefore the Notes may not be offered in Spain by any means, except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 30bis of the Securities Market Act ("*Ley 24/1988, de 28 de julio del Mercado de Valores*") as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005 ("*Real Decreto 1310/2005, de 4 de noviembre por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admision a negociacion de valores en mercados secundarios oficiales, de ofertas publicas de venta o suscripcion y del folleto exigible a tales efectos*").

Switzerland. The Notes offered hereby are being offered in Switzerland on the basis of a private placement only. This Offering Memorandum does not constitute a prospectus within the meaning of Art. 652a of the Swiss Federal Code of Obligations.

United Kingdom. This Offering Memorandum is for distribution only to persons who (a) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the

"**Financial Promotion Order**"), (b) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc") of the Financial Promotion Order, (c) are outside the United Kingdom, or (d) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Recipients of this Offering Memorandum are not permitted to transmit it to any other person. The Notes are not being offered to the public in the United Kingdom.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

Forward-looking statements

This Offering Memorandum contains forward-looking statements and other information that involves risks, uncertainties and assumptions. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should" and similar expressions are used to identify forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of Schaeffler AG. Forward-looking statements therefore speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events.

By their very nature, forward-looking statements involve risks and uncertainties. These statements are based on Schaeffler AG's management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, but not limited to, future global economic conditions, changed market conditions affecting the automotive industry, intense competition in the markets in which we operate and costs of compliance with applicable laws, regulations and standards, diverse political, legal, economic and other conditions affecting our markets, the cost and availability of adequate insurance coverage and financing, changes in interest rates and other factors beyond our control). Changing factors, risks and uncertainties that could affect us include, without limitation:

- changes in global or regional economic conditions that could affect the demand for automobiles and bearing components;
- instability in the social, political and economic conditions in the countries in which we operate;
- the risk of accidents, natural disasters or other adverse incidents in the operation of the plants we administer or operate;
- increases in raw material prices;
- the need for unexpected capital expenditures;
- changes in government regulations and increases in regulatory burdens in the jurisdictions in which we operate, including those pertaining to operational, health, safety and environmental standards;
- increased competition;
- risks associated with the strategic expansion into new geographic markets;

- difficulties in renewing existing or raising additional financing, including financing to fund future capital expenditures, acquisitions and other general corporate activities;
- changes in interest rates and currency fluctuations;
- risks associated with antitrust proceedings;
- threats to our material contracts, whether as a result of litigation, changing regulations, breaches of contract provisions, public policy concerns or any other factors;
- availability of adequate insurance coverage; and
- other risks related to the business, the industry or the regions in which we operate.

Should one or more of such risks and uncertainties materialize, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this Offering Memorandum speaks only as of the date the statement was made.

All of the forward-looking statements made by us herein and elsewhere are qualified in their entirety by the risk factors discussed in "*Risk factors*" and "*Industry*." These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Offering Memorandum.

The Issuer, the Parent Guarantor and the Initial Purchasers assume no obligation to update any of the forward-looking statements after the date of this Offering Memorandum to conform those statements to actual results, subject to compliance with all applicable laws. The Issuer, the Parent Guarantor and the Initial Purchasers assume no obligation to update any information contained in this Offering Memorandum or to publicly release any revisions to any forward-looking statements to reflect events or circumstances, or to reflect that the Issuer became aware of any such events or circumstances, that occur after the date of this Offering Memorandum.

Certain defined terms and conventions

In this Offering Memorandum, unless otherwise indicated or the context otherwise requires, the terms "**Schaeffler AG**" and the "**Company**" refer to Schaeffler AG (from June 29, 2010, and until October 13, 2011, Schaeffler GmbH, and until June 28, 2010, Schaeffler Verwaltung Zwei GmbH) with its registered office in Herzogenaurach, Germany. The terms "**we**," "**us**," "**our**" and the "**Schaeffler Group**" refer to Schaeffler AG jointly with its subsidiaries. INA-Holding Schaeffler GmbH & Co. KG ("**IHO**") jointly with its subsidiaries and affiliates, *i.e.*, including any member of the Schaeffler Group, is herein referred to as the "**IHO Group**." The term "**Parent Guarantor**" refers to Schaeffler Verwaltungs GmbH with its registered office in Herzogenaurach, Germany. The Parent Guarantor and its subsidiaries (other than any member of the Schaeffler Group) are collectively referred to as the "**S-Verwaltungs Group**." The term "**Issuer**" refers to Schaeffler Holding Finance B.V. with its registered office in Barneveld, the Netherlands.

References to management, directors and executive officers refer to the management, directors and executive officers of the Company, Issuer or the Parent Guarantor, as the context requires. References to the "**United States**" or "**U.S.**" in this Offering Memorandum shall be to the United States of America, its territories and possessions, any State of the United States and the District of Columbia.

Presentation of financial and other information

Presentation of financial information

The Issuer was incorporated on July 1, 2013 for the purpose of the offering. Consequently, limited historical financial information relating to the Issuer is available, and the financial information included in this Offering Memorandum with respect to the Issuer consists only of the Issuer's unaudited opening balance sheet as of July 1, 2013, which has been prepared on the basis of generally accepted accounting principles in the Netherlands ("**Dutch GAAP**").

The consolidated financial statements of the Company as of and for the years ended December 31, 2010, 2011 and 2012 included in this Offering Memorandum, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**") and have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**").

The unaudited condensed consolidated financial statements of the Company as of and for the three months ended March 31, 2013 and 2012, included in this Offering Memorandum, were prepared in accordance with IFRS as adopted by the EU.

The stand-alone financial statements of the Parent Guarantor as of and for the year ended December 31, 2012, included in this Offering Memorandum, have been prepared on the basis of German generally accepted accounting principles in accordance with the German Commercial Code ("**HGB**") and have been audited by KPMG as well. The Parent Guarantor prepares neither consolidated financial statements nor any interim financial statements.

Information for the twelve months ended March 31, 2013 is calculated by taking the amounts for the three months ended March 31, 2013 and adding it to the difference between the amounts of the full year ended December 31, 2012 and the three months ended March 31, 2012.

As the Schaeffler Group legal structure was established on June 28, 2010, the financial data for periods prior to June 28, 2010 has been derived from the consolidated IFRS financial statements of the IHO Group (carve-out). Its operations are presented as if the current legal structure had already existed before June 28, 2010.

Dutch GAAP, IFRS and HGB differ in certain material respects from generally accepted accounting principles in the United States of America ("**U.S. GAAP**"). As a result, the results of operations and financial condition derived from the financial statements that are included in this Offering Memorandum may differ substantially from the results of operations and financial condition derived from financial statements prepared in accordance with U.S. GAAP. None of the Parent Guarantor, the Issuer or the Company has prepared a reconciliation of its respective financial information to U.S. GAAP or a summary of significant accounting differences in the accounting and valuation methods of IFRS and U.S. GAAP nor has any of them otherwise reviewed the impact the application of U.S. GAAP would have on its financial reporting. Accordingly, in making an investment decision, investors must rely on their own examination of the Parent Guarantor's, the Issuer's and the Company's financial information.

In this Offering Memorandum, references to "2010," "2011" and "2012" refer to the years ended December 31, 2010, 2011 and 2012, respectively. Individual figures (including percentages) appearing in this Offering Memorandum have been rounded according to standard business practice. Figures rounded in this manner may not necessarily add up to the totals contained in a given table. However, actual values, and not the figures rounded according to standard business practice, were used in calculating the percentages indicated in the text. Therefore, in certain cases, the percentage figures appearing in the text may differ from the percentages that would be obtained based on values which have been rounded.

Non-IFRS financial measures

This Offering Memorandum contains non-IFRS measures and ratios, including EBITDA, EBIT, net debt and leverage and coverage ratios that are not required by, or presented in accordance with, IFRS as adopted by the European Union. We present non-IFRS measures because they are used by management in monitoring our business and because we believe that they and similar measures are frequently used by securities analysts, investors and other interested parties in evaluating companies in our industry. The definitions of the non-IFRS measures as used by Schaeffler Group are included elsewhere in this Offering Memorandum. The non-IFRS measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Non-IFRS measures and ratios such as

EBITDA, net debt and leverage and coverage ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to profit for the year or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

Currency presentation

In this Offering Memorandum:

- "**$**", "**dollars**", "**US$**" or "**U.S. dollar**" refer to the lawful currency of the United States; and
- "**€**", "**euro**" or "**EUR**" refer to the single currency of the participating member states in the "Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community", as amended from time to time.

Exchange rate information

We have set forth in the table below, for the periods and dates indicated, period average, high, low and period end Bloomberg Composite Rate expressed as U.S. dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

The exchange rate of the euro on July 18, 2013 was $1.3085 = €1.00.

Year ended December 31, U.S. dollar per €1.00	**Period End**	**Average**	**High**	**Low**
2008	1.3973	1.4712	1.5992	1.2454
2009	1.4326	1.3949	1.5134	1.2531
2010	1.3387	1.3266	1.4513	1.1923
2011	1.2959	1.3926	1.4830	1.2907
2012	1.3192	1.2860	1.3458	1.2061

Month U.S. dollar per €1.00	**Period End**	**Average**	**High**	**Low**
January 2013	1.3577	1.3302	1.3577	1.3049
February 2013	1.3056	1.3339	1.3641	1.3056
March 2013	1.2820	1.2957	1.3107	1.2780
April 2013	1.3168	1.3025	1.3177	1.2820
May 2013	1.2998	1.2978	1.3180	1.2839
June 2013	1.3010	1.3200	1.3392	1.3010
July 2013 (until July 18, 2013)	1.3085	1.2991	1.3144	1.2792

The rates in each of the foregoing tables may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Offering Memorandum. We have provided these exchange rates solely for the convenience of potential investors.

Presentation of industry and market data

In this Offering Memorandum, we rely on and refer to information regarding our business and the markets in which we operate and compete. Certain economic and industry data, market data and market forecasts set forth in this Offering Memorandum were extracted from market research, governmental and other publicly available information, independent industry publications and reports prepared by industry consultants.

These external sources include:

- Bloomberg New Energy Finance 2012 (May 2012);
- IHS Global Insight Automotive (March 2013);
- Oxford Economics (Summer 2013); and
- The Freedonia Group Inc., Bearings Report (July 2012),

among others.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We believe that these industry publications, surveys and forecasts, to the extent quoted or referred to herein, are reliable, but we have not independently verified them and cannot guarantee their accuracy or completeness. While we accept responsibility for accurately summarizing the information from these external sources, and as far as we are aware and able to ascertain no facts have been omitted which would render this information inaccurate or misleading, we accept no further responsibility in respect of such information.

Certain information in this Offering Memorandum, including without limitation, statements regarding the industry in which we operate, our position in the industry, our market share and the market shares of various industry participants are based on our internal estimates and analyses and based in part on third-party sources.

We cannot assure you that our estimates or any of the assumptions underlying our estimates are accurate or correctly reflect our position in the industry. None of our internal surveys or information has been verified by any independent sources. Neither we nor the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this information. All of the information set forth in this Offering Memorandum relating to the operations, financial results or market share of our competitors has been obtained from publicly available information or independent research. Neither we nor the Initial Purchasers have independently verified this information and cannot guarantee its accuracy.

Certain market share information and other statements presented herein regarding our position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties, but reflect our best estimates. We have based these estimates upon information obtained from our customers, trade and business organizations and associations and other contacts in our industries.

Available information

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the U.S. Securities Act, the Issuer has undertaken to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the U.S. Securities Act if, at the time of the request, any of the Notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the U.S. Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

Summary

The following summary is intended as an introduction to this Offering Memorandum and summarizes selected information from it. Because of the more detailed information contained elsewhere in this Offering Memorandum, including the financial information section, investors are strongly recommended to carefully read the Offering Memorandum, and base their decision on whether to invest in the Notes on a review of the entire Offering Memorandum.

Business overview

We are one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. We supply high quality and technologically advanced components and systems to a broad range of automotive and industrial customers. Employing a workforce of about 76,000 employees in approximately 50 countries (as of March 31, 2013), we are one of the largest family-owned industrial companies in Europe. In the twelve months ended March 31, 2013, we had revenues of approximately €11.0 billion, and EBITDA of approximately €2.0 billion. We believe that we are among the top three manufacturers in each of our core sectors worldwide and have a large presence in rapidly growing emerging markets, such as Asia/Pacific and South America, which together account for 28% of our revenues in the twelve months ended March 31, 2013. We believe that our industry leading technology platform, high product quality, long-standing and diversified customer relationships, global production and comprehensive product and service offering position us well for future growth.

We operate through two main divisions: Automotive and Industrial. Our Automotive Division generated approximately 70% of our revenue in the twelve months ended March 31, 2013, supplying more than 60,000 products to approximately 7,500 customers globally. Our rolling bearings and automotive components and systems are generally engineered for our customers' particular applications and allow our automotive customers to capitalize on megatrends, such as reduced fuel consumption, lower CO_2 emissions, optimal safety and quality as well as increased driving pleasure. As a partner for nearly all major global automotive OEMs and for leading Tier 1 suppliers worldwide, we offer expertise for the entire drive train, covering engine transmission and chassis applications for passenger cars and commercial vehicles. On that basis, we divide our Automotive business into three business divisions: Engine, Transmission and Chassis.

Our Industrial Division accounted for approximately 30% of our revenue in the twelve months ended March 31, 2013, supplying approximately 90,000 products to approximately 16,000 customers in many different industrial sectors. While working closely with our customers, we develop bespoke bearing solutions for numerous tailored applications. The product portfolio ranges from high-speed super-precision bearings of a few millimeters in diameter (*e.g.*, for dentist drills or machine tools) to large heavyweight bearings of over four meters in diameter (*e.g.*, for machine tools, tunnel-drilling machines or wind turbines). Our bearings and related products are used, among others, in power transmission and generation, production machinery, wind power and heavy industries. In aerospace, we are a leading manufacturer of precision bearings for airplane and helicopter engines as well as for applications in space travel.

We complement our business with a comprehensive aftermarket offering for both our divisions, which includes the distribution of spare parts and service to customers worldwide. Our aftermarket services are an essential sales support function and also generate good margins as well as more stable and recurring revenues. In the twelve months ended March 31, 2013, 24% of our total revenue was generated from our aftermarket business.

We distribute our products throughout our markets mainly under three globally recognized brands, LuK, INA and FAG, mainly serving high-quality products to both the premium and volume segments and using different distribution channels. Our LuK brand covers, among others, clutch and transmission systems, dual mass flywheels and torque converters. Our INA brand covers rolling and plain bearings, linear guides, engine components and systems, such as camshaft phasing systems or standard valve trains and other precision components. Our FAG brand covers a broad range of rolling bearings, high-precision bearings and aerospace applications.

We have a strong global presence and divide our business operations into five regions: Germany, Europe (excluding Germany), Asia/Pacific, North America and South America. In addition to the traditional core markets in Europe (56% of revenue in the twelve months ended March 31, 2013; including 26% in Germany) and North America (16% of revenue in the twelve months ended March 31, 2013), our business is increasingly significant in key growth markets, such as Asia/Pacific and South America, which together account for 28% of our revenues in the twelve months ended March 31, 2013. Following our integrated "*in the region, for the region*" approach, we have built a global manufacturing footprint with a strong regional foothold of our plants worldwide. As of March 31, 2013, we operate 43 plants in Europe, twelve in North America, two in South America and 13 in Asia/Pacific. All our plants operate at the same high standards of quality and environmental protection and are certified under international standards.

Competitive strengths

Our principal strengths are:

Leading positions in attractive growth markets

Top three positions in core sectors

We hold leading positions across our core sectors and believe each of our business units is positioned among the top three in their respective markets worldwide in terms of market share measured by revenue. Based on our research, we believe our Automotive Division is a leader with the Engine, Transmission and Chassis business divisions. Additionally, our Industrial Division holds top three market positions across the broad spectrum of industries it serves. We support OEMs throughout their full product life cycle from taking part in the early stage of product development to providing critical engineering application know-how and are therefore regarded as a key partner.

Strong aftermarket business

Our products are usually part of platforms that are in service for several years, thereby requiring continuous aftermarket support. In the twelve months ended March 31, 2013, aftermarket revenue from replacement parts and services represented approximately 24% of our total revenue. Based on (i) the increasing size of our installed base, (ii) the high service levels associated with most of the equipment in which our products are installed, (iii) the switching costs faced by customers and (iv) our strong positioning in the replacement part market, we are well positioned to grow our revenues from the aftermarket business in the future. At the same time, the aftermarket business has proven to be very resilient and profitable as it produces stable and recurring revenues and profit margins.

Attractive growth markets

We benefit from the fact that we have a strong footprint in regional markets and sectors that are growing above average. We are very well positioned in key growth markets, in particular in the Asia/Pacific region, where we have been present for decades in high-growth countries, such as Korea and India. In addition, we have been active in China for approximately two decades. Furthermore, our key sectors, such as Automotive, Power Transmission, Production Machinery and Aerospace are expected to grow above GDP forecasts.

In addition to the expected future growth, we regard our markets as attractive because of the following characteristics: (i) our customers' demand for engineered solutions and our expertise to develop and supply them; and (ii) a preference among automotive and industrial clients for selecting suppliers and partners with extensive industry and engineering experience. Additionally, as our products are critical to the overall performance, safety and durability of the end-product and as our products generally represent only a small percentage of the overall costs of the end-product, the primary criteria for purchasing decisions by our customers are based on quality and technological considerations rather than price alone.

Well-balanced business portfolio

Broad product and application spectrum

Our revenues are diversified across a wide range of bearings and automotive components and systems, generated by thousands of applications for customers across many diverse end-markets. Within our Automotive Division, we sell approximately 60,000 components and systems to both OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in many different sectors, selling approximately 90,000 components and systems into a diverse range of applications ranging from wind turbines to aerospace engines and tool machines. This high degree of diversification in our businesses as well as the stability of our aftermarket business supports the resilience of our revenues and our profitability. Each of these end-markets is influenced by different economic factors, making us less vulnerable to adverse changes in the micro-economic environment or fluctuations of a particular economic parameter in any of our market segments.

Highly-diversified customer base

Our products are sold to OEMs, Tier 1 and Tier 2 suppliers, aftermarket distributors and service providers in a variety of different sectors. Key customers include top-tier OEMs in the global automotive industry as well as leading industrial OEMs. As of March 31, 2013, we offered our products to approximately 7,500 automotive customers and 16,000 industrial customers in approximately 120 countries worldwide. In the twelve months ended March 31, 2013, our top ten customers represented approximately 60% of automotive revenues (with no single customer representing more than 18%), and approximately 16% of industrial revenues (with no single customer representing more than 5%). We believe this diversification mitigates counterparty risk and is broader than that of our peers.

Strong regional diversification

We have a geographically diversified customer footprint and currently operate production facilities in over 20 countries and sales and marketing offices in approximately 180 locations. Based on the "*in the region, for the region*" strategy, we are in close geographic proximity to our customers. As a result, we are perceived as a local supplier in many markets and our global manufacturing and sales platforms allow us to market our products and services to a larger and ever-globalizing customer base. Our position as one of the largest global mechanical components and systems manufacturers further allows us to capitalize on the growth opportunities associated with globalization and increasing trade flows while making us less susceptible to market risks in a single country or region. We also benefit from low-cost production (*e.g.*, we have an extensive production network in Eastern Europe) and local supply chains while still maintaining our industry-leading quality standards through full control of our operations. Further, we are well positioned in rapidly growing emerging markets with 23% of our revenues being generated from the Asia/Pacific region and 5% from South America in the twelve months ended March 31, 2013.

Technology, quality and innovation leadership

Technology leadership and superior quality

We have a high level of expertise in developing high precision mechanical components and systems, including electronics, software and mechatronics. Our technology leadership is recognized by many of our customers and is one of our key competitive advantages. Many of our products are mission-critical to the performance, durability and safety of the equipment in which they are installed. Quality and reliability are the key attributes of our products and services. We believe that we achieve failure rates that are significantly lower than the industry average.

Providing superior product quality to our customers is another key success factor of our business model and is paramount to our success. A holistic quality management system in all locations, including all manufacturing plants worldwide, ensures compliance with our highest standards which are monitored by means of regular internal audits. With various quality assurance programs, such as "Fit for Quality" and "MOVE" ("Mehr Ohne VErschwendung" or "more without waste"), as well as testing and simulation processes, mostly developed in-house, we emphasize our goal of achieving zero-defect quality for the entire supply chain worldwide. We have received numerous awards and certifications for our products and services which underline our commitment to the highest industry quality standards. In 2010 and 2011, we received supplier awards from *e.g.* Daimler, Fiat, Getrag, Goldwind, Great Wall Motors, Motortec, Porsche, Siemens, Toyota and Volkswagen. In 2012, we received, for example, General Motors' "Supplier Quality Excellence Award," Goldwind's "Excellent Quality Award" and Renault's "Nissan Global Quality Award."

Outstanding operational excellence

Our manufacturing facilities and processes are among the most efficient in the industry. We focus on lean manufacturing and continuous improvement and are seen as a reliable partner with a high level of value added for our customers. On average, in the last five years, we invested approximately 7% of our annual revenues to open new plants and facilities and acquire new equipment in order to operate state-of-the-art manufacturing plants, simulation processes and testing facilities.

We believe that our outstanding know-how in raw materials, such as steel, our proprietary machinery and tool design, our know-how in cold forming technology, our low-cost precision manufacturing processes and our attention to quality and service are competitive advantages that allow us to consistently provide high quality precision products and services. We perform all quality-related work in-house. This allows us to ensure that our products maintain a consistently high standard of quality, while our customers benefit from an outstanding price/performance ratio.

Best-in-class innovation platform

Innovative, high quality products sold under our three globally-recognized brands, INA, LuK and FAG, have formed the backbone of our success for many decades. In the financial years 2010, 2011 and 2012, we spent approximately 5% of our total revenue on R&D, consistently more than our industry peers in percentage of sales (based on our own research), to continuously improve our products and to position us at the forefront of our industry in terms of innovation and quality of design. In 2012, we received the "Steel Innovation Prize" for our large-size bearing test rig Astraios from the Steel Information Center. Astraios was also honored as a "selected landmark" in the "365 Landmarks in the Land of Ideas" competition sponsored by Deutsche Bank and was the national winner in the environmental category of the competition.

As of March 31, 2013, approximately 6,000 R&D staff were employed at approximately 40 development locations worldwide, including 16 R&D centers, developing new products, customer product applications, technologies, processes and methods for market-driven solutions. This powerful network of central and regional R&D expertise generated 1,854 new patent applications in 2012, making us the fourth most innovative company in Germany measured by the number of patent applications submitted (according to the German Patent and Trademark Office (DPMA, *Deutsches Patent- und Markenamt*)). In total, as of March 31, 2013, we held approximately 19,000 patents and patent applications.

Strong track record and experienced management team

Above average growth and sector-leading margins

We have consistently achieved above average market growth and a sector-leading average EBITDA margin of approximately 19% over the past five fiscal years. This is the result of our successful business model which is focused on our leading position in rapidly growing regions and product segments, our broad and high quality product offering, our technology and innovation leadership, our proximity to and entrenchment with our customers, and our low cost production. For the same reasons, we believe we are well-placed to maintain above average market growth and profitability in the future and are well positioned to benefit from the megatrends in our industry (see "*—Strategy—Focus on innovative components and systems to drive global industry trends*").

Proven ability to preserve cash flow

We have been able to preserve cash in downturns and maintain a high level of profitability through effective working capital and capital expenditures according to cash flow management as well as cost reductions. Over the last five fiscal years, we have achieved an average EBITDA margin of approximately 19%. As a result, we generated on average free cash flow before net interest paid of approximately €1 billion per year in the last five years.

Experienced management team

Our management team has extensive experience in the automotive and industrial sectors and a proven track record of successfully managing global businesses through economic cycles, including the most recent economic downturn. Our management team has a demonstrated track record of achieving long-term profitable growth as well as establishing Schaeffler Group as one of the technology, quality and innovation leaders in the industry.

Strategy

We are one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. We intend to further improve the balance of our revenue structure, streamline our cost structure, improve our cash flow generation and maintain our high level of profitability and growth. To this aim, the key focus areas of our strategy are to (i) maintain and build our quality and technology leadership, (ii) further expand into growing regions and business areas, (iii) focus on innovative components and systems to drive the global industry trends, (iv) increase our R&D activities to provide a leading systems offering in the field of mechatronics and (v) increase our cooperation with Continental Group.

Maintain and build our quality and technology leadership

Leverage our quality and technology leadership

Our goal is to provide our customers with a wide, best-in-class range of products and systems as well as consultation and engineering services. We analyze new product opportunities carefully by taking into account projected market prices, volumes and manufacturing costs and by only pursuing new product lines that we believe will achieve our stringent profitability targets. We achieve these targets by focusing on premium segments that require the highest quality standards. In addition, we continue to stay entrenched with our customers at an early stage in the product development process to satisfy their requirements and maintain our competitive edge.

Rigorously pursue operational excellence

We intend to keep providing maximum quality to our customers. To this end, we strive to maintain and further reduce our industry-leading low failure rates through investments in best-in-class, highly standardized and fully automated manufacturing facilities with the aim of maintaining the highest quality standards in the industry. At the same time, we focus on further reducing our cost base through efficiency gains in our manufacturing processes that will enable us to supply standard, low-cost and tailor-made products to our customers at an attractive cost/ performance balance.

Further expand in attractive regions and business areas

Focus on rapidly growing regions

We continue to expand our international presence in rapidly growing emerging markets, in particular in the Asia/Pacific region and South America, which have become significant growth drivers for the automotive and industrial sectors. Over the last ten years, we have built 16 new manufacturing facilities in emerging market economies. Based on our guiding strategy "*in the region, for the region*," we are placing our facilities in close proximity to our customers. In 2012, approximately 27% of our total capital expenditures were spent in the Asia/Pacific region. We expect to increase our Asia/Pacific revenue share to approximately 25-30% of our group total by 2015, which will further enhance our regional diversification and revenue stability.

Our focus on further developing our network of manufacturing facilities in high growth countries has increased our exposure to low cost countries over the last ten years. A significant portion of our production network is now located in low cost countries, such as Slovakia, Hungary, Romania, China, India and Mexico. As we continue to increase our production in high growth and lower cost emerging market countries, the relative labor component of our production cost is likely to decline further over time.

As we expand our base in emerging markets, we also seek to further expand our local offering in these regions. It is our goal to continue to provide a comprehensive product and service offering to current and new customers globally. We strive to fully globalize our product portfolio and to provide an even broader range of components and systems to each customer.

Focus on attractive business areas

We seek to retain and extend our current level of diversification and independence from any particular market by further expanding our activities across sectors. We are also levering our core manufacturing and service competencies in order to diversify into additional component and systems solutions and services.

In addition, we intend to expand our aftermarket operations by increasing sales to third-party distributors, maintenance repair operations ("**MRO**") for replacement products and to the service business for customer support. Increasing our aftermarket sales of replacement parts and services will further enhance the continuity and predictability of our revenues and increase profitability. We believe that further developing our service business provides considerable new opportunities (*e.g.*, condition monitoring).

Focus on innovative components and systems to drive global industry trends

We are focused on designing, engineering and manufacturing highly-engineered and value-added components, modules and system solutions that address the key fundamental global trends in the automotive and industrial sectors. The trends that drive our end-markets are, in particular, energy efficiency, renewable energies, mechatronic systems and electric mobility. Our aim is to define new standards in modern engineering with respect to these major trends that will shape our industry and influence our operations. We believe that actively addressing these key trends reinforces our ability to maintain above-market growth.

Energy efficiency and renewable energies

Reducing fuel consumption and, consequently, carbon dioxide (CO_2) emissions, is a dominant feature in the automotive industry. We therefore intend to broaden our current product and systems portfolio for combustion engines by incorporating new and efficient technologies. Key products and systems, such as our variable valve timing system, thermal management module, double clutch transmission and electrical power steering help to reduce CO_2 emissions in conventional combustion engines and transmissions. In addition, available and engineered innovations for electric mobility, such as eDifferential, eWheel Drive and the hybrid synchron motor will be important for automotive producers as they reduce CO_2 emissions.

Harnessing renewable energy is a key part of many countries' plans to address climate change and cut CO_2 emissions. Our Industrial Division is seeking to capitalize on this trend. We offer a comprehensive product portfolio for wind turbines as well as various bearing solutions for other renewable energy technologies, such as solar and water power. We have positioned our Industrial Division early in new growth areas in order to secure and expand our long-term market share and competitiveness.

Mechatronic systems and electric mobility

Mechatronic systems (the combination of mechanical engineering with electronics) are increasingly gaining significance as OEMs seek to integrate components into more complex systems. We endeavor to be part of such growth by integrating our mechanical and Continental Group's electronic expertise.

Electric mobility is a megatrend in the automotive industry and various industrial sectors. We intend to grow our product portfolio for hybrid or electric mobility solutions with, among others, eWheel drive, eDifferential and eMotors into other areas, such as developing a torque sensor bottom bracket for e-bikes, which will help position ourselves as a major supplier in this field.

Increase cooperation with Continental Group

We believe that significant competitive advantages can be obtained from increasing our existing cooperation with Continental Group. Combining our mechanical expertise with Continental Group's know-how in electronic controllers will strengthen our presence in the rapidly growing mechatronic segment and will establish us as a leading systems provider in this field.

Furthermore, we aim to realize cost synergies by expanding our already existing cooperation agreements with the Continental Group in the area of procurement (see "*Business—Environment, insurance and legal—Material contracts—Joint procurement cooperation agreement*").

Our history

Company history until 2008

In 1946, brothers Dr. Wilhelm and Dr. Georg Schaeffler established INA (*Industrie-Nadellager*) in Herzogenaurach, Germany and, in 1965, LuK (*Lamellen- und Kupplungsbau*) GmbH was founded in Bühl, Germany (in cooperation with INA) which was later managed as a 50/50 joint venture. In 1999, Schaeffler Group took over the 50% of LuK from Valeo S.A. After Dr. Georg Schaeffler's death in 1996, Maria-Elisabeth Schaeffler and son Georg F. W. Schaeffler continued the family business to continue his life's work. In 2001, INA took over FAG (*FAG Kugelfischer Georg Schäfer AG*). Since 2002, INA, FAG and LuK are the main brands owned by Schaeffler Group.

Acquisition of Continental AG shares and subsequent transactions

In July 2008, we initiated the acquisition of Continental Aktiengesellschaft, a publicly listed stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany with its registered office in Hanover, Germany ("**Continental AG**") (Continental AG, together with its subsidiaries and affiliates, the "**Continental Group**") via a public tender offer. Following the tender offer, we owned approximately 88.9% of its share interest. In connection with this tender offer and the subsequent share transfers, Schaeffler KG (now Schaeffler

Holding GmbH & Co. KG) entered into a €16,610 million term loan and multicurrency revolving credit facility, originally dated July 12, 2008 and as amended on August 7, 2008 and November 27, 2008 (the "**Acquisition Facility**").

Our reorganization and refinancing measures between 2009 and 2011

In 2009 and 2010, the IHO Group, with its ultimate parent company IHO, underwent a significant reorganization with the objective of establishing structures suitable for the capital markets. The major milestones of the reorganization included the November 2009 amendment of the Acquisition Facility, which resulted in a framework amendment agreement. In addition, the reorganization included the March 2011 amendment of existing financings consisting of (i) approximately €7,143 million senior term loan and multicurrency revolving facilities incurred by the Company under a euro senior term loan and multicurrency revolving facility agreement originally dated November 20, 2009 (as subsequently amended and restated) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries (the "**Repaid Senior Facilities Agreement**") and (ii) approximately €2,571 million term loan and revolving credit facilities incurred by Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG under a euro term loan and revolving facilities agreement originally dated November 20, 2009 (as amended and restated from time to time) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries, with, amongst others, IHO as company (the "**IHO Facilities Agreement**") as well as the October 2011 conversion of Schaeffler Group's parent company Schaeffler GmbH to Schaeffler AG. In addition, in July 2011, the Parent Guarantor issued German law governed zero-coupon bonds due April 2018 in an original aggregate amount of €3,293 million, which were partially redeemed in September 2012 (the "**IHO Bonds**" and, together with the IHO Facilities Agreement, the "**IHO Debt Instruments**").

Our reorganization and refinancing measures in 2012 and 2013

On January 27, 2012, the Company as borrower entered into a syndicated senior term loan and revolving credit facilities agreement with an initial aggregate amount of €8,000 million (as amended, the "**January 2012 Senior Facilities Agreement**") to, *inter alia*, refinance our senior debt, increase the flexibility under our financial covenants and enhance the maturity profile of our senior indebtedness.

On February 9, 2012, a €2,000 million term loan facility under the January 2012 Senior Facilities Agreement was voluntarily cancelled as a result of the placement of the February 2012 Notes (as defined below).

Concurrently with this cancellation, Schaeffler Finance B.V. issued €800,000,000 in aggregate principal amount of senior secured notes due 2017, $600,000,000 in aggregate principal amount of senior secured notes due 2017, €400,000,000 in aggregate principal amount of senior secured notes due 2019 and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (together, the "**February 2012 Notes**"). The drawings under the January 2012 Senior Facilities Agreement and the net proceeds from the issuance and sale of the February 2012 Notes were used to repay in full the outstanding amounts under the Repaid Senior Facilities Agreement.

On July 4, 2012 and July 20, 2012, Schaeffler Finance B.V. issued €300,000,000 and €25,979,000, respectively, in aggregate principal amount of senior secured notes due 2017 (the "**July 2012 Notes**"). The net proceeds from the issuance and sale of the July 2012 Notes were used to partially repay outstanding amounts under the January 2012 Senior Facilities Agreement.

On December 14, 2012, the Company, as borrower, entered into a syndicated term loan and revolving credit facilities agreement with an initial amount of €4,475 million and $1,500 million (the "**December 2012 Senior Facilities Agreement**") to refinance the January 2012 Senior Facilities Agreement.

Effective December 31, 2012, the Company assigned and transferred its right as borrower under the December 2012 Senior Facilities Agreement, by way of novation, to INA Beteiligungsgesellschaft mit beschränkter Haftung (“**IBH**”) pursuant to a borrower exchange agreement dated December 14, 2012 (the “**Borrower Exchange Agreement**”).

In addition, the Company transferred certain assets and subsidiaries to IBH against the issuance of new shares, leaving the Company as the general partner in Schaeffler Technologies AG & Co. KG with 0% capital interest.

On March 12, 2013, the Company entered into an amendment agreement in relation to the December 2012 Senior Facilities Agreement (the “**March 2013 Amendment Agreement**”) providing for the amendment and restatement of certain provisions of the December 2012 Senior Facilities Agreement, including without limitation the repricing and reallocation of certain of the term facilities made available thereunder (the December 2012 Senior Facilities Agreement as amended and/or restated by the Borrower Exchange Agreement and the 2013 Amendment Agreement being the “**March 2013 Senior Facilities Agreement**”).

On April 26, 2013, the Company entered into a further amendment agreement in relation to the December 2012 Senior Facilities Agreement (the “**April 2013 Amendment Agreement**”) providing for the amendment and restatement of certain provisions of the December 2012 Senior Facilities Agreement, including, without limitation, the refinancing (including the repricing and/or extension of the maturity) of certain term loan and revolving credit facilities made available thereunder (the March 2013 Senior Facilities Agreement as amended by the April 2013 Amendment Agreement being the “**S-Group Senior Facilities Agreement**”).

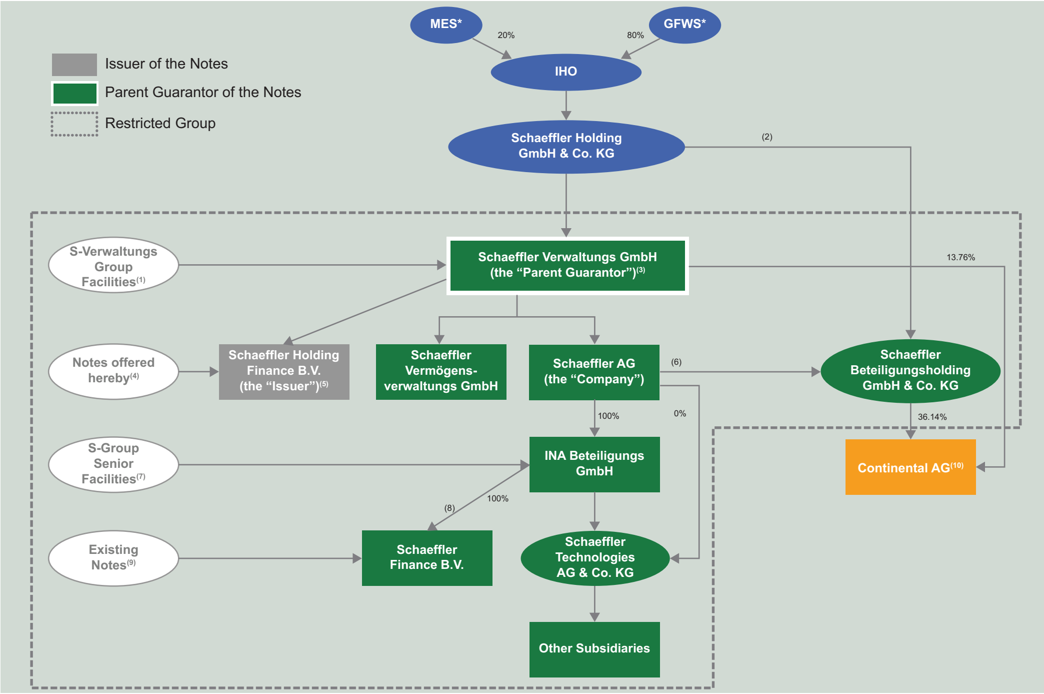
On April 29, 2013, Schaeffler Finance B.V. issued €600,000,000 in aggregate principal amount of senior secured notes due 2018 and $850,000,000 in aggregate principal amount of senior secured notes due 2021 (the “**April 2013 Notes**” and, together with the February 2012 Notes and July 2012 Notes, the “**Existing Notes**”). The net proceeds from the issuance and sale of the April 2013 Notes were used to partially repay outstanding amounts under the March 2013 Senior Facilities Agreement.

On July 16, 2013, the Parent Guarantor as borrower entered into a syndicated term loan and revolving credit facilities agreement with an initial aggregate amount of €3,875 million (the “**S-Verwaltungs Group Facilities Agreement**”) to, *inter alia*, refinance the IHO Debt Instruments.

The ultimate parent company of the Schaeffler Group is INA-Holding Schaeffler GmbH & Co. KG (“**IHO**”) which, together with its subsidiaries and affiliates, *i.e.*, including any member of the Schaeffler Group, is referred to as the “**IHO Group**.”

Summary of our corporate and debt structure

The following diagram depicts, in simplified form, our corporate structure and certain debt obligations following the offering of the Notes:



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* Maria-Elisabeth Schaeffler ("**MES**") and Georg F. W. Schaeffler ("**GFWS**").

(1) The S-Verwaltungs Group Facilities Agreement entered into by the Parent Guarantor contains the following facilities:

- a €1,500 million term facility (the "**S-Verwaltungs Group Facility A**"), which will remain undrawn and outstanding commitments under which will be canceled;
- a €1,200 million term facility (the **"S-Verwaltungs Group Facility B1**"), accrued interest on which will be payable in cash and which matures on June 30, 2017;
- a €450 million term facility (the **"S-Verwaltungs Group Facility B2**"), accrued interest on which must or (subject to certain prerequisites) may be capitalized or paid in cash at the Parent Guarantor's discretion and which matures on June 30, 2017;
- a €525 million term facility (the **"S-Verwaltungs Group Facility B3**" and, together with S-Verwaltungs Group Facility A, S-Verwaltungs Group Facility B1 and S-Verwaltungs Group Facility B2, the "**S-Verwaltungs Group Term Facilities**"), accrued interest on which must or (subject to certain prerequisites) may be capitalized or paid in cash at the Parent Guarantor's discretion and which matures on June 30, 2017; and
- a €200 million revolving credit facility (the "**S-Verwaltungs Group Revolving Credit Facility**" and, together with the S-Verwaltungs Group Term Facilities, the "**S-Verwaltungs Group Facilities**"), accrued interest on which will be payable in cash which matures on June 30, 2017.

The S-Verwaltungs Group Facilities Agreement is secured by the same collateral that secures the Notes (except for the assignment of the Notes Proceeds Loan (as defined below)) on a *pari passu* basis. For a detailed description of the S-Verwaltungs Group Facilities Agreement, please see "*Description of other indebtedness—S-Verwaltungs Group Facilities Agreement.*"

(2) Schaeffler Holding GmbH & Co. KG holds its partnership interest in Schaeffler Beteiligungsholding GmbH & Co. KG indirectly through the following entities:

- Schaeffler Holding GmbH & Co. KG is the sole shareholder of Schaeffler Familienholding Eins GmbH and of Schaeffler Familienholding Zwei GmbH.
- Schaeffler Familienholding Eins GmbH is the general partner (*Komplementär*) and Schaeffler Familienholding Zwei GmbH is the limited partner (*Kommanditist*) of Schaeffler Familienholding Drei GmbH & Co. KG.
- Schaeffler Familienholding Drei GmbH & Co. KG is the general partner (*Komplementär*) of Schaeffler Beteiligungsholding GmbH & Co. KG. The partnership interests in each of Schaeffler Familienholding Drei GmbH & Co. KG and Schaeffler Beteiligungsholding GmbH & Co. KG form part of the collateral securing the Existing Notes, the S-Group Senior Facilities Agreement and certain hedging obligations.

Other than Schaeffler Beteiligungsholding GmbH & Co. KG, none of these entities will form part of the restricted group, and they will therefore not be subject to the restrictive covenants under the indenture governing the Notes.

(3) The Parent Guarantor will provide an unconditional and irrevocable senior guarantee for the benefit of the Notes. The Parent Guarantor is a holding company with no significant assets other than its 13.76% share interest in Continental AG and the shares in the Company and Schaeffler Vermögensverwaltungs GmbH (which itself has no material assets other than intragroup loan receivables).

(4) The net proceeds from the offering of the Notes will be on-lent by the Issuer to the Parent Guarantor under one or more intercompany loans (together, the "**Notes Proceeds Loan**"). The Parent Guarantor will use the proceeds of the Notes Proceeds Loan, together with drawings under the S-Verwaltungs Group Facilities Agreement and cash on hand, to repay in full the IHO Debt Instruments and to pay related transaction expenses (see "*Use of proceeds*"). The Notes Proceeds Loan will be assigned by the Issuer to secure the obligations of the Issuer under the Notes offered hereby. The Notes will be secured by first-ranking security over (i) all the capital stock of Issuer, the Company and Schaeffler Vermögensverwaltungs GmbH, (ii) all the capital stock owned by the Parent Guarantor in Continental AG (representing approximately 13.76% of the issued and outstanding share capital of Continental AG), (iii) certain bank accounts of the Parent Guarantor and Schaeffler Vermögensverwaltungs GmbH, and (iv) intragroup receivables and hedging receivables of the Parent Guarantor, the Issuer and Schaeffler Vermögensverwaltungs GmbH, including the Note Proceeds Loan. The collateral securing the Notes also secures on a *pari passu* basis obligations under the S-Verwaltungs Group Facilities Agreement, certain hedging obligations and any future Indebtedness that is permitted under the Indenture to share the collateral. Obligations under the revolving credit facility of the S-Verwaltungs Group Facilities Agreement (or any replacement facility) will receive priority with respect to any proceeds received upon any enforcement action relating to approximately 66.3% of the shares of the Company forming part of the collateral, but will not be secured by, and will not receive any proceeds from any enforcement action with respect to the remaining approximately 33.7% of the shares of the Company and any security over bank accounts, intragroup receivables and hedging receivables.

(5) The Issuer is a wholly-owned subsidiary of the Parent Guarantor. The Issuer does not have any other indebtedness other than the Notes offered hereby.

(6) Schaeffler AG is the sole limited partner (*Kommanditist*) of its wholly-owned subsidiary, Schaeffler Beteiligungsholding GmbH & Co. KG.

(7) The Company, INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**") as borrower and certain other subsidiaries of the Company are party to the S-Group Senior Facilities Agreement, comprising (i) a €625 million term loan facility and a $1,700 million term loan facility ("**Facility C**"), which have been fully drawn and which mature January 27, 2017; (ii) a €1,453 million term loan facility ("**Facility D**" and, together with Facility C, the "**Term Loan Facilities**"), which has been fully drawn and which matures June 30, 2016; and (iii) a €1,000 million revolving credit facility ("**Revolving Facility B**" and, together with the Term Loan Facilities, the "**S-Group Facilities**"). For a detailed description of the S-Group Senior Facilities Agreement (including the restrictions on payments from the Schaeffler Group to the S-Verwaltungs Group), please see "*Description of other indebtedness—S-Group Senior Facilities Agreement*."

(8) IBH is the limited partner of, and holds 100% of the partnership interest in, Schaeffler Technologies AG & Co. KG.

(9) The Existing Notes consist of:

- (i) €800,000,000 in aggregate principal amount of 7.75% senior secured notes due 2017; (ii) $600,000,000 in aggregate principal amount of 7.75% senior secured notes due 2017; (iii) €400,000,000 in aggregate principal amount of 8.75% senior secured notes due 2019; and (iv) $500,000,000 in aggregate principal amount of 8.50% senior secured notes due 2019 (the "**February 2012 Notes**");
- €325,979,000 in aggregate principal amount of 6.75% senior secured notes due 2017 (the "**July 2012 Notes**"); and
- (i) €600,000,000 in aggregate principal amount of 4.25% senior secured notes due 2018 and (ii) $850,000,000 in aggregate principal amount of 4.75% senior secured notes due 2021 (the "**April 2013 Notes**").

(10) Continental Aktiengesellschaft ("**Continental AG**") is a publicly listed stock corporation (*Aktiengesellschaft*) which listed on three German stock exchanges (Frankfurt, Hanover / Hamburg & Stuttgart).

Recent developments and trading update

Litigation update

On November 8, 2011, the EU Commission conducted an inspection of the Company concerning possible infringements of EU competition law in the automotive and industrial bearings sectors. The EU Commission is now further investigating the matter; we expect further procedural steps in 2013. In addition, the U.S. Department of Justice served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011 and commenced its own investigation concerning possible antitrust law infringements in these sectors. The Japanese Fair Trade Commission sent various requests for information to the Company's Japanese subsidiary. The Korean Fair Trade Commission has started an investigation against Schaeffler Korea Yuhan Hoesa and a search was conducted in the company in July 2012. The Company is conducting an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors and is cooperating with the competition authorities in the context of these investigations. Starting in May 2012, several class action lawsuits were filed by plaintiffs in the U.S. and Canada against Schaeffler Group companies and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants.

In addition, in May 2013, the Spanish Competition Authority opened antitrust proceeding against Schaeffler Iberia concerning possible antitrust law infringements in the railway bearings sector. See "*Risk factors—Legal, taxation and environmental risks—We are subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims.*"

Trading update

April and May 2013 results

We generated revenue of €1,916 million in the period from April 1, 2013 to May 31, 2013 in comparison to €1,855 million in the period from April 1, 2012 to May 31, 2012.

The consolidated EBITDA for that period was €366 million (2012: €343 million).

EBIT amounted to €259 million for that period, compared to €244 million in 2012. The free cash flow was €285 million in that period in comparison to €64 million in 2012.

We made capital expenditures of €72 million in the period from April 1, 2013 to May 31, 2013, compared to €155 million in the period from April 1, 2012 to May 31, 2012.

The Automotive Division generated revenue of €1,393 million (2012: €1,265 million), which contributed 72.7% of total group sales. The Industrial Division generated revenue of €523 million (2012: €581 million) and contributed 27.3% to total group sales.

EBIT in the Automotive Division amounted to €200 million in that period (2012: €167 million) with an EBIT margin of 14.4% (2012: 13.2%). EBIT in the Industrial Division amounted to €59 million in that period (2012: €77 million) with an EBIT margin of 11.3% (2012: 13.3%).

The preliminary financial results presented above are derived from internal management accounts and are subject to our financial closing procedures. These procedures have not been completed. Accordingly, these results may change and those changes may be material.

January 1, 2013 to May 31, 2013 results

We generated revenue of €4,672 million in the period from January 1, 2013 to May 31, 2013 in comparison to €4,713 million in the period from January 1, 2012 to May 31, 2012.

The consolidated EBITDA for that period was €878 million (2012: €892 million).

EBIT amounted to €614 million for that period, compared to €645 million in 2012. The free cash flow was €337 million in that period in comparison to €(44) million in 2012.

We made capital expenditures of €193 million in the period from January 1, 2013 to May 31, 2013, compared to €405 million in the period from January 1, 2012 to May 31, 2012.

The Automotive Division generated revenue of €3,381 million (2012: €3,198 million), which contributed 72.4% of total group sales. The Industrial Division generated revenue of €1,291 million (2012: €1,489 million) and contributed 27.6% to total group sales.

EBIT in the Automotive Division amounted to €477 million in that period (2012: €411 million) with an EBIT margin of 14.1% (2012: 12.9%). EBIT in the Industrial Division amounted to €137 million in that period (2012: €234 million) with an EBIT margin of 10.6% (2012: 15.7%).

The preliminary financial results presented above are derived from internal management accounts and are subject to our financial closing procedures. These procedures have not been completed. Accordingly, these results may change and those changes may be material.

Summary of the Offering

Summary in respect of the Notes

The following is a brief summary of certain terms of the offering of the Notes and may not contain all the information that is important to the investor. For additional information regarding the Notes, see "*Description of the Notes*" and "*Description of other indebtedness—S-Verwaltungs Group Security Pooling and Intercreditor Agreement*."

Issuer	Schaeffler Holding Finance B.V., Barneveld, the Netherlands, a private limited liability corporation organized under the laws of the Netherlands.
Parent Guarantor	Schaeffler Verwaltungs GmbH, Herzogenaurach, Germany, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany.
Notes offered	€800,000,000 in aggregate principal amount of 6.875% / 7.625% senior secured PIK Toggle notes due 2018 (the "**Euro Notes**").
	$1,000,000,000 in aggregate principal amount of 6.875% / 7.625% senior secured PIK Toggle notes due 2018 (the "**Dollar Notes**" and, together with the Euro Notes, the "**Notes**").
Issue date	July 24, 2013.
Issue price	
Euro Notes	98.428%.
Dollar Notes	99.468%.
Maturity date	August 15, 2018.
Interest rates and payment dates	The Issuer will pay interest on the Notes semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2014. The first two and the final interest payments on the Notes will be made in cash. For each other interest period, the Issuer will be required to pay interest on the Notes entirely in cash ("**Cash Interest**"), unless the conditions described in this Offering Memorandum are satisfied, in which case the Issuer will be entitled to pay, to the extent described herein, interest for such interest period by increasing the principal amount of the Notes or issuing Additional Notes (such increase or issuance being referred to herein as "**PIK Interest**"). For additional information on the requirement to pay Cash Interest or a combination of cash interest and PIK interest, see "*Description of the Notes—Interest*."
Euro Notes	Cash Interest on the Euro Notes will accrue at a rate of 6.875% per annum (the "**Euro Cash Interest Rate**"). PIK Interest will accrue at the Euro Cash Interest Rate plus 0.75% per annum. Interest on the Euro Notes will accrue from the Issue Date. If the

	Issuer pays all eligible interest in PIK Interest, it will increase the principal amount of the Euro Notes or issue Euro Notes in a principal amount up to a maximum of €240,054,026.
Dollar Notes	Cash Interest on the Dollar Notes will accrue at a rate of 6.875% per annum (the "**Dollar Cash Interest Rate**" and, together with the Euro Cash Interest Rate, the "**Cash Interest Rate**"). PIK Interest will accrue at the Dollar Cash Interest Rate plus 0.75% per annum. Interest on the Dollar Notes will accrue from the Issue Date. If the Issuer pays all eligible interest in PIK Interest, it will increase the principal amount of the Dollar Notes or issue Dollar Notes in a principal amount up to a maximum of $300,067,533.
Form and denomination	
Euro Notes	The Euro Notes will be issued in global form in denominations of €100,000 and in integral multiples of €1 in excess thereof, maintained in book-entry form.
Dollar Notes	The Dollar Notes will be issued in global form in denominations of $200,000 and in integral multiples of $1 in excess thereof, maintained in book-entry form.
Ranking of the Notes	The Notes: • will be general senior obligations of the Issuer; • will, together with the obligations under the S-Verwaltungs Group Facilities Agreement and certain hedging obligations, be secured by security interests over the Collateral; • will be structurally subordinated to any indebtedness of the Parent Guarantor's subsidiaries (other than the Issuer); • will be effectively subordinated to any existing and future indebtedness of the Issuer that is secured by property or assets that do not secure the Notes, to the extent of the value of property and assets securing such indebtedness; • will rank *pari passu* in right of payment with all existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Notes; and • will rank senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes.
Note Guarantee	The Notes will have the benefit of an unconditional and irrevocable guarantee of the Parent Guarantor. The Note Guarantee: • will be a general senior obligation of the Parent Guarantor;

- will, together with the obligations under the S-Verwaltungs Group Facilities Agreement and certain hedging obligations, be secured by security interests over the Collateral;
- will be structurally subordinated to all existing and future indebtedness of any of the Parent Guarantor's subsidiaries (other than the Issuer);
- will be effectively subordinated to any existing and future Indebtedness of the Parent Guarantor that is secured by property or assets that do not secure such Note Guarantee, to the extent of the value of the property and assets securing such indebtedness;
- will rank *pari passu* in right of payment with all existing and future indebtedness of the Parent Guarantor that is not subordinated in right of payment to such Note Guarantee;
- will rank senior in right of payment to all existing and future indebtedness of the Parent Guarantor that is subordinated in right of payment to such Note Guarantee; and
- will be effectively senior to all of the Parent Guarantor's existing and future unsecured indebtedness to the extent of the assets securing the Note Guarantee.

The indenture governing the Notes to be entered into on the Issue Date (the "**Indenture**") will provide that, for so long as the S-Verwaltungs Group Security Pooling and Intercreditor Agreement (or any additional security pooling and intercreditor agreement) is in effect, on or after the occurrence of an enforcement action under the S-Verwaltungs Group security pooling and intercreditor agreement, dated on or about July 19, 2013 (the "**S-Verwaltungs Group Security Pooling and Intercreditor Agreement**"), all payments in respect of the Note Guarantee may only be made to the Security Trustee (and the Trustee and, subject to the terms of the Indenture, the holders of the Notes may make demands or claims under the Note Guarantee only to the effect that such payments be made to the Security Trustee) for application pursuant to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement or any additional security pooling and intercreditor agreement, as the case may be.

Security . . . . Subject to the terms of the security documents and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, the obligations of the Issuer under the Notes, and the obligations of the

Parent Guarantor in respect of the Note Guarantee under the Indenture, will be secured by:

- first-ranking pledges over the capital stock of the Issuer (the "**Issuer Share Pledge**");
- first-ranking pledges over all capital stock in the Company and Schaeffler Vermögensverwaltungs GmbH currently owned by the Parent Guarantor;
- first-ranking pledges over all capital stock in Continental AG currently owned by the Parent Guarantor (representing approximately 13.76% of the issued and outstanding share capital of Continental AG);
- first-ranking pledges over certain bank accounts of the Parent Guarantor and Schaeffler Vermögensverwaltungs GmbH;
- security assignments of intragroup receivables and hedging receivables of the Parent Guarantor, Schaeffler Vermögensverwaltungs GmbH and the Issuer, including the Issuer's receivables under the Note Proceeds Loan (the "**Proceeds Loan Assignment**").

The Collateral securing the Notes also secures on a *pari passu* basis obligations under the S-Verwaltungs Group Facilities Agreement, certain hedging obligations and any future indebtedness that is permitted under the Indenture to share the Collateral. Obligations under the revolving credit facility of the S-Verwaltungs Group Facilities Agreement (or any replacement facility) will receive priority with respect to any proceeds received upon any enforcement action relating to approximately 66.3% of the shares of the Company forming part of the collateral, but will not be secured by, and will not receive any proceeds from any enforcement action with respect to the remaining approximately 33.7% of the shares of the Company and any security over bank accounts, intragroup receivables and hedging receivables.

The liens constituting the Collateral will be released in certain circumstances, including upon the release of all liens (other than permitted liens (except for permitted collateral liens)) over such Collateral, subject to certain conditions and exceptions.

See "*Description of the Notes—Security*."

The S-Verwaltungs Group Security Pooling and Intercreditor Agreement restricts the ability of the Trustee and holders of the Notes to instruct the Security Trustee to take enforcement action. The Security Trustee will act only upon the instruction of an Instructing Group (as defined below). A resolution to instruct the Security Trustee to act under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will be passed if the total principal amount of notes that are subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and the total amount of commitments under facilities agreements that are subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement (initially, S-Verwaltungs Group Facilities Agreement), in each case, that vote (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and the total amount of commitments under facilities agreements that vote (or are deemed to have voted) against the resolution. In calculating votes, the Security Trustee will convert into euro votes representing notes or commitments denominated in currencies other than euro. Any decision, instruction or consent that is required pursuant to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement to be made by resolution in the foregoing manner is referred to as a decision, instruction or consent of the "**Instructing Group**." See "*Risk factors—Risks related to the Note Guarantee and the Collateral—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances*," "*Description of other indebtedness—S-Verwaltungs Group Security Pooling and Intercreditor Agreement—Enforcement of Transaction Security*," "*—Decisions of the Instructing Group*" and "*Description of the Notes—Security—Enforcement of security*."

Interest Reserve Account . . . . Pursuant to the Indenture, the Parent Guarantor will be required to maintain a separate cash deposit account (the "**Interest Reserve Account**"), into which the Parent Guarantor will be required to deposit any dividend or other payments received by it, the Issuer or Schaeffler Vermögensverwaltungs GmbH with respect to any shares of Continental AG, if and to the extent that the cash balance of the Interest Reserve Amount immediately prior to the receipt and application of such dividend or other payments is less than €50.0 million. Funds deposited in the Interest Reserve Account may only be used for interest payments.

Optional redemption . . . . The Notes will be redeemable at the Issuer's option, in whole or in part, at any time on or after August 15, 2014, at the redemption prices set forth in this Offering Memorandum, together with accrued and unpaid interest, if any, to the date of redemption.

At any time prior to August 15, 2014, the Issuer may redeem some or all of the Notes at a price equal to

	100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium. In addition, prior to August 15, 2014, the Issuer may redeem at its option up to 40% of the original principal amount of the Euro Notes and Dollar Notes, respectively, with proceeds of certain equity offerings. See "*Description of the Notes—Optional redemption*."
Optional redemption for tax reasons . .	The Issuer may also redeem the Notes at any time, in whole but not in part, for reasons of taxation, if as a result of any change in, or amendment to, the laws or regulations (including any amendment to, or change in, an official interpretation or application of such laws or regulations) of the relevant taxing jurisdiction in respect of the Issuer or, as applicable, the Parent Guarantor affecting taxation or the obligation to pay duties of any kind, the Issuer or, as the case may be, the Parent Guarantor, will become obligated to pay Additional Amounts. See "*Description of the Notes—Redemption for changes in taxes.*"
Original issue discount	The Notes will be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. U.S. Holders (as defined under "*Taxation—U.S. Taxation*") will be required to include the amounts representing the OID in gross income (as ordinary income) generally on a constant yield basis in advance of receipt of the cash payments to which such income is attributable, regardless of the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. For a discussion of the material tax consequences of an investment in the Notes, see "*Taxation—U.S. Taxation*."
Additional amounts	Any payments made by the Issuer or the Parent Guarantor with respect to the Notes or the Note Guarantee will be made without withholding or deduction for taxes in (1) any jurisdiction in which the Issuer or the Parent Guarantor is then incorporated or organized, engaged in business for tax purposes or otherwise resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction of any Paying Agent or any political subdivision thereof or therein (each, a "**Tax Jurisdiction**") unless required by law. If the Issuer is required by law to withhold or deduct for taxes of the relevant Tax Jurisdiction with respect to a payment to the holders of the Notes or the Note Guarantee, we will pay the additional amounts necessary so that the net amount received by the holders of the Notes or the Note Guarantee after the

	withholding is not less than the amount that they would have received in the absence of the withholding, subject to certain exceptions. See "*Description of the Notes—Additional Amounts*."
Change of Control	Upon the occurrence of certain change of control events, the Issuer will be required to offer to repurchase the Notes at a purchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repurchase. See "*Description of the Notes—Repurchase at the option of Holders—Change of Control.*"
Certain covenants	The Indenture will limit, among other things, the ability of the Parent Guarantor and its restricted subsidiaries to: • incur or guarantee additional indebtedness and issue certain preferred stock; • pay dividends on, redeem or repurchase our capital stock; • make certain Restricted Investments and investments, including dividends or other distributions with regard to the shares of the Parent Guarantor or its restricted subsidiaries; • create or incur certain liens; • enter into agreements that restrict the Parent Guarantor's subsidiaries' ability to pay dividends; • transfer or sell assets; • merge or consolidate with other entities; • enter into certain transactions with affiliates; and • impair the security interests for the benefit of the holders of the Notes. Each of the covenants is subject to a number of important exceptions and qualifications. See "*Description of the Notes—Certain covenants.*"
Selling and transfer restrictions	The Notes and the Guarantees have not been registered under the U.S. Securities Act. The Notes may only be offered or sold in a transaction exempt from or not subject to the registration requirements of the U.S. Securities Act. See "*Important information about this Offering Memorandum*." In addition, the offer and the sale of the Notes and the distribution of offering materials relating thereto is subject to specific restrictions as set out under "*Transfer restrictions.*"
Use of proceeds	Together with drawings under the S-Verwaltungs Group Facilities Agreement and cash on hand, repayment in full of outstanding amounts under the IHO Debt Instruments and fees and expenses. See "*Use of proceeds.*"

No prior market	The Notes will be new securities for which there is no market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and may discontinue market-making at any time without notice. Accordingly, we cannot assure you that an active trading market for the Notes will develop or be maintained.
Listing and Admission to Trading	Application has been made for the Notes to be listed on the Official List of the LxSE and to trading on the Euro MTF Market.
Listing Agent	Deutsche Bank Luxembourg S.A.
Governing law for the Notes, the Note Guarantee and the Indenture	New York law.
Governing law for the S-Verwaltungs Group Security Pooling and Intercreditor Agreement	English law.
Governing law for the Security Documents	German and Dutch law.
Trustee	Deutsche Trustee Company Limited.
U.S. Registrar, Transfer Agent and Paying Agent	Deutsche Bank Trust Company Americas.
Luxembourg Registrar, Transfer Agent and Paying Agent	Deutsche Bank Luxembourg S.A.
Principal Paying Agent	Deutsche Bank AG, London Branch.
Security Trustee	Commerzbank Aktiengesellschaft, Luxembourg Branch.
Risk factors	Investing in the Notes involves substantial risks. You should carefully consider all the information in this Offering Memorandum, and, in particular, you should evaluate the specific risk factors set forth in the "*Risk factors*" section in this Offering Memorandum before making a decision whether to invest in the Notes.

Summary consolidated financial information

The following tables present our summary financial information and should be read in conjunction with the unaudited condensed consolidated financial statements as of and for the three-month periods ended March 31, 2013 and 2012, the audited consolidated financial statements as of and for fiscal years ended December 31, 2012, 2011 and 2010, which are all reproduced elsewhere in this Offering Memorandum and the section entitled "Management's discussion and analysis of our financial condition and results of operations." The summary financial information provided below was derived from the consolidated financial statements. These financial statements were prepared in accordance with IFRS as adopted by the EU. Our consolidated financial statements as of and for the fiscal years ended December 31, 2012, 2011, and 2010 were audited by KPMG which issued an unqualified audit opinion for each fiscal year. The condensed consolidated financial statements as of and for the three-month periods ended March 31, 2013 and 2012, prepared in accordance with IFRS as adopted by the EU, have not been audited. Additionally, the tables under "Other Financial and Operating Data" contain certain Schaeffler Verwaltungs GmbH data and certain combined Schaeffler Group and Schaeffler Verwaltungs GmbH data that was derived from the sources stated in the notes thereto. The information below is not necessarily indicative of the results of future operations.

Selected Income Statement Data

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
	2010	2011	2012	2012	2013	2013
				(unaudited)		(unaudited)
Revenue	**9,495**	**10,694**	**11,125**	**2,858**	**2,756**	**11,023**
Cost of sales	(6,506)	(7,463)	(7,836)	(1,973)	(1,965)	(7,828)
Gross profit	**2,989**	**3,231**	**3,289**	**885**	**791**	**3,195**
R&D expenses	(467)	(495)	(593)	(147)	(152)	(598)
Selling expenses	(645)	(725)	(759)	(191)	(188)	(756)
Administrative expenses	(366)	(408)	(465)	(127)	(113)	(451)
Other income	67	111	35	10	24	49
Other expenses	(69)	(25)	(94)	(29)	(7)	(72)
EBIT[(1)]	**1,509**	**1,689**	**1,413**	**401**	**355**	**1,367**
Financial result[(1)]	(810)	(733)	(676)	(211)	(167)	(632)
Share of net income (loss) of equity-accounted investees[(1)]	(349)	324	554	136	135	553
EBT[(2)]	**350**	**1,280**	**1,291**	**326**	**323**	**1,288**
Income taxes	(277)	(378)	(407)	(88)	(89)	(408)
Net income	**73**	**902**	**884**	**238**	**234**	**880**

Selected Balance Sheet Data

in € million	As of December 31, 2010	2011	2012	As of March 31, 2013
				(unaudited)
Assets				
Intangible assets	575	553	554	549
Property, plant and equipment	3,041	3,328	3,515	3,500
Investments in equity-accounted investees	5,252	4,772	5,040	5,200
Remaining non-current assets	463	481	545	583
Total non-current assets	**9,331**	**9,134**	**9,654**	**9,832**
Inventories	1,482	1,562	1,495	1,543
Trade receivables	1,443	1,607	1,626	1,855
Cash and cash equivalents	733	397	433	458
Remaining current assets	355	289	338	272
Total current assets	**4,013**	**3,855**	**3,892**	**4,128**
Total assets	**13,344**	**12,989**	**13,546**	**13,960**
Shareholders' equity and liabilities				
Total Shareholders' equity(3)	**3,341**	**1,714**	**2,107**	**2,110**
Provisions for pensions and similar obligations	1,111	1,217	1,553	1,608
Financial debt	6,413	7,168	7,140	7,088
Remaining non-current liabilities	768	636	702	661
Total non-current liabilities	**8,292**	**9,021**	**9,395**	**9,357**
Financial debt	64	317	121	204
Trade payables	729	873	794	908
Remaining current liabilities	918	1,064	1,129	1,381
Total current liabilities	**1,711**	**2,254**	**2,044**	**2,493**
Total shareholders' equity and liabilities	**13,344**	**12,989**	**13,546**	**13,960**

Selected Cash Flow Statement Data

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Operating activities						
EBIT	**1,509**	**1,689**	**1,413**	**401**	**355**	**1,367**
Depreciation, amortization and impairments	588	554	618	148	157	627
EBITDA(4)	**2,097**	**2,243**	**2,031**	**549**	**512**	**1,994**
Change in working capital(5)	(227)	(150)	(24)	(223)	(114)	85
Net interest paid(6)	(634)	(673)	(584)	(164)	(188)	(608)
Income taxes paid	(298)	(238)	(226)	(54)	(58)	(230)
Dividends received	0	0	81	0	0	81
Other operating cash flow adjustments(7)	(48)	(98)	(65)	29	20	(74)
Cash flows from operating activities	**890**	**1,084**	**1,213**	**137**	**172**	**1,248**
Investing activities						
Capital expenditures according to cash flow(8)	(361)	(773)	(860)	(250)	(121)	(731)
Proceeds from disposals and other(9)	37	8	28	6	1	23
Cash used in investing activities	**(324)**	**(765)**	**(832)**	**(244)**	**(120)**	**(708)**
Financing activities						
Net issuance/repayment of loans(10)	(80)	(29)	(54)	159	(13)	(226)
Dividends paid to Schaeffler Verwaltungs GmbH	(134)	(400)	(79)	0	0	(79)
Other financing cash flows(11)	14	(217)	(208)	(157)	(18)	(69)
Cash used in financing activities	**(200)**	**(646)**	**(341)**	**2**	**(31)**	**(374)**
Net increase/decrease in cash and cash equivalents	**366**	**(327)**	**40**	**(105)**	**21**	**166**
Effects of foreign exchange rate changes on cash and cash equivalents	17	(9)	(4)	(1)	4	1
Cash and cash equivalents at the end of the operating period	**733**	**397**	**433**	**291**	**458**	**458**

Other Financial and Operating Data

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Other financial information						
Revenue	9,495	10,694	11,125	2,858	2,756	11,023
Revenue growth	*29.4%*	*12.6%*	*4.0%*	*6.0%*	*(3.6)%*[12]	*1.5%*[13]
EBIT	1,509	1,689	1,413	401	355	1,367
EBIT margin	*15.9%*	*15.8%*	*12.7%*	*14.0%*	*12.9%*	*12.4%*
EBITDA[4]	2,097	2,243	2,031	549	512	1,994
EBITDA margin	*22.1%*	*21.0%*	*18.3%*	*19.2%*	*18.6%*	*18.1%*
Capital expenditures according to cash flow[8]	(361)	(773)	(860)	(250)	(121)	(731)
Working capital (at end of period)[14]	2,196	2,296	2,327	2,512	2,490	2,490
Free cash flow[15]	566	319	381	(107)	52	540
Free cash flow before net interest paid[15]	1,200	992	965	57	240	1,148
Net financial debt (at end of period)[16]	5,711	6,668	6,505	6,884	6,533	6,533
Other operating information						
Number of employees (at the end of period)	67,509	74,031	76,099	74,948	76,186	76,186

in € million (except where otherwise stated)	Twelve Months ended March 31, 2013 Actual	*Pro forma* financial information
	(unaudited)	
Schaeffler Group (IFRS)		
EBITDA[4]	**1,994**	**1,994**
Gross financial debt (at end of period)[17]	6,991	6,758
Cash and cash equivalents (at end of period)[18]	458	305
Net financial debt (at end of period)[19]	6,533	6,453
Net interest paid[20]	608	547
Net financial debt to EBITDA (at end of period)	3.28x	3.24x
EBITDA to net interest paid	3.28x	3.65x
Schaeffler Verwaltungs GmbH (German GAAP)[21]		
EBITDA[22]	**(14)**	**(14)**
Gross financial debt (at end of period)[17]	3,631	3,722
Cash and cash equivalents (at end of period)[18]	107	51
Net financial debt (at end of period)[19]	3,524	3,671
Net interest paid[23]	356	260
Combined Schaeffler Group and Schaeffler Verwaltungs GmbH[24]		
EBITDA	**1,980**	**1,980**
Gross financial debt (at end of period)[17]	10,622	10,480
Cash and cash equivalents (at end of period)[18]	565	356
Net financial debt (at end of period)[19]	10,057	10,124
Net interest paid[20][23]	964	807
Net financial debt to EBITDA (at end of period)	5.08x	5.11x
EBITDA to net interest paid	2.05x	2.45x

Selected Segment[25] Information

Automotive Division

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Revenue	**6,325**	**7,157**	**7,663**	**1,933**	**1,988**	**7,713**
Revenue growth	*33.4%*	*13.2%*	*7.1%*	*6.2%*	*2.8%*	*6.1%*
Gross profit	**1,842**	**1,950**	**2,107**	**532**	**536**	**2,111**
EBIT	**990**	**1,074**	**998**	**244**	**277**	**1,030**
Depreciation, amortization and impairments	401	396	431	102	111	440
EBITDA	**1,391**	**1,470**	**1,429**	**346**	**388**	**1,470**
Gross profit margin	*29.1%*	*27.2%*	*27.5%*	*27.5%*	*27.0%*	*27.4%*
EBIT margin	*15.7%*	*15.0%*	*13.0%*	*12.6%*	*13.9%*	*13.4%*
EBITDA margin	*22.0%*	*20.5%*	*18.6%*	*17.9%*	*19.5%*	*19.1%*

Industrial Division

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Revenue	**3,002**	**3,463**	**3,401**	**908**	**768**	**3,265**
Revenue growth	*19.5%*	*15.4%*	*(1.8)%*	*6.1%*	*(15.4)%*	*(7.1)%*
Gross profit	**1,147**	**1,281**	**1,182**	**353**	**255**	**1,084**
EBIT	**519**	**615**	**415**	**157**	**78**	**337**
Depreciation, amortization and impairments	187	158	187	46	46	187
EBITDA	**706**	**773**	**602**	**203**	**124**	**524**
Gross profit margin	*38.2%*	*37.0%*	*34.8%*	*38.9%*	*33.2%*	*33.2%*
EBIT margin	*17.3%*	*17.8%*	*12.2%*	*17.3%*	*10.2%*	*10.3%*
EBITDA margin	*23.5%*	*22.3%*	*17.7%*	*22.4%*	*16.1%*	*16.0%*

(1) In the fiscal year ended December 31, 2010 and in the fiscal year ended December 31, 2011, share of net income (loss) of equity-accounted investees was included in financial result and is now shown in a separate line below financial result and above earnings before income taxes in the consolidated income statement as of and for the year ended December 31, 2012. Consequently, the item "EBIT" in the consolidated income statement was renamed "Earnings before financial result, share of net income (loss) of equity-accounted investees, and income taxes." The financial result for 2010 and 2011 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2012 for comparability purposes.

(2) Earnings before taxes.

(3) Including non-controlling interests.

(4) We define EBITDA (Earnings before financial result, share of net income (loss) of equity-accounted investees, income taxes, depreciation, amortization and impairments) as the aggregate of (i) EBIT and (ii) depreciation and amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS. The EBITDA reported is not necessarily comparable to the performance figures published by other companies as EBITDA or the like. The following is a reconciliation of Net Income to EBITDA for the periods below:

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
in € million	**2010**	**2011**	**2012**	**2012**	**2013**	**2013**
				(unaudited)		**(unaudited)**
Net Income	**73**	**902**	**884**	**238**	**234**	**880**
Income taxes	277	378	407	88	89	408
Share of net (income) loss of equity-accounted investees	349	(324)	(554)	(136)	(135)	(553)
Financial expense	861	773	729	236	218	711
Financial income	(51)	(40)	(53)	(25)	(51)	(79)
EBIT	**1,509**	**1,689**	**1,413**	**401**	**355**	**1,367**
Depreciation, amortization and impairments	588	554	618	148	157	627
EBITDA	**2,097**	**2,243**	**2,031**	**549**	**512**	**1,994**

(5) The following table sets forth the change in working capital:

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
in € million	**2010**	**2012**	**2013**	**2012**	**2013**	**2013**
				(unaudited)		**(unaudited)**
Changes in:						
Inventories	(257)	(80)	55	(54)	(29)	80
Trade receivables	(241)	(153)	(27)	(290)	(211)	52
Trade payables	271	83	(52)	121	126	(47)
Change in working capital	**(227)**	**(150)**	**(24)**	**(223)**	**(114)**	**85**

(6) The following table sets forth our net interest paid:

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
in € million	**2010**	**2011**	**2012**	**2012**	**2013**	**2013**
				(unaudited)		**(unaudited)**
Interest paid	(644)	(686)	593	(166)	(190)	(617)
Interest received	10	13	9	2	2	9
Net interest paid	**(634)**	**(673)**	**(584)**	**(164)**	**(188)**	**(608)**

(7) The following table sets forth our other operating cash flow adjustments:

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
in € million	**2010**	**2011**	**2012**	**2012**	**2013**	**2013**
				(unaudited)		**(unaudited)**
(Gains) losses on disposal of assets	(2)	0	(1)	(1)	0	0
Other non-cash items	(3)	2	(21)	(19)	(10)	(12)
Change in:						
Provisions for pensions and similar obligations	(55)	(61)	(45)	(8)	(9)	(46)
Other assets, liabilities and provisions	12	(39)	2	57	39	(16)
Other operating cash flow adjustments	**(48)**	**(98)**	**(65)**	**29**	**20**	**(74)**

(8) Capital expenditures according to cash flow include intangible assets and PP&E. The following table sets forth our capital expenditures according to cash flow:

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
in € million	**2010**	**2011**	**2012**	**2012**	**2013**	**2013**
				(unaudited)		**(unaudited)**
Capital expenditures on intangible assets	(21)	(15)	(35)	(9)	(4)	(30)
Capital expenditures on property, plant and equipment	(340)	(758)	(825)	(241)	(117)	(701)
Capital expenditures according to cash flow	**(361)**	**(773)**	**(860)**	**(250)**	**(121)**	**(731)**

(9) The following table sets forth our proceeds from disposals and other:

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Proceeds from disposals of intangible assets and property, plant and equipment	25	11	29	7	2	24
Investments in other financial investments	(4)	(10)	(3)	(1)	(1)	(3)
Other investing activities	16	7	2	0	0	2
Proceeds from disposals and other	**37**	**8**	**28**	**6**	**1**	**23**

(10) The following table sets forth our net issuance/repayment of loans:

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Receipts from loans	3	13	395	170	1	226
Repayments of loans	(83)	(42)	(449)	(11)	(14)	(452)
Net issuance/repayment of loans	**(80)**	**(29)**	**(54)**	**159**	**(13)**	**(226)**

(11) The following table sets forth our other financing cash flows:

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Dividends paid to non-controlling interests	(1)	(1)	(1)	0	0	(1)
Acquisition in stages	0	0	(13)	(13)	0	0
Other financing activities(*)	15	(216)	(194)	(144)	(18)	(68)
Other financing cash flows	**14**	**(217)**	**(208)**	**(157)**	**(18)**	**(69)**

(*) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of €0 million for the three months ended March 31, 2013 (three months ended March 31, 2012: €150 million) and of €227 million in the fiscal year ended December 31, 2012 (2011: €186 million; 2010: nil).

(12) Defined as revenue growth in the three months ended March 31, 2013 relative to the three months ended March 31, 2012.

(13) Defined as revenue growth in the twelve months ended March 31, 2013 relative to the twelve months ended March 31, 2012.

(14) The following table sets forth our working capital:

in € million	As of December 31, 2010	2011	2012	As of March 31, 2012	2013
				(unaudited)	
Inventories	1,482	1,562	1,495	1,603	1,543
Trade receivables	1,443	1,607	1,626	1,885	1,855
Trade payables	(729)	(873)	(794)	(976)	(908)
Working capital	**2,196**	**2,296**	**2,327**	**2,512**	**2,490**

(15) The following table sets forth our free cash flow before net interest paid:

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Cash flows from operating activities	890	1,084	1,213	137	172	1,248
Cash used in investing activities	(324)	(765)	(832)	(244)	(120)	(708)
Free cash flow	**566**	**319**	**381**	**(107)**	**52**	**540**
Net interest paid	634	673	584	164	188	608
Free cash flow before net interest paid	**1,200**	**992**	**965**	**57**	**240**	**1,148**

(16) The following table sets forth our net financial debt:

in € million	As of December 31, 2010	2011	2012	As of March 31, 2012	2013
				(unaudited)	
Financial debt—non-current	6,413	7,168	7,140	7,155	7,088
Financial debt—current	64	317	121	300	204
Financial debt	**6,477**	**7,485**	**7,261**	**7,455**	**7,292**
Shareholder loans(*1)	33	420	323	280	301
Financial debt(*2)	**6,444**	**7,065**	**6,938**	**7,175**	**6,991**
Cash and cash equivalents	(733)	(397)	(433)	(291)	(458)
Net financial debt(*2)	**5,711**	**6,668**	**6,505**	**6,884**	**6,533**

(*1) Shareholder loans refers to the Special Receivables Loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by our parent company Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. The shareholder loans are subordinated in right of payment to the Notes and the S-Group Senior Facilities Agreement by operation of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. For further details, please refer to "*Related parties transactions and major shareholders of the Parent Guarantor—IBV*" and "*Description of other indebtedness—IBV Loan*."

(*2) Excludes the shareholder loans.

(17) *Pro forma* gross financial debt is the financial debt as adjusted to give *pro forma* effect to (a) in case of the Schaeffler Group, the issuance of the April 2013 Notes and drawings under the April 2013 Amendment Agreement, and the repayment of amounts outstanding under the March 2013 Senior Facilities Agreement from (i) the net proceeds from the issuance of the April 2013 Notes and the drawings under Facility D, (ii) dividends in the amount of €163 million we received on shares of Continental AG held by us and (iii) €87 million from available cash (together, the "**S-Group April / May 2013 Transactions**"), and (b) in case of Schaeffler Verwaltungs GmbH, (i) the issuance of the Notes, assuming for the purposes of this presentation that the Notes are issued by Schaeffler Verwaltungs GmbH instead of the Issuer (for presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.3100 to €1.00; this exchange rate differs from the exchange rate in effect as of March 31, 2013), (ii) drawings of €2,175 million under the S-Verwaltungs Group Facilities Agreement and (iii) the application of the net proceeds therefrom to repay in full outstanding amounts under the IHO Debt Instruments (together, the "**S-Verwaltungs Group Transactions**" and, together with the S-Group April / May 2013 Transactions, the "**Transactions**") as if the Transactions had occurred on March 31, 2013. *Pro forma* and actual financial debt includes the annuity loan, among others, and excludes shareholder loans.

(18) *Pro forma* cash and cash equivalents represent cash and cash equivalents as adjusted to give *pro forma* effect to the Transactions as if they occurred on March 31, 2013. Immediately prior to the Offering, an amount of €100 million was transferred to IHO to service IHO's liquidity needs. In addition, Schaeffler AG upstreamed cash in an amount of €51 million to Schaeffler Verwaltungs GmbH to fund interest expense, transaction cost and the Interest Reserve Account.

(19) Actual net financial debt represents actual financial debt less actual cash and cash equivalents. *Pro forma* net financial debt represents *pro forma* financial debt less *pro forma* cash and cash equivalents.

(20) Schaeffler Group *pro forma* net interest paid is defined as the accumulated net interest paid for the twelve months ended March 31, 2013, as adjusted to give *pro forma* effect to the S-Group April / May 2013 Transactions, as if such S-Group April / May 2013 Transactions had occurred on April 1, 2012. The actual net interest paid for the twelve months ended March 31, 2013 (€608 million) is adjusted by deducting the interest payment of €253 million relating to repaid and/or refinanced senior facilities agreements, by deducting a part of the interest payments of €3 million for the February 2012 Notes and by adding interest payments of €209 million relating to the S-Group Senior Facilities Agreement, the July 2012 Notes and the April 2013 Notes. Furthermore, transaction costs of €14 million have been deducted from net interest paid.

(21) Schaeffler Verwaltungs GmbH only compiles statutory financial statements in accordance with German GAAP. These financial statements are prepared as of December 31 of each fiscal year. The figures used in this table are based on the financial statements as of December 31, 2012 and are adjusted for effects thereafter.

(22) EBITDA of Schaeffler Verwaltungs GmbH consists of administrative expenses for the twelve months ended March 31, 2013 according to German GAAP.

(23) Schaeffler Verwaltungs GmbH *pro forma* net interest paid is defined as the accumulated net interest paid (including PIK) for the twelve months ended March 31, 2013, as adjusted to give *pro forma* effect to the S-Verwaltungs Group Transactions, as if such S-Verwaltungs Group Transactions had occurred on April 1, 2012. The actual net interest paid (including PIK) for the twelve months ended March 31, 2013 of €356 million consists of interest expenses for the IHO Bonds of €146 million, cash and accrued interest expenses of €52 million and PIK interest expenses of €158 million for term loan B1 and term loan B3 under the IHO Facilities Agreement. This excludes commitment fee payments of €5 million for the revolving credit facility under the IHO Facilities Agreement as the revolving credit facility is incurred by Schaeffler Holding GmbH & Co. KG.
Pro forma net interest paid of €260 million consists of interest payments of €147 million relating to the S-Verwaltungs Group Facilities Agreement and €108 million relating to the Notes and commitment fee payments of €5 million for the new revolving credit facility.

(24) For presentation purposes, the figures of Schaeffler Verwaltungs GmbH (based on German GAAP) are combined with the figures of Schaeffler Group (based on IFRS), i.e. no consolidation is performed, however intercompany debt between Schaeffler Group and Schaeffler Verwaltungs GmbH is eliminated.

(25) The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information in our financial statements is comparable, prior year information is also presented using the current year's customer structure. The segment information for the three months and the twelve months ended March 31, 2012 and 2013 contained in this Offering Memorandum is based on the segment reporting in the interim financial report as of and for the three months ended March 31, 2013. The segment information for the fiscal years ended December 31, 2012 and 2011

contained in this Offering Memorandum is based on the segment reporting in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2012 and the segment information for 2010 is based on the segment reporting in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2011. In this regard, the 2010 segment information is not fully comparable to the 2011 and 2012 segment information.

Risk factors

Before deciding to purchase the Notes, you should carefully review and consider the following risk factors and the other information contained in this Offering Memorandum. The occurrence of one or more of these risks alone or in combination with other circumstances may have a material adverse effect on our or the Issuer's business and cash flows, financial condition and results of operations and may affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee as well as the ability of investors to obtain the proceeds from the enforcement of other collateral which might be provided for the obligations under the Notes. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude or significance of the individual risks. Investing in the Notes could involve additional risks and uncertainties of which we may not be currently aware, or which we may currently not consider material on the basis of our regular risk assessments. The risks to which our business is exposed may result in inaccuracies in risk assessments or other forward-looking statements. An investment in the Notes is only suitable for investors experienced in financial matters who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to absorb any potential loss stemming therefrom.

Risks related to the markets in which we operate

We are exposed to substantial risks associated with the performance of the global economy and the Eurozone debt crisis.

We are exposed to substantial risks associated with the performance of the global economy. In general, demand for automotive products and services as well as for the industrial sectors are directly related to the strength of the global economy. Therefore, our income and results of operations have been influenced, and will continue to be influenced, to a certain degree, by the general state and the performance of the global economy.

In particular, the deterioration of the sovereign debt of several countries of the Eurozone, including Cyprus, Greece, Italy, Ireland, Spain and Portugal, together with the risk of contagion to other, more stable, countries, particularly France and Germany, has raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Concerns that the Eurozone sovereign debt crisis could worsen may lead to the reintroduction of national currencies in one or more Eurozone countries or, in particularly dire circumstances, the abandonment of the Euro. The departure or risk of departure from the Euro by one or more Eurozone countries and/or the abandonment of the Euro as a currency could have major negative effects on both existing contractual relations and the fulfillment of obligations by us and/or our customers, which would have a material adverse effect on our business, financial condition and results of operations.

A renewed downturn in the European and global economies could cause demand in both of our relevant market segments to decline which would have a material adverse effect on our business, financial condition and results of operations. Any material future deterioration in economic conditions could materially and adversely affect our financial position and results of operations, which could in turn (in particular in the event of a significant and sudden decline of our revenues) adversely affect our ability to meet our financial covenants and other obligations under the S-Group Senior Facilities Agreement and the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We operate in a cyclical industry.

Since our business is characterized by high fixed costs, we risk underutilization of our facilities or having insufficient capacity to meet customer demand if the markets in which we are active either decline or grow faster than we have anticipated. An underutilization of our facilities could result in idle capacity costs, write-offs of inventories and losses on products due to falling average sale prices. Furthermore, falling production volumes cause declines in revenue and earnings.

Sales to our automotive customers (from which we generated approximately 58% of our revenue in the twelve months ended March 31, 2013, excluding our aftermarket business) are cyclical and depend, among other things, on general economic conditions as well as on consumer spending and preferences, which can be affected by a number of factors, including employment, consumer confidence and income, energy costs, interest rate levels, inflation and the availability of consumer financing. Given the variety of such economic parameters influencing the global automotive demand, the volume of automotive production has historically been, and will continue to be, characterized by a high level of fluctuation, making it difficult for us to accurately predict demand levels for our products aimed at the automotive sector. In addition, OEMs generally do not commit to purchasing minimum quantities from their suppliers.

Sales to our industrial customers (from which we generated approximately 18% of our revenue in the twelve months ended March 31, 2013, excluding our aftermarket business), depend on the development of the industrial production. Due to the high diversification within that division, various factors, such as fiscal policies, infrastructure programs or consumer behavior in general in certain countries or industry sectors, influence demand for our products. The variety of factors makes it difficult for us to estimate requirements for production capacity and to reliably prognosticate future working capital requirements.

The risks related to the cyclical nature of the industry in which we operate could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Our business environment is characterized by intense competition, which could reduce our revenue or put continued pressure on our sales prices.

The markets in which we operate are competitive and have been characterized by changes in market penetration, increased price competition, the development and introduction of new products, product designs and technologies by significant existing and new competitors. The majority of bearings manufactured globally is used for either motor vehicles or industrial applications and represent core markets for both of our divisions. We compete with domestic manufacturers and many foreign manufacturers of anti-friction bearings. We compete primarily on the basis of price, quality, timeliness of delivery and design as well as the ability to provide engineering support and service on a global basis. Should we fail to secure the quality of our products and the reliability of our supply in the future, then our customers could decide to procure products from our competitors.

The automotive supply industry, in particular, has been characterized by rapid technological change, high capital expenditures (which, unless stated otherwise, we define as additions of property, plant, equipment and intangible assets according to our asset register), intense pricing pressure from major OEM customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. We compete with other international suppliers and, to a lesser extent, regional companies. The end customers for our products are increasingly affected by innovation and cost-cutting pressures from competitors and seek price reductions in both the initial bidding process and during the term of the contract with their suppliers. In particular, vehicle manufacturers expect lower prices from suppliers for the same, and in some cases even enhanced, functionality, as well as a consistently high product quality. If we became unable to offset price reductions through improved operating efficiencies and the realization of synergies, price reductions could impact our profit margins.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Our efforts to expand in certain markets are subject to a variety of business, economic, legal and political risks.

We manufacture our products in many countries and we market and sell our products worldwide. We are actively operating and expanding our operations in rapidly growing and emerging markets in the Asia/Pacific region, including China, India and Vietnam, and in Russia. In the future, we expect to generate a greater percentage of our revenues from these fast growing markets.

Potential social, political, legal, and economic instability may pose significant risks to our ability to conduct our business and expand our activities in certain markets. Inherent in our international operations is the risk that any number of the following circumstances could affect our operations: underdeveloped infrastructure; lack of qualified management or adequately trained personnel; currency exchange controls, exchange rate fluctuations and devaluations; changes in local economic conditions; governmental restrictions on foreign investment, transfer or repatriation of funds; protectionist trade measures, such as anti-dumping measures, duties, tariffs or embargoes; prohibitions or restrictions on acquisitions or joint ventures; changes in laws or regulations and unpredictable or unlawful government actions; the difficulty of enforcing agreements and collecting receivables through foreign legal systems; variations in protection of intellectual property and other legal rights; potential nationalization of enterprises or other expropriations; and political or social unrest or acts of sabotage or terrorism.

Any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We are exposed to risks associated with market trends and developments.

Our future success depends on our ability to recognize market trends and technological changes and to develop and bring to the market new and improved products in a timely manner. The automotive market, in particular, is characterized by progressive development towards higher-performance and simultaneously more fuel-efficient, less polluting and quieter engines, growing demands by customers and stricter regulations with respect to engine efficiency, as well as towards low-cost cars and hybrid and electric vehicles. Therefore, car manufacturers are increasingly forced to develop environmentally friendly technologies aimed at lower fuel consumption and a reduction of CO_2 emissions. Furthermore, the market segment of cars costing less than U.S.$10,000/€7,000 has been increasing steadily over the past years, in particular in emerging markets, such as China, India, Brazil and Eastern Europe. The industrial market is characterized by megatrends, such as energy efficiency, renewable energies and mechatronic systems and electric mobility.

There can be no assurance that (i) we will be successful in developing new products or systems or in bringing them to market in a timely manner, or at all, (ii) products or technologies developed by others will not render our offerings obsolete or non-competitive, (iii) our customers will not substitute our products with competing products or alternate technology, (iv) the market will accept our innovations and (v) our competitors will not be able to produce our non-patented products more inexpensively from other sources. Should we fail to develop appropriate strategies as a response to these or similar market trends and should we fail to enhance existing products, develop new products or keep pace with developing technology, growth opportunities could be lost or we could lose existing customers. Furthermore, if we devote resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these research and development ("**R&D**") expenses may be lost and our business may suffer.

Any such risks could materially impact our revenue and profit margins in both the Automotive Division and Industrial Division and, therefore, our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Risks related to our business operations

We depend on large OEM and Tier 1 suppliers for the sale of our products.

Many of our customers are large OEMs and Tier 1 suppliers. Both have substantial bargaining power with respect to price and other commercial terms. Our customers' demand for price reductions drives us to a constant improvement of our production process to reduce cost. If we are not successful in these improvements, our profit margin may be negatively affected. In addition, if any of our OEM customers becomes insolvent, discontinues the business relationship with us or terminates a supply contract prematurely, the original investments made by us to provide such products or outstanding claims against such customer could be wholly or partially lost.

The timing and amount of sales to our OEM end-customers ultimately depend on factors that are beyond our control, *i.e.*, sales levels and shipping schedules for the OEM products into which our products are incorporated. We cannot be certain that our OEM customers will continue to manufacture products that incorporate our products at current levels or at all. Failure of our OEM customers to achieve significant sales of products incorporating our products and fluctuations in the timing and volume of such product sales could be harmful to our business. Further, failure by these customers to inform us of changes to their production needs in a timely manner could also hinder our ability to effectively manage our business. In addition, we do not carry insurance on all of our receivables. If certain of our OEM customers are unable to make payment against products that we have already delivered, we may not be able to recover those receivables.

Loss of all or a substantial portion of sales to any of our large OEM customers for whatever reason or a continued reduction of prices for products sold to these customers could have a significant adverse effect on our business, financial condition, and results of operations. In the twelve months ended March 31, 2013, our top ten customers represented approximately 54% of automotive revenues and approximately 15% of industrial revenues. Factors that could cause such a loss of sales include loss of market share by these customers, termination of supply agreements and/or the failure to renegotiate new agreements or new terms, loss of contracts, insolvency, reduced or delayed customer requirements and plant shutdowns, strikes, or other work stoppages affecting production by such OEM customers. There can be no assurance that we will not lose all or a portion of sales to our large OEM customers or that we will be able to offset a continued reduction of prices for products sold to these customers with reductions in costs.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We depend on a limited number of key suppliers for certain products.

We require substantial amounts of raw materials, including steel tubing and bars, strip steel, nickel and other alloys and electric power. We are subject to the risk that any or all of these materials may be unavailable. Although our general policy is to source raw materials from a number of different suppliers, reliance on a single supplier cannot always be avoided and, consequently, we are dependent on certain suppliers. Furthermore, our procurement logistics may experience supply delays, cancellations, strikes, insufficient quantities or inadequate quality which result in interruptions in production and, therefore, have a negative impact on our production capacity and lead to under-utilization of our production sites, which in turn may cause delays in the delivery of products to our customers in these areas. If any one of our suppliers becomes unable to meet our delivery requirements for any reason (for example, due to insolvency, destruction of production plants or refusal to perform following a change in control), we may be unable to source input products from other suppliers upon short notice and/ or at the required volume.

In addition, many of our OEM customers have approval rights with respect to the suppliers used by us, limiting our ability to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved such other suppliers.

Any of these risks could lead to order cancellations or even claims for damages and could harm our long-term relationships with OEM customers, which may choose to select another supplier. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We are exposed to fluctuations in prices of raw materials and energy.

We procure large quantities of raw materials, components and energy from third-party suppliers. In the twelve months ended March 31, 2013, our costs of raw materials, components and energy from third-party suppliers were approximately €3.3 billion. High demand for raw materials, as well as energy, can cause prices to increase, which will lead to increases in the cost of manufacturing our products.

We do not actively hedge against the risk of rising prices of raw materials by using derivative financial instruments. Therefore, if we are not able to compensate for or pass on our cost increases to customers, such price increases could have a material adverse impact on our financial results. Even to the extent that we are successful in compensating for or passing on our increased costs to our customers by increasing prices, the positive effects of such price increases may not occur in the periods in which the additional expenses have been incurred, but in later periods. In that event, the price increases will not have a compensating effect for the periods in which the costs increased. If costs of raw materials and energy continue to rise, and if we are not able to undertake cost saving measures elsewhere in our operations or increase the selling prices of our products, we will not be able to compensate such cost increases, which could have a material adverse effect on our business, financial condition and results of operations, and could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We may not be able to successfully execute our growth strategy of expanding in rapidly growing emerging markets.

We have dedicated significant resources to enhance our local presence in emerging markets and we intend to continue pursuing this growth strategy, particularly in the Asia/Pacific region. However, should we be unable to secure sufficient funding to finance our development and growth activities in the future, we could lose our competitive position in these important and rapidly growing regional markets. Furthermore, if we invest in emerging markets that do not develop as expected, or that deteriorate due to economic, political or other reasons, all or part of these investments may be lost. We also depend on the success of our customers in the emerging markets.

In addition, the success of our growth strategy will depend on attracting and retaining qualified personnel (including the need to identify, recruit, train and integrate additional employees) maintaining our high quality standards and implementing our standardized process and quality management globally.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Our future business success depends on our ability to maintain the high quality of our products.

For customers, one of the determining factors in purchasing our components and systems is the high quality of our products, in particular due to their often mission-critical nature. A decrease in actual and perceived quality of our products could damage our image and reputation and also the image and reputation of one or more of our brands. In addition, defective products could result in loss of sales, loss of customers and loss of market acceptance. The risks arising from such warranty and product liability lawsuits, proceedings and other claims are insured up to levels considered economically reasonable by us. However, the insurance coverage could prove insufficient in individual cases. Additionally, any major defect in one of our products could also have a material adverse effect on our reputation and market perception, which in turn could have an adverse effect on our sales and results of operations.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We may be unable to maintain our technological leadership.

The markets for the products that we offer are characterized by rapidly changing technology, evolving technical standards, changes in customer preferences and the frequent introduction of new products. The development and commercialization of new technologies and the introduction of new products will often make existing ones obsolete or unmarketable. Our competitiveness in the future will depend, at least in part, on our ability to (i) keep pace with rapid technological developments and maintain technological leadership, (ii) develop and manufacture innovative products in a timely and cost-effective manner, (iii) attract and retain highly capable technical and engineering personnel, and (iv) accurately assess the demand for, and perceived market acceptance of, new products that we develop.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We depend on our ability to secure sufficient funding for our research and development efforts.

Developing new and improved products is very costly and therefore requires a substantial amount of capital funding. We spend significant resources on R&D. During each of the financial years 2012, 2011 and 2010, our R&D expenses in relation to total revenue accounted for approximately 5.0%.

If we devote resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to become commercially viable, all or part of these R&D expenses may be lost.

The general lack of liquidity, caused by the disruptions in the financial markets and our high level of indebtedness, is adversely impacting the availability and cost of additional credit for us and could adversely affect the availability of credit already arranged or committed. Should we be unable to secure sufficient funding to finance our development activities, we could lose our competitive position in a number of important and rapidly growing sub-markets.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Our operations depend on qualified executives and key employees.

Our success depends on our executive board members and other qualified executives and employees in key functions. The loss of executives or key employees could have a material adverse effect on our market position and prospects. Considerable expertise could be lost or access thereto gained by competitors. Due to intense competition within the industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that we will be successful in retaining our executives and the employees in key positions or in attracting new employees with corresponding qualifications. There is a risk that any such individuals will leave the Schaeffler Group. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Our business could be adversely impacted by strikes and other labor disputes.

Our relationships with our employees and our unions could deteriorate in the future and we could experience additional strikes, unionization efforts or other types of conflicts with labor unions or our employees. In addition, many of our customers and our other suppliers also have unionized workforces. Refusals to work or work downtime experienced by our customers or our other suppliers could result in decreased productivity or closures of our assembly plants where our products are needed for assembly. This could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Our operations rely on complex IT systems and networks.

We rely heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources or to security threats. An extended outage in a data center or telecommunications network utilized by our systems, any security or breaches or any similar event could lead to an extended unanticipated interruption of our systems or networks. The realization of any risks related to our IT system and network disruptions could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We could be adversely affected by property loss and unforeseen business interruption.

Damage and loss caused by fire, accidents, natural disasters, terrorism, severe weather or other disruptions of our production process at our facilities or within our supply chain, with respect to customers and with suppliers, can be severe. Such risks arising from business interruption and loss of production are insured at levels considered economically reasonable by us, but our insurance coverage could prove insufficient in individual cases. Furthermore, such events could injure or kill individuals or damage or destroy third party property or the environment, which could, among other things, lead to considerable financial costs for us. In addition, our manufacturing processes are dependent on critical pieces of equipment such as furnaces, as well as electrical equipment such as transformers and this equipment may, on occasion, be out of service as a result of unanticipated failures, which may result in production bottlenecks and breakdowns.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Risks related to the financial position of the Parent Guarantor and its subsidiaries

The high leverage and debt service obligations of the Parent Guarantor and its subsidiaries could have a material adverse effect on the Company's business and may make it difficult for them to service their debt, including the Notes, and operate the Company's business.

As of March 31, 2013, on a *pro forma* basis after giving effect to (i) the issuance of the April 2013 Notes and drawings under the April 2013 Amendment Agreement, the repayment of amounts outstanding under the March 2013 Senior Facilities Agreement from (x) the net proceeds from the issuance of the April 2013 Notes and the drawings under Facility D, (y) dividends in the amount of €163 million we received on shares of Continental AG held by us and (z) €87 million from available cash (together, the "**S-Group April / May 2013 Transactions**"), and (ii) the issuance of the Notes, drawings of €2,175 million under the S-Verwaltungs Group Facilities Agreement and the application of the net proceeds therefrom to repay in full outstanding amounts under the IHO Debt Instruments (together, the "**S-Verwaltungs Group Transactions**" and, together with the S-Group April / May 2013 Transactions, the "**Transactions**") as if the Transactions had occurred on March 31, 2013, the Parent Guarantor and its subsidiaries would have had financial debt (including shareholder loans) of approximately €10,507 million. In addition, the Parent Guarantor and its subsidiaries are able to borrow, in addition to their existing indebtedness, additional funds subject to compliance with certain covenants and other conditions. Their level of indebtedness could have important consequences for investors in the Notes. For example, it could:

- make it more difficult for the Parent Guarantor and its subsidiaries to satisfy their obligations with respect to their indebtedness;
- increase the Parent Guarantor's and its subsidiaries' vulnerability to adverse economic and industry conditions;
- require the Parent Guarantor and its subsidiaries to dedicate a substantial portion of cash flow from operations to payments on their indebtedness, which could reduce the availability of cash flow to fund working capital needs, capital expenditures according to cash flow, future acquisitions and other general corporate needs;
- limit the Company's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;
- place the Parent Guarantor and its subsidiaries at a competitive disadvantage compared to their competitors with less debt; and
- limit the Parent Guarantor's and its subsidiaries' ability to borrow additional funds.

Due to our high level of debt we face potential liquidity risks.

Our cash from operating activities, current cash resources, existing sources of external financing and the proceeds from the issue and sale of the Notes could be insufficient to meet our further capital needs.

Furthermore, future disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of a number of financial institutions, and the generally restricted availability of liquidity could adversely impact the availability and cost of additional financing for us and could adversely affect the availability of financing already arranged or committed. Our liquidity could also be adversely impacted if our suppliers tighten terms of payment as the result of any decline in our financial condition or if our customers were to extend their normal payment terms.

The realization of any of these risks may affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline or experience increased volatility, and investors could lose all or part of their investment.

Existing debt obligations contain, and future debt obligations are likely to contain, maintenance and restrictive covenants and change of control provisions.

Certain existing and future debt obligations, including the Notes, the S-Verwaltungs Group Facilities Agreement, the S-Group Senior Facilities Agreement and the Existing Notes, contain, or will contain, a range of restrictive covenants. In addition, the S-Verwaltungs Group Facilities Agreement and the S-Group Senior Facilities Agreement require the respective entities to satisfy specified financial tests and maintain specified financial ratios. Under the S-Verwaltungs Group Facilities Agreement, the Parent Guarantor is, among other things, required to maintain a maximum level of total consolidated net debt to consolidated EBITDA ("leverage ratio"). Under the S-Group Senior Facilities Agreement, the Company is required to maintain financial ratios regarding (i) a maximum level of total consolidated net debt to consolidated EBITDA ("leverage ratio"), (ii) a minimum level of consolidated EBITDA to consolidated net interest expense ("interest cover ratio"), and (iii) a maximum amount for aggregate capital expenditures for any financial year.

In light of the cyclicality of the Company's business and its possible effects on its business activities and results of operations as well as the other market and business-related risks described in more detail below, the Schaeffler Group may not be able to maintain its current revenue and profitability at the levels required for meeting the EBITDA related financial tests. Hence, the Parent Guarantor or its respective subsidiaries cannot assure you that they will continue to comply with these financial covenants in the future.

Any debt financing the Parent Guarantor or any of its subsidiaries may incur in the future may contain similar restrictive covenants, representations and change of control provisions. If the Parent Guarantor or any of its subsidiaries fails to comply with any of these covenants or representations or if a change of control occurs, and the respective lenders do not grant a waiver, a default could result under the relevant debt instrument, which then could be declared to be immediately due and payable and/or would become immediately due and payable. In the event of a default, the relevant lenders could also require the borrower under the S-Verwaltungs Group Facilities Agreement to apply all available cash to repay the borrowings or prevent the Issuer from making debt service payments on the Notes, any of which would be an event of default under the Notes. If the debt under the S-Verwaltungs Group Facilities or the Notes were to be accelerated, the Parent Guarantor cannot assure you that its assets would be sufficient to repay such debt in full.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations and thus on the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We are exposed to risks in connection with our share interest in Continental AG.

Continental AG, in which Schaeffler Beteiligungsholding GmbH & Co. KG has a 36.14% share interest as of March 31, 2013, is our major associated company. Under IFRS, the investment in associated companies is accounted for using the equity method. Under the equity method, the investment is initially measured at cost and subsequently adjusted for the investor's share of the investee's net income or loss taking into account effects of the purchase price allocation (*e.g.*, amortization) and movements in the investee's other comprehensive income or loss (*e.g.*, share-based compensation) from the date that significant influence commences until the date significant influence ceases. Hence, after initial recognition, the carrying amount of our investment in Continental AG is increased or decreased by our share of Continental AG's net income or loss and other comprehensive income or loss. Furthermore, at the end of each reporting period, we assess whether there is any indication that our equity method investments may be impaired. If such an indication exists, we are required to test this equity method investment for impairment. An equity method investment is impaired when its carrying amount exceeds the higher of its value in use and fair value less costs to sell.

Furthermore, the Parent Guarantor has an additional 13.76% share interest in Continental AG.

In its financial year 2012, Continental AG reported revenue of approximately €32.7 billion and EBITDA of approximately €4.9 billion. However, this does not indicate that Continental AG will be profitable in any future periods. In addition, a variety of factors that are partially or entirely beyond our and Continental AG's control, such as a downturn in certain of Continental AG's core markets, could have an adverse effect on the results of operations and business prospects of the Continental Group, which in turn may lead to a decrease of the carrying amount or require us to make impairment adjustments with respect to our share interest in Continental AG. Therefore, any fluctuation of Continental AG's results as well as any material adverse change to Continental AG's trading position and growth prospects could directly adversely affect our net assets and financial position.

We are exposed to risks associated with changes in currency exchange rates and hedging.

We operate worldwide and are therefore exposed to financial risks that arise from changes in exchange rates. Currency exchange fluctuations could cause losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in foreign exchange rates could enhance or minimize fluctuations in the prices of raw materials, since we purchase a considerable part of the raw materials which we source in foreign currencies. Further, fluctuations in foreign exchange rates could impact payments due in U.S. dollar under the February 2012 Notes and April 2013 Notes and the S-Group Senior Facilities Agreement, see "*Description of other indebtedness.*" As a result of these factors, fluctuations in exchange rates could affect our results of operations.

External and internal transactions involving the delivery of products and services to and/or by third parties result in cash inflows and outflows which are denominated in currencies other than the functional currency of our respective group member. We are particularly exposed to fluctuations of net inflows in U.S. dollars (surplus) and net outflows in Romanian Leu (demand). To the extent that cash outflows of our respective group member in any one foreign currency are not offset by cash inflows resulting from operational business in such currency, the remaining net foreign currency exposure is hedged, in general, by at least 80% of the net exposure of the next twelve months, using appropriate derivative financial instruments, particularly forward exchange contracts and options. The foreign exchange risk is concentrated at the Schaeffler Group level, to the extent allowed, and hedged on a net basis. Portfolio aspects (such as correlations) and current market environment are taken into account in execution of the hedging strategy.

However, the future use of derivative hedging instruments is generally dependent on the availability of adequate credit lines with appropriate financial institutions. As a result, we could be unable to use derivative financial instruments in the future, to the extent necessary, and our hedging strategy could therefore ultimately be adversely impacted. Furthermore, any hedging transactions executed in the form of derivative financial instruments may negatively impact our profit due to changes in the market-to-market valuation if hedge accounting is not applied.

In addition, we are exposed to foreign exchange risks arising from external and internal loan agreements, which result from cash inflows and outflows in currencies other than the functional currency of our respective group member. These foreign exchange risks are, in general, hedged against by using appropriate derivative financial instruments, particularly currency forwards/ swaps and cross currency interest-rate swaps.

Our net foreign investments are generally not hedged against exchange rate fluctuations. In addition, a number of our consolidated companies report their results in currencies other than the euro, which requires us to convert the relevant items into euro when preparing our consolidated financial statements. Translation risks are generally not hedged.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

The Parent Guarantor and its subsidiaries are exposed to risks in connection with interest rate changes and associated hedging.

The Parent Guarantor and its subsidiaries are exposed to risks associated with changes in variable interest rates, as certain of their credit facilities bear interest at a floating rate, such as loans under the S-Group Senior Facilities Agreement and the S-Verwaltungs Group Facilities Agreement. Therefore, an increase or decrease in interest rates would affect their current interest expenses and their future refinancing costs. These risks are monitored and evaluated as part of their interest rate management activities and managed individually based on principles of alignment with their corporate risk strategy and market opportunities by means of derivative interest rate hedging instruments.

However, the future use of derivative interest rate hedging instruments is generally dependent on the availability of adequate credit lines with appropriate financial institutions. Currently, the availability of additional credit lines is negatively affected by the disruptions in the financial markets and our high level of financial indebtedness. As a result, the Parent Guarantor and its subsidiaries could be unable to use derivative financial instruments in the future to the extent necessary, and their hedging strategy could therefore ultimately be adversely impacted. In addition, any hedging transactions executed in the form of derivative financial instruments may result market-to-market in losses.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We may have to repay investment grants and subsidies, or previously awarded investment grants may not be disbursed in part or at all.

A part of our investment requirements for developing and expanding our production capacity is covered by public aid, such as subsidies, loans at favorable conditions or tax reductions or exemptions. The decisions on granting public aid received by us contain various conditions such as the creation of jobs or specific research and development activities. If these conditions are not fulfilled during the commitment period, which generally exceeds the specified investment period, this could result in a repayment claim by the relevant authorities for the public aid received by us. During the commitment period, such conditions may no longer be satisfied and we could be subsequently exposed to considerable repayment claims. This could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We are exposed to risks in connection with our pension commitments.

We provide defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of March 31, 2013, our total pension obligations amounted to approximately €2,153 million. As of March 31, 2013, our net pension obligations for defined benefit pension plans (pension obligations less pension plan assets, funded status) amounted to approximately €1,558 million.

Our externally invested pension plan assets are funded through externally managed investment funds. While we prescribe the general investment strategies applied by these funds, we do not determine their individual investment alternatives. The assets are invested in different asset classes including, but not limited to, stocks, fixed-income securities and real estate. The values attributable to the externally invested pension plan assets are subject to fluctuations in the capital markets that are beyond our influence. Unfavorable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in our net pension obligations. Any such increase in our net pension obligations could adversely affect our financial condition due to an increased additional outflow of funds to finance the pension obligations. Also, we are exposed to risks associated with longevity and interest rate changes in connection with our pension commitments as an interest rate decrease could have an adverse effect on our liabilities under these pension schemes. Furthermore, certain of our U.S.-based subsidiaries have entered into obligations to make contributions to healthcare costs of their former employees. Accordingly, we are exposed to the risk that these costs will increase in the future.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Legal, taxation and environmental risks

We are subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims.

On November 8, 2011, the EU Commission conducted an on-site inspection at our offices in Herzogenaurach and Schweinfurt, Germany, investigating suspected infringements of EU competition law in the automotive and industrial bearings sector. Our offices were searched and copies of a number of documents were taken. We answered various requests for information received by the EU Commission. The EU Commission is now further investigating the matter; we expect further procedural steps in 2013. In addition, the U.S. Department of Justice ("**DOJ**") served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011 and has commenced its own investigation concerning possible antitrust law infringements in these sectors. The Japanese Fair Trade Commission ("**JFTC**") sent various requests for information to the Company's Japanese subsidiary. The Korean Fair Trade Commission has started an investigation against Schaeffler Korea Yuhan Hoesa and a search was conducted in the company in July 2012.

We have initiated an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors. Pursuant to Schaeffler Group policy, the Company is cooperating fully with the investigating authorities. If the EU Commission or the DOJ or any other relevant competition authority concludes that we participated in anti-competitive practices, these authorities may seek to impose a fine. The DOJ may commence criminal prosecution of the Company and/or its employees. For example, a successful antitrust law challenge could result in the imposition of fines in the EU of up to a maximum of 10% of our worldwide annual group revenue. While we anticipate the risk of a fine in the EU, at this stage it is not possible to provide a reliable estimate of the amount of any fine. We may also face follow-on civil actions by both direct and indirect purchasers of bearings. Starting in May 2012, several class action lawsuits were filed by plaintiffs in the U.S. and Canada against Schaeffler Group companies and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants.

In addition, in May 2013, the Spanish Competition Authority opened antitrust proceeding against Schaeffler Iberia concerning possible antitrust law infringements in the railway bearings sector.

The realization of any of these risks could have a material adverse effect on our business, financial position and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We are exposed to warranty and product liability claims.

As a manufacturer, we are subject to product liability lawsuits and other proceedings alleging violations of due care, violation of warranty obligations, treatment errors and claims arising from breaches of contract, recall actions or fines imposed by government or regulatory authorities. Any such lawsuits, proceedings and other claims could result in increased costs for us. In addition, defective products could result in loss of revenue, loss of customers, and loss of market acceptance, in particular against the background that many of our products are mission-critical components which often have a major impact on the overall safety, durability and performance of our customers' end-product. The risks arising from such warranty and product liability lawsuits, proceedings and other claims are insured up to levels we consider economically reasonable, but the insurance coverage could prove insufficient in individual cases. Additionally, any major defect in one of our products could also have a material adverse effect on our reputation and market perception, which in turn could have a significant adverse effect on our revenue and results of operations.

In addition, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims and we have been subject to continuing efforts by our customers to change contract terms and conditions concerning warranty and recall participation.

Furthermore, we manufacture many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered by us do not meet the requirements stipulated by our OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Furthermore, our OEM customers could potentially bring claims for damages on the basis of breach of contract, even if the cause of the defect is remedied at a later point in time. In addition, failure to perform with respect to quality requirements could negatively affect the market acceptance of our other products and our market reputation in various market segments.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We could be unsuccessful in adequately protecting our intellectual property and technical expertise.

Our products and services are highly dependent upon our technological know-how and the scope and limitations of our proprietary rights therein. We have obtained and applied for a large number of intellectual property rights, such as patents, that are of considerable importance to our business. The process of seeking patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide us with meaningful protection or a commercial advantage. In addition, while there is a presumption that patents are valid, the granting of a patent does not necessarily imply that it is effective or that possible patent claims can be enforced to the degree necessary or desired. A major part of our know-how and industrial secrets is not patented and cannot be protected through intellectual property rights. Consequently, there is a risk that third parties, in particular competitors, will copy our know-how without incurring any expenses of their own.

In addition, we have entered into a number of license, cross-license, cooperation and development agreements with our customers, competitors and other third parties under which we are granted access to intellectual property or know-how of such third parties. It is possible that license agreements could be terminated under circumstances such as a licensing partner's insolvency or bankruptcy or in the event of a change of control in either party, leaving us with reduced access to intellectual property rights to commercialize our own technologies.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

There is a risk that we infringe intellectual property rights of third parties.

Our competitors, suppliers and customers also submit a large number of inventions for intellectual property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party intellectual property rights to certain processes, methods or applications. Therefore, third parties could assert infringement claims (including illegitimate ones) against us. As a result, we could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries or be forced to make changes to manufacturing processes or products. In addition, we could be liable to pay compensation for infringements or could be forced to purchase licenses to make use of technology from third parties. This could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We might not have validly acquired employee inventions or could possibly fail to validly acquire them in the future.

There is a risk that we have failed or will fail to properly utilize inventions of our employees. Present or former employees who made or make employee inventions might continue to be the owners of the valuable rights to inventions if we fail to claim the invention in a timely manner. If this should be the case and we nevertheless registered an employee invention with us as the owner of a patent or utility model and/or used an employee invention as such, then the employee who made the invention might have a claim for transfer of the patent/of the utility model against us, and might be able to assert claims for damages for the unauthorized use of his or her invention (*e.g.*, disgorgement of profits or notional license fees). In addition, a claim could be asserted against us to enjoin our use of the invention, or we could be forced to enter into a license agreement providing for the payment of royalties in order to use the invention in the future, or we might have to acquire the invention. Furthermore, there is a risk that employees may have claims for employee invention compensation which have not yet been fully satisfied. If we should have failed to have validly acquired employee inventions or should potentially fail to validly acquire them in the future or if employees should have claims for employee invention compensation which have not been fully satisfied, this could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We may incur additional costs as a result of industry collective bargaining agreements applicable to our German employees.

If industry collective bargaining agreements which apply to us will be amended to the effect that they foresee higher benefits for employees in the future, our employees will be entitled to such higher benefits if their employment is subject to such collective bargaining agreement. This may lead to higher employment costs and higher social security contributions for the past and future with regard to our German employees.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We are subject to risks from legal, administrative and arbitration proceedings.

Our group companies are involved in a number of legal, administrative and arbitration proceedings and could become involved in additional legal, administrative and arbitration proceedings. These proceedings or potential proceedings could involve, in particular in the United States, substantial claims for damages or other payments. Based on a judgment or a settlement agreement, we could be obligated to pay substantial damages. Our litigation costs and those of third parties could also be significant.

Almost all shares in our companies and certain shares in other IHO Group companies (not including the shares in Continental AG) are tainted for German tax purposes.

Due to a legal restructuring in 2009, 2010 and 2012, almost all shares in our companies and certain shares in other IHO Group companies (not including the shares in Continental AG) are tainted (*sperrfristbehaftet*) for German tax purposes in the meaning of section 20 et. seq. of the German Reorganization Tax Act (*Umwandlungssteuergesetz*). In 2009, 2010 and 2012, the former Schaeffler KG's business was indirectly and through various steps hived-down into the Company pursuant to the German Reorganization Tax Act at tax book value. As a result, a seven-year holding period applies with respect to the shares in the Company received and furthermore to the shares that form part of the contributed business as well as to certain shares in other IHO Group companies (all sets of shares referred to as "tainted shares"). A sale of any of these tainted shares or a comparable event during the seven-year holding period may, hence, trigger a (partial) retroactive taxation of built-in gains of the contributed business and shares existing at the tax effective date of the contribution for German tax purposes. The retroactive taxable gain is principally defined as the difference between the fair market value of the contributed assets or shares and their tax book value. This difference is reduced by one seventh for each year that has elapsed since the contribution until the recapture gain is triggered. Trade income tax on a recapture gain should be due at the level of Schaeffler Technologies AG & Co. KG. As the Company shares form part of the Collateral securing the Notes and the S-Verwaltungs Group Facilities Agreement and as shares in certain of the Company's subsidiaries form part of the collateral securing the S-Group Senior Facilities Agreement and the Existing Notes, an enforcement of the Collateral or the collateral securing our indebtedness will also trigger the (partial) retroactive taxation of such built-in gains. In addition, a sale or comparable event could under certain circumstances also be triggered by a direct or indirect shareholder of the Company or their successors and assignees (including transfer of shares by reason of gift or death to corporations and similar entities or the withdrawal of shares from the allocation to a German permanent establishment); accordingly the avoidance of any such event is beyond the Company's control.

The taxation of such a recapture gain may result in a tax liability of several hundred million euro for members of the Schaeffler Group and further recapture tax to be paid by our shareholders and could therefore have a material adverse effect on our business, financial condition and results of operations. This could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

The Company shares also serve as collateral for the Existing Notes and for the indebtedness of the Parent Guarantor. An enforcement of such collateral could, therefore, have the effects described above.

In 2012, Schaeffler Technologies AG & Co. KG and participations in certain other group companies were contributed into another group company, INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**"), in a similar way pursuant to the German Reorganization Tax Act (*Umwandlungssteuergesetz*) at tax book value. As a result, a new seven-year holding period was triggered with respect to the shares in IBH held by the Company. The above described tax consequences relating to tainted shares thus also apply to shares in IBH.

The Parent Guarantor and its subsidiaries could be subject to tax risks attributable to previous tax assessment periods.

The Parent Guarantor and its subsidiaries could accrue unanticipated tax expenses in relation to previous tax assessment periods which have not yet been subject to a tax audit or are currently subject to a tax audit.

Until now, neither the Company not the Parent Guarantor has not been subject to a tax audit, but many of our German and foreign companies are subject to a routine tax audit by the German tax authorities for the assessment periods 2005 through 2007. In ongoing or future tax audits, the tax laws or relevant facts could be interpreted by the tax authorities in a manner deviating from the relevant company's view. As a result, the tax authorities could revise original tax assessments and substantially increase the tax burden (including interest and penalty payments) of the relevant company. Since the Company indirectly acquired Schaeffler Holding GmbH & Co. KG's operating business by way of a hive-down under the German Reorganization Act (*Umwandlungsgesetz*), the Company is exposed to tax audit risks with respect to previous periods on a legal and/or contractual basis in connection with the reorganization.

The Company, the Parent Guarantor and its affiliates have set up certain tax provisions to address identifiable risks in respect of uncertain tax audit risks. Thus, the Company shows significant provisions and liabilities in the consolidated financial statements of the Company to cover potential exposures for tax audits. Our companies, so far, are not aware that there have been any definitive significant findings which would not be covered by the tax provisions and liabilities the respective company has accounted for. Nevertheless, it cannot be ruled out that ongoing and/or future tax audits may lead to an additional tax expense and/or payment, which may have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

The Company, IBH and the Parent Guarantor are affected by the German interest barrier rules.

A significant amount of the annual refinancing expenses (interest payments and further expenses which may qualify as interest expenses within the meaning of the interest barrier rules) is not immediately deductible for tax purposes under the German interest barrier rules (*Zinsschranke*) and interest expense-carry forward (*Zinsvortrag*) of the Company and/or of Schaeffler Technologies AG & Co. KG have been forfeited because of the reorganization in 2012. The interest barrier rules generally provide for a limitation on the deduction of a business' net interest expenses in a financial year to an amount equal to 30% of its tax-adjusted EBITDA in the respective financial year. This has an adverse effect on our financial situation, which could in turn cause the market price of the Notes to decline. In order to avoid negative impacts on the consolidated financial statements, the Company has not recognized any deferred tax assets on the non-deductible interest expenses.

The definition of interest expenses for interest barrier rule purposes is not free of doubt. It is, *inter alia*, not clear whether the German tax authorities qualify payments for interest swaps as interest expenses which would therefore become subject to the interest barrier rules.

As of 2013, after IBH assumed almost all debt from the Company, the deductibility of IBH's interest expenses will be restricted in a similar way. In addition, the Parent Guarantor is in a generally similar situation with interest expenses being subject to the interest barrier rules.

We could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.

Many of the sites at which we operate have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. In addition, we could be held responsible for the remediation of areas adjacent to our sites. Furthermore, soil, water and/or groundwater contamination has been discovered at sites operated by us in the past, including a site operated by Schaeffler Brazil. The competent authorities could assert claims against us, as the owner or tenant of the affected plots, for the examination or remediation of such soil or groundwater contamination, or order us to dispose of or treat contaminated soil excavated in the course of construction. We could also be required to indemnify the owners of plots leased by us or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if we caused the contamination. On several of the sites where contamination has been discovered, remediation activities have already taken place upon order by, or agreement with, the competent authorities. Costs typically incurred in connection with such claims are generally difficult to predict. Also, if any contamination were to become a subject of public discussion, there is a risk that our reputation or relations with our customers could be harmed.

Furthermore, at some of the sites at which we operate, hazardous materials were used in the past, such as asbestos-containing building materials used for heat insulation. The health and safety of third parties (such as former employees) may have been affected due to the use of such hazardous materials and we could therefore be exposed to related damage claims in the future. We face similar risks with respect to former sites which we sold in the past. Even if we have contractually excluded or limited our liability in connection with the sale of such properties, we could be held responsible for currently unknown contamination on properties which we previously owned or used.

In addition, manufacturers of clutch lining materials are sometimes defendants in suits brought by individuals claiming personal injuries as a result of alleged exposure to asbestos or asbestos-containing products. Claims of this nature have been filed against certain of our subsidiaries in various jurisdictions (including the United States) as a result of sales of clutch lining material containing asbestos made until the end of the 1980s.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

We could become subject to additional burdensome environmental or safety regulations and additional regulation could adversely affect demand for our products and services.

We must observe a large number of different regulatory systems across the world that change frequently and are continuously evolving and becoming more stringent, in particular with respect to environmental regulations, chemicals and hazardous materials, as well as health regulations. This applies also to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, in particular, but not limited to, in the EU and the United States. For instance, all our plants across the world are assessed according to the European Management and Audit Scheme ("**EMAS**") system and certified according to ISO 14001 and the Occupational Health and Safety Audit System

("**OHSAS**") 18001. In addition, for our sites and operations, we require various permits and we have to comply with the requirements specified therein. In the past, adjusting to new requirements has required significant investments and we assume that further significant investments in this regard will be required in the future.

Furthermore, any additional regulation restricting or limiting car traffic with an aim at reducing carbon emissions could lead to a material decrease in car sales and consequently adversely affect demand for our products and services.

In numerous markets important to us, governments introduced scrappage programs in 2009 (such as the Car Allowance Rebate System in the United States and the Car Scrappage Bonus (*Umweltprämie*) in Germany) intended to provide economic incentives to car owners to trade in older vehicles and purchase new ones. Most of these programs designed to stimulate the economy by boosting vehicle sales have lapsed. As these scrappage programs may have led to increased sales by bringing forward potential demand from later years rather than adding incremental demand in the relevant markets, vehicle sales may decline in the short term with likely negative consequences for production volumes on which we depend.

Increasing taxes reducing the income available for consumption may also weaken the global demand in the automotive markets. Tax increases are a likely reaction of the national governments (especially of the EU member states) to the increase of national debt resulting from the various bailout programs set up for banks or, most recently, the stabilization package for EU member states.

The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

Risks related to the Notes

The Notes may not be a suitable investment for all investors.

As a potential investor in the Notes, you must determine the suitability of that investment in light of your own circumstances. In particular, you should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the Notes and the impact the Notes will have on your overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from your currency;
- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate (including the risk that subsequent changes in market interest rates may adversely affect the value of the Notes) and other factors that may affect your investment and your ability to bear the applicable risks.

The interests of the Parent Guarantor's shareholders may be inconsistent with your interests.

As of the date of this Offering Memorandum, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler (together, the "**Schaeffler Family**") ultimately own the entire equity of the Parent Guarantor. The interests of the Schaeffler Family could conflict with your interests, particularly if the Parent Guarantor and/or its subsidiaries encounter financial difficulties or are unable to pay their debts when due. Affiliates of the Schaeffler Family may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to you as a Holder. In addition, the Schaeffler Family or their affiliates may, in the future, own businesses that directly compete with us.

The Notes will be structurally subordinated to indebtedness of the subsidiaries of the Parent Guarantor (other than the Issuer).

None of the subsidiaries of the Parent Guarantor will guarantee the Notes. In the event of a liquidation, winding-up or dissolution or a bankruptcy, administration, reorganization, insolvency, receivership or similar proceeding of any subsidiary of the Parent Guarantor (other than the Issuer), the subsidiaries will pay the holders of their own debt (including holders of third-party debt which such subsidiaries have guaranteed), their trade creditors and any preferred shareholders before they would be able to distribute any of their assets to the Parent Guarantor or the Issuer. As a result of the foregoing, the Issuer and the Parent Guarantor may not have sufficient assets to make payments on the Notes or the Note Guarantee, respectively.

As of March 31, 2013, on a *pro forma* basis after giving affect to the S-Group April / May 2013 Transactions, the subsidiaries of the Parent Guarantor other than the Issuer would have had €6,758 million in financial indebtedness on a combined basis, including under the S-Group Senior Facilities Agreement and the Existing Notes.

The Notes and the Note Guarantee will be effectively subordinated to debt of the Parent Guarantor and its subsidiaries to the extent such debt is secured by assets that are not also securing the Notes.

Although the Indenture restricts the Parent Guarantor's and its subsidiaries' ability to provide asset security for the benefit of other debt, both the restriction on incurring liens and the requirement to provide equal security to the Notes are subject to a number of significant exceptions and carve-outs. For example, if the Company or any of its subsidiaries grants security interests over their respective assets to secure any of their respective debt, the Indenture will not require them to secure the Notes or the Note Guarantee equally. Also, if the Company or its subsidiaries acquire assets subject to security interests securing other indebtedness, such security interests are grandfathered by the Indenture and will not trigger a requirement to secure the Notes or the Note Guarantee equally. To the extent the Parent Guarantor or any of its subsidiaries provides asset security for the benefit of other debt without also securing the Notes, the Notes and the Note Guarantee will be effectively junior to such debt to the extent of such assets.

As a result of the foregoing, holders of our (present or future) secured debt may recover disproportionately more on their claims than the holders of the Notes ("**Holders**") in an insolvency, bankruptcy or similar proceeding. The Issuer and the Parent Guarantor may not have sufficient assets remaining to make payments on the Notes or the Note Guarantee, respectively.

Despite their high level of indebtedness, the Parent Guarantor and its subsidiaries will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with their substantial indebtedness.

The Parent Guarantor and its subsidiaries may be able to incur substantial additional debt in the future. Under the S-Group Senior Facilities Agreement, we have a €1.0 billion revolving credit facility available to us, of which, as of March 31, 2013, €57 million were utilized (including ancillary facilities). In addition, under the S-Verwaltungs Group Facilities Agreement, the Parent Guarantor entered into a €200 million revolving credit facility. Although the Indenture, the indentures governing the Existing Notes, the S-Group Senior Facilities Agreement and the S-Verwaltungs Group Facilities Agreement contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and, under certain limited circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. Also, the Issuer may accrue PIK interest under the Notes and the Parent Guarantor will or, as the case may be, may accrue PIK interest under Facility B2 and Facility B3 of the S-Verwaltungs Group Facilities Agreement, which will increase the amount of the Issuer's outstanding debt in the future. In addition, the Indenture, the indentures governing the Existing Notes and the S-Group Senior Facilities Agreement as well as under debt incurred in the future will not prevent us from incurring obligations that do not constitute indebtedness under those agreements. If new debt is added to our existing debt levels, the risks associated with our substantial indebtedness described above, including our possible inability to service our debt, will increase.

The Issuer may not be able to purchase the Notes upon a change of control as required by the Indenture and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.

Upon the occurrence of certain events constituting a "change of control," the Issuer would be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. The Issuer's ability to repurchase the Notes pursuant to the change of control offer may be limited by a number of factors. The occurrence of certain of the events that constitute a change of control would require a mandatory prepayment of indebtedness under the S-Group Senior Facilities Agreement, the S-Verwaltungs Group Facilities Agreement and the Existing Notes. In addition, certain events that may constitute a change of control under the S-Group Senior Facilities Agreement, the S-Verwaltungs Group Facilities Agreement and the Existing Notes and require a mandatory prepayment of indebtedness or offer to purchase such notes may not constitute a change of control under the Indenture. Future indebtedness of the Parent Guarantor or its subsidiaries may also contain prohibitions of certain events that would constitute a change of control or require such indebtedness to be repurchased upon a change of control. The ability of the Issuer to pay cash to the Holders following the occurrence of a change of control may also be limited by the Parent Guarantor's and the Restricted Subsidiaries' then existing financial resources, and sufficient funds may not be available when necessary to make any required repurchases. Certain agreements governing indebtedness of the Company and its subsidiaries, including the indentures governing the Existing Notes and the S-Group Senior Facilities Agreement, contain provisions that may prohibit the upstreaming of funds to the Parent Guarantor and the Issuer necessary to repurchase or repay the Notes upon a change of control. If a change of control occurs at a time when the Company and its subsidiaries are prohibited from providing funds to the Parent Guarantor and the Issuer, the Company and/or its subsidiaries may seek the consent of the creditors under such indebtedness to allow the repurchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. The Parent Guarantor and the Issuer expect that they would require third party financing to make an offer to repurchase the Notes upon a change of control. The Parent Guarantor and the Issuer cannot assure you that they would be able to obtain such financing or that the Company and its subsidiaries would be able to obtain the consent of their creditors to provide funds to the Parent Guarantor or the Issuer to allow them to repurchase the Notes. Any failure by the Issuer to offer or consummate an offer to purchase Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under the S-Verwaltungs Group Facilities Agreement. See "*Description of the Notes—Repurchase at the option of Holders—Change of Control*."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. Except as described under "*Description of the Notes—Repurchase at the option of Holders—Change of Control*," the Indenture will not contain provisions that would require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of "Change of Control" in the Indenture includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Parent Guarantor and its restricted subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Parent Guarantor and its restricted subsidiaries taken as a whole to another person or group may be uncertain.

The S-Verwaltungs Group Facilities Agreement and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will restrict the Issuer's ability to repay the Notes or make certain amendments to the Notes.

The S-Verwaltungs Group Facilities Agreement and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will contain certain restrictions on the Issuer's rights under the Indenture with respect to Notes. The S-Verwaltungs Group Facilities Agreement restricts the Issuer's ability to redeem early or purchase the Notes. Under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, the Issuer will not be able to amend the Indenture or the Notes to increase the principal amount of, or interest on, the Notes, other than to provide for the issuance of additional Notes in compliance with the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, without the consent of the facility agent under the S-Verwaltungs Group Facilities Agreement (or any future facilities agreement that becomes subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement). Accordingly, the S-Verwaltungs Group Facilities Agreement and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement may prevent the Issuer from exercising certain rights in respect of the Notes that would typically be available under the Indenture.

The Parent Guarantor and its subsidiaries may not be able to generate sufficient cash flows to meet their debt service obligations.

The ability of the Parent Guarantor and its subsidiaries to make scheduled payments on, or to refinance, their obligations with respect to their indebtedness, including the Notes, will depend on the financial and operating performance of the Parent Guarantor and its subsidiaries, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond their control. The Parent Guarantor and its subsidiaries cannot assure you that their business will generate sufficient cash flow from operations or that future sources of capital will be available to them in an amount sufficient to enable the Parent Guarantor and its subsidiaries to service their indebtedness, including the Notes, or to fund their other liquidity needs. If the Parent Guarantor and its subsidiaries are unable to generate sufficient cash flow to satisfy their debt obligations, they may have to undertake alternative financing plans, such as refinancing or restructuring their debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. The Parent Guarantor does not expect cash flow from operations to suffice to pay the principal amounts of the Notes at maturity and expects that it will have to sell assets or conduct another financing to pay the principal amount of the Notes. The Parent Guarantor and its subsidiaries cannot assure you that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, if at all. The Indenture that will govern the Notes will restrict the Parent Guarantor's and its subsidiaries' ability to dispose of assets and use the proceeds from the disposition. Their inability to generate sufficient cash flows to satisfy their debt obligations, or to refinance their indebtedness on commercially reasonable terms, would materially and adversely affect their financial condition and results of operations and the Issuer's and the Parent Guarantor's ability to satisfy their respective obligations under the Notes.

If our actual or projected cash balance or liquidity prior to an interest payment date falls below certain levels or if our actual or projected leverage exceeds certain levels, interest on the Notes may be paid in PIK Interest rather than cash.

The Issuer will be required to pay interest on the Notes entirely in cash unless the conditions described in this Offering Memorandum are satisfied, in which case the Issuer will be entitled to pay interest, to the extent described herein, by either increasing the principal amount of the outstanding Notes or by issuing additional Notes as PIK Interest. See "*Description of the Notes—Interest.*" In addition, the ability of the Issuer to pay Cash Interest will depend on the receipt of funds from the Parent Guarantor, which in turn is dependent on the receipt of funds from its subsidiaries (other than the Issuer). The S-Group Senior Facilities Agreement and the indentures governing the Existing Notes allow the Parent Guarantor's subsidiaries to utilize amounts that would otherwise be available to pay dividends to the Parent Guarantor for other uses, and such uses would reduce the amount of cash available to pay dividends to the Parent Guarantor and in turn for the Parent Guarantor to provide to the Issuer in order for the Issuer to pay Cash Interest on the Notes. The terms of the Notes will not restrict the Parent Guarantor's subsidiaries' ability to use its dividend payment capacity for such alternative uses. See "*Description of other indebtedness*" and "*Description of the Notes—Principal and maturity*" and *"Description of the Notes—Interest."* In addition, Facility B1 and the revolving credit facility under the S-Verwaltungs Group Facilities Agreement require, and future indebtedness of the Parent Guarantor or the Issuer may require, the Parent Guarantor and/or the Issuer to pay cash interest with respect to these obligations, which will require the Parent Guarantor and/or the Issuer to use a significant portion of the dividend capacity for these purposes. As a result, we cannot assure you that the Issuer will be required (or able) to make Cash Interest payments on the Notes, and holders of the Notes could potentially receive no Cash Interest on the Notes for interest periods other than the initial and final periods. The payment of interest through an increase in the principal amount of the outstanding Notes or the issuance of new Notes and the capitalization of PIK interest on Facility B2 and Facility B3 under the S-Verwaltungs Group Facilities Agreement or any future debt providing for PIK interest, will increase the amount of the Issuer's indebtedness and would increase the risks associated with the Issuer's level of indebtedness. In addition, we may refinance our S-Group Senior Facilities Agreement and redeem or repay our Existing Notes prior to the maturity date of the Notes. The Parent Guarantor and the Issuer cannot assure you that prior to, or after giving effect to, any such refinancing, redemption and repayment, the subsidiaries of the Parent Guarantor will be in a position to make payments to the Issuer that would allow it to pay Cash Interest on the Notes.

The Issuer is a special purpose entity dependent upon cash flow from subsidiaries of the Parent Guarantor to meet its obligations on the Notes.

The Issuer is a special purpose entity with no independent business operations or significant assets. The Issuer depends upon the receipt of sufficient funds from the Parent Guarantor to meet its obligations. In addition, the subsidiaries of the Parent Guarantor have no obligation to make any payments with respect to the Notes. The Company and its subsidiaries intend to supply the Parent Guarantor with funds sufficient to make payments to the Issuer under the Notes Proceeds Loan in order for the Issuer to meet its cash payment obligations on the Notes. If the Company and its subsidiaries do not distribute cash to the Parent Guarantor or the Parent Guarantor does not provide the Issuer with sufficient funds to make scheduled cash payments on the Notes, the Issuer will not have any other source of funds that would allow it to make payments to the holders of the Notes.

Various agreements governing the debt of the Company and its subsidiaries restrict and, in some cases, actually prohibit the ability of these entities to move cash to the Parent Guarantor or the Issuer, in particular the S-Group Senior Facilities Agreement and the Existing Notes (see "*Description of other Indebtedness—S-Group Senior Facilities Agreement—Restricted Investments and separation of decks*" and "*Description of other Indebtedness—Existing Notes—Terms and conditions of Existing Notes*" for further information).

Our capacity to make restricted payments may also be subject to significant changes from one quarter to another. Applicable tax laws may also subject such payments to further taxation. Applicable law may also limit the amounts that the Company and its subsidiaries will be permitted to pay as dividends or distributions on their equity interests, or even prevent such payments. In particular, the ability of each direct or indirect subsidiary of the Parent Guarantor to pay dividends will generally be limited to the amount of distributable reserves available in each respective company.

The inability to transfer cash among entities within the group may mean that even though the entities, in aggregate, may have sufficient resources to meet their obligations, they may not be permitted to make the necessary transfers from one entity in the restricted group to another entity in the restricted group in order to make payments to the entity owing the obligations. In particular, in the event that the Issuer does not receive distributions or other payments from the Parent Guarantor, it may be unable to make required principal and cash interest payments, if any, on its indebtedness, including the Notes.

In addition, even if the Issuer has sufficient cash (received as dividends or otherwise) at any time to satisfy its obligations under the Notes, the Issuer may, subject to the satisfaction of certain conditions, make investments in and make other distributions to restricted subsidiaries and third parties.

Holders may be unable to enforce their rights in civil proceedings for U.S. securities laws violations.

The Issuer is organized under the laws of the Netherlands and the Parent Guarantor is organized under the laws of Germany. Most of their respective officers and directors are non-residents of the United States and most of their assets are located outside the United States. As a result, it may not be possible for Holders to effect service of process within the United States upon the Issuer and the Parent Guarantor to enforce against them judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States.

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Germany. See "*Service of process and enforcement of civil liabilities*."

There is no active public trading market for the Notes and an active trading market for the Notes may not develop.

Although application has been made to admit the Notes to trading on the Euro MTF Market of the LxSE, there can be no assurance regarding the future development of a market for the Notes or the ability of Holders to sell their Notes or the price at which Holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our operating results, the market for similar securities and other factors, including general economic conditions, performance and prospects, as well as recommendations of securities analysts. The liquidity of, and the trading market for, the Notes may also be adversely affected by a decline in the market for high yield securities generally. Such a decline may affect the liquidity and trading of the Notes independently of our financial performance and prospects.

The transfer of the Notes will be restricted, which may adversely affect the value of the Notes.

The Notes and the Note Guarantee have not been registered under the U.S. Securities Act or any U.S. state securities laws. Consequently the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, and

Holders may be required to bear the cost of their investment in the Notes until their maturity. It is the Holders' obligation to ensure that their offers and sales or resales of the Notes within the United States and other countries comply with applicable securities laws. See "*Important information about this Offering Memorandum*" and "*Transfer restrictions.*"

The Notes issued with original issue discount for U.S. federal income tax purposes.

The Notes will be considered to be issued with original issue discount for U.S. federal income tax purposes. U.S. Holders (as defined below under "*Taxation—U.S. Taxation*") will be required to include original issue discount in their gross income as it accrues even though they have not received related cash payments. See "*Taxation—U.S. Taxation*."

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

Our current credit rating is in the non-investment grade range. It is uncertain whether the current global conditions and production levels in the automotive and industrial sectors are sustainable. If market conditions worsen, this could have negative effects on our liquidity and lead to a downgrade in our credit rating (see "*—Risks related to the markets in which we operate—We are exposed to substantial risks associated with the performance of the global economy and the Eurozone debt crisis*"). Any such downgrade could have adverse effects on our options for obtaining funding as well as our financing costs and interest expenses. A further downgrade of our credit rating could also impact our liquidity position if our suppliers change the terms of payment offered to us for this reason, for example, by requesting payment in advance. These negative consequences could be exacerbated if credit insurers were to further restrict coverage for our accounts payable. In addition, a downgrade could cause our customers to extend their normal payment terms or even to terminate their business relationships with us to engage other suppliers.

Any of these circumstances could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's and the Parent Guarantor's ability to fulfill their respective obligations under the Notes and the Note Guarantee or cause the market price of the Notes to decline.

The Notes will be held in book-entry form and therefore you must rely on the procedures of the relevant clearing system to exercise any rights and remedies.

The Notes will be issued in fully registered global form. The Regulation S Global Notes and the Rule 144A Global Notes will be deposited, on the closing date, with, or on behalf of, a common depositary for the accounts of Euroclear and Clearstream, and the nominee of DTC for the account of DTC, as applicable, and registered in the name of the nominee of the common depositary (in respect of the Euro Notes clearing through Euroclear and Clearstream) and in the name of the nominee of DTC (in respect of the Dollar Notes clearing through DTC).

Ownership of beneficial interests in the Global Notes (the "**Book-Entry Interests**") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream or persons that hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants. Owners of beneficial interests in the Global Notes will not be entitled to receive definitive Notes in registered form, except under the limited circumstances described in "*Book-entry, delivery and form—Definitive Registered Notes*." So long as the Notes are held in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Global Notes. The common depositary for Euroclear and/or Clearstream, and the nominee of DTC or their respective nominees, as applicable, will be considered the sole holders of Global Notes.

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and additional amounts, if any) will be made by the Issuer to the Paying Agents. The Paying Agents will, in turn, make such payments to (i) the common depositary or its nominee for Euroclear and/or Clearstream (with respect to the Euro Notes), which will, in turn distribute such payments to participants in accordance with its procedures and (ii) the nominee of DTC (with respect to the Dollar Notes), which will distribute such payments to participants in accordance with its procedures. After payment to the common depositary for Euroclear and/or Clearstream or the nominee for DTC, we will have no responsibility or liability for the payment of interest, principal or other amounts to the holders of Book-Entry Interests. Accordingly, if you hold a Book-Entry Interest, you must rely on the procedures of DTC, Euroclear or Clearstream, as applicable, on the procedures of the participant through which you hold your interest, to exercise any rights and obligations of a holder of Notes under the Indenture governing the Notes.

Unlike the Holders themselves, holders of Book-Entry Interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from Holders. Instead, if you hold a Book-Entry Interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear or Clearstream, as applicable. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture governing the Notes, unless and until definitive registered Notes are issued in respect of all Book-Entry Interests, if you hold a Book-Entry Interest, you will be restricted to acting through DTC, Euroclear or Clearstream. The procedures to be implemented through DTC, Euroclear or Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

Certain covenants may be suspended upon the occurrence of a change in the ratings of our Notes.

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive a rating of Baa3 or better by Moody's and a rating of BBB- or better from S&P and no default has occurred and is continuing, then beginning that day and continuing until one or both of Moody's and S&P withdraws such rating or downgrades the rating assigned to the Notes below such rating, certain covenants will cease to be applicable to the Notes. Please see "*Description of the Notes—Certain covenants—Suspension of covenants when Notes rated Investment Grade.*"

If these covenants were to cease to be applicable, we would be able to incur additional indebtedness or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

You may face foreign exchange risks by investing in the Notes.

The Euro Notes will be denominated and payable in euro and the Dollar Notes will be denominated and payable in U.S. dollars. If you measure your investment returns by reference to a currency other than the euro or the U.S. dollar, as the case may be, an investment in either the Euro Notes or the Dollar Notes entails foreign exchange related risks due to, among other factors, possible significant changes in the value of the euro or the U.S. dollar relative to the currency by reference to which you measure your investment returns because of economic, political and other factors over which we have no control. Depreciation of the euro or the U.S. dollar against the currency by reference to which you measure your investment returns could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to you when the return on the Notes is translated into the currency by reference to which you measure your investment returns. There may be tax consequences for you as a result of any foreign exchange gains or losses from any investment in the Notes. Please see "*Taxation—U.S. Taxation.*"

Risks related to the Note Guarantee and the Collateral

The shares in the Company which serve as collateral are tainted for German tax purposes, which could adversely affect the value of the Collateral.

Due to legal restructurings in 2009, 2010 and 2012, almost all shares in the subsidiaries of the Parent Guarantor, including the shares in the Company and in our other companies and certain shares in other IHO Group companies (not including the shares in Continental AG) are tainted for German tax purposes (see "*—Legal, taxation and environmental risks—Almost all shares in our companies and certain shares in other IHO Group companies (not including the shares in Continental AG) are tainted for German tax purposes.*"). Shares in the Company form part of the Collateral. As a consequence an enforcement of the Collateral could trigger the (partial) retroactive taxation of the built-in gains existing in the business and shares contributed in the reorganizations in 2009 and 2010 and the contribution of group companies to IBH in 2012 at the tax effective date of the relevant contribution.

The taxation of such a recapture gain may result in liabilities of several hundred million euro for the Schaeffler Group and the Parent Guarantor and could therefore have a material adverse effect on the value of the Collateral and the amount of enforcement proceeds available for distribution to Holders of the Notes.

The proceeds from the enforcement of the Collateral may not be sufficient to satisfy the obligations under the Notes.

The Notes will, upon issuance, be secured by the Collateral. No appraisal of the value of the Collateral has been made in connection with the issue of the Notes. Furthermore, the assets subject to the Collateral are also subject to security interests for the benefit of the other *pari passu* Secured Creditors (as defined in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, including the lenders under the S-Verwaltungs Group Facilities Agreement and certain hedge counterparties). In addition, the Indenture will allow the incurrence of additional permitted indebtedness in the future that is secured by such assets. The amount to be received upon an enforcement of any Collateral would be dependent on numerous factors affecting the value of the assets subject to the Collateral at the time of their enforcement. Any enforcement of the pledge over the shares in the Company will likely trigger a change of control mandatory prepayment under the S-Group Senior Facilities Agreement and trigger a requirement to make a change of control offer for the Existing Notes, which will also negatively impact the value of the Collateral. In addition, any failure of the Schaeffler Group to comply with the covenants of its financing arrangements may result in an acceleration of the maturity of the indebtedness thereunder which could also negatively impact the value of the Collateral. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from the enforcement of the Collateral may not be sufficient to repay the obligations under the Notes.

Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances.

The Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Parent Guarantor will not be granted directly to the Holders but will be granted only in favor of the Security Trustee. The S-Verwaltungs Group Security Pooling and Intercreditor Agreement and the Indenture provide that only the Security Trustee has the right to enforce the respective Collateral. As a consequence, Holders will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral.

The S-Verwaltungs Group Security Pooling and Intercreditor Agreement provides that the Security Trustee may take enforcement action with respect to any of the respective Collateral only upon the instruction of an Instructing Group (as defined below). Any decision, instruction or consent requiring action by the Instructing Group under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, including decisions and instructions with respect to the enforcement of the Collateral, will be made in the form of a resolution in the following manner:

- Holders (as well as holders of any notes or similar debt instruments issued by the Parent Guarantor or any of its subsidiaries in the future that are secured by the Collateral and are subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution, with series of notes denominated in different currencies each voting separately as a class. The Indenture will provide that, within each voting class, abstentions will be deemed to have voted either in favor of or against the resolution on a *pro rata* basis in the same proportion as the aggregate principal amount with respect to which votes were actually cast in favor of the resolution and against the resolution, respectively, bears to the total principal amount with respect to which votes were actually cast. The Trustee (and any trustee for notes issued in the future that become subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement) will report to the Security Trustee the aggregate principal amount of notes of each currency that voted (or are deemed to have voted) in favor of the resolution and the aggregate principal amount of notes of each currency that voted (or are deemed to have voted) against the resolution.
- Lenders under the S-Verwaltungs Group Facilities Agreement (and under future facilities agreements that become subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution in accordance with the provisions of the relevant facilities agreement. The facility agent under the relevant facilities agreement will report to the Security Trustee the aggregate amount of commitments under the respective facilities agreement that voted (or are deemed under the relevant facilities agreement to have voted) in favor of the resolution and the aggregate amount of commitments that voted (or are deemed under the relevant facilities agreement to have voted) against the resolution.
- The Security Trustee will determine the euro-equivalent total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of and against the resolution.
- The resolution will be passed if the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) against the resolution, in each case on a euro-equivalent basis.

The S-Verwaltungs Group Security Pooling and Intercreditor Agreement refers to any resolution passed in the foregoing manner as a decision or resolution of the "Instructing Group" (the "**Instructing Group**").

After giving effect to the Transactions, the aggregate principal amount of the Notes outstanding will constitute approximately 39.4% of the total commitments of all secured creditors subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and entitled to vote thereunder. Holders may need to rely on other secured creditors, whose interests may differ from those of the Holders, to direct the Security Trustee to take enforcement action with respect to the Collateral.

The Collateral will not be granted to the Holders directly, and, accordingly, the ability of the Security Trustee to enforce the Collateral is subject to uncertainty under German law.

Due to German law and other jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the Collateral will secure only a so-called "parallel debt" obligation created under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in favor of the Security Trustee rather than secure the obligations under the Notes directly. The parallel debt is in the same amount and payable at the same time as the obligations of the Issuer and the Parent Guarantor under the Notes and the Note Guarantee (the "**Principal Obligations**"), and any payment in respect of the Principal Obligations will discharge the corresponding parallel debt and any payment in respect of the parallel debt will discharge the corresponding Principal Obligations. Although the Security Trustee will have, pursuant to the parallel debt, a claim against the Issuer and the Parent Guarantor for the full principal amount of the Notes, the parallel debt construct has not been tested in court in Germany and there is no judicial guidance as to its efficacy. Therefore, the ability of the Security Trustee to enforce the Collateral may be restricted. In addition, Holders bear some risk associated with a possible insolvency or bankruptcy of the Security Trustee. See "*Limitations on validity and enforceability of the Collateral and certain insolvency law considerations.*"

Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Collateral may adversely affect its validity and enforceability.

The Collateral may be subject to claims or could be limited or subordinated in favor of the relevant Collateral grantor's existing and future creditors under applicable laws. In addition, enforcement of the Collateral will be limited to the extent of the amount which can be secured by a particular security grantor without rendering the security interest voidable or otherwise ineffective under, or contrary to, applicable law. Enforcement of any of the Collateral against any grantor of Collateral will also be subject to certain defences available to grantors of security interests generally. These laws and defences include those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, financial assistance, corporate purpose or benefit, preservation of share capital, thin capitalization and defenses affecting the rights of creditors generally.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and similar laws, a court could subordinate or void any security interest provided by such security grantor if it found that:

- the security interest granted with actual intent to hinder, delay or defraud creditors or shareholders of the respective security grantor;
- the relevant security grantor did not receive fair consideration or reasonably equivalent value for the security interest granted, and the relevant security grantor:
  - (i) was insolvent or was rendered insolvent because of the security interest granted;
  - (ii) was undercapitalized or became undercapitalized because of the security interest granted;
  - (iii) intended to incur, or believed that it would incur, debt beyond its ability to pay at maturity; or
  - (iv) the security interest granted was not in the best interests or for the benefit of the relevant security grantor.

The measure of insolvency for purposes of fraudulent conveyance and similar laws varies depending on the law applied. Generally, however, a security grantor would be considered insolvent if it could not pay its debts as they became due. In such circumstances, if a court voided such Collateral, or held it unenforceable, Holders and the Security Trustee would cease to have any claim in respect of the relevant Collateral, would be creditors solely of the Issuer and the Parent Guarantor and would benefit only from any remaining Collateral. The Holders and the Security Trustee may also be required to repay any amounts received with respect to such Collateral.

Further, the Collateral may be subject to claims that they should be limited or subordinated under German or other applicable law. The enforcement of the Collateral will be limited to the extent that the granting of such Collateral is not in the corporate interest of the relevant provider of security, would be in breach of capital maintenance or thin capitalization rules or any other general statutory laws or that the burden of such Collateral securing the Notes and the Note Guarantee exceed the benefit to the relevant provider of security. In particular, for the providers of Collateral organized under German law, the Collateral will be contractually limited under German law to the extent the enforcement of such Collateral would result in a breach of capital maintenance rules or other statutory laws or would cause the directors of such provider of Collateral to contravene their duties to incur civil or criminal liability or to contravene any legal prohibition.

A summary description of certain limitations on the validity and enforceability of the Collateral in respect of German law and the laws of the Netherlands is set out in "*Limitations on validity and enforceability of the Collateral and certain insolvency law considerations*."

The insolvency laws of Germany and the Netherlands may not be as favorable to you as U.S. bankruptcy laws or those of another jurisdiction with which you are familiar and may preclude Holders from recovering payments due on the Notes.

The Issuer is incorporated under the laws of the Netherlands and the Parent Guarantor is incorporated under the laws of Germany. The insolvency laws of foreign jurisdictions may not be as favorable to your interests as the laws of the United States or other jurisdictions with which you are familiar, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and thus may limit your ability to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws. In the event that any one or more of the Issuer or the Parent Guarantor or any other of the Parent Guarantor's subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. A brief description of certain aspects of insolvency law in the European Union, Germany and the Netherlands is set forth under "*Limitations on validity and enforceability of the Collateral and certain insolvency law considerations*."

Any Collateral may be released or impaired without consent of the Holders, and under certain circumstances the Notes could become unsecured.

The Indenture and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement provide that in certain circumstances all or part of the Collateral may be released without any consent of the Holders. For further details see "*Description of the Notes—Security.*" After any such release, the Holders will no longer benefit from the relevant Collateral.

In addition, subject to certain conditions, additional debt will be permitted to share the Collateral on a *pro rata* basis. In order to allow future debt to share the Collateral, the Indenture and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement allow the security interests on the Collateral securing the Notes to be amended and the Collateral to be released and retaken without the consent of the Holders under certain circumstances, which would likely result in applicable hardening periods to restart or to be extended. Subject to certain exceptions and conditions, the security documents governing the security interests over the Collateral may be amended with the consent of an Instructing Group (see "*—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances*"). As a result of any of the foregoing, the Collateral could be impaired without the consent of Holders.

As a result of the intercreditor payment waterfall, Holders will receive any proceeds from the enforcement of a portion of the Collateral only after all obligations under the Parent Guarantor's revolving credit facility have been paid in full.

The Collateral securing the Notes also secures on a *pari passu* basis obligations under the S-Verwaltungs Group Facilities Agreement, certain hedging obligations and any future Indebtedness that is permitted under the Indenture to share the Collateral. Under the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, any proceeds from any enforcement action with respect to approximately 66.3% of the shares of Capital Stock of the Company forming part of the Collateral will be applied first to repay amounts due under the revolving credit facility of the S-Verwaltungs Group Facilities Agreement (or any replacement facility). Only after such application to the revolving credit facility will any remaining amounts from the enforcement of that portion of the Collateral be applied, *pari passu* and *pro rata*, to amounts due under the Notes, the S-Verwaltungs Group Facilities Agreement (other than the revolving credit facility), certain Hedging Obligations and any future Indebtedness that is permitted under the Indenture to share the Collateral. See "*Description of other indebtedness—S-Verwaltungs Group Security Pooling and Intercreditor Agreement*" and "*Description of the Notes—Security—General*." Hence, you may recover less from the proceeds of an enforcement action with respect to that portion of the Collateral than you otherwise would have.

It may be difficult to realize the value of the Collateral.

The Collateral will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture or the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and accepted by other creditors that have the benefit of first-priority security interests in the Collateral securing the Notes from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral as well as the ability of the Security Trustee to enforce such Collateral. Furthermore, the security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions.

The Collateral will include pledges over all shares in Continental AG owned by the Parent Guarantor. Due to high volatility and uncertainty regarding the value of Continental AG shares, the value of Collateral as well as the ability of the Security Trustee to enforce such Collateral could be adversely affected.

The enforcement of security interests by the Security Trustee will also be subject to practical problems generally associated with the realization of security interests in collateral. For example, the enforcement of security interest by the Security Trustee may require the completion of judicial proceedings in the jurisdiction that is relevant for such security interest. There is no assurance that the Security Trustee will successfully complete such judicial proceedings in a timely manner or that other practical problems relating to the foreclosure of Collateral will be overcome by the Security Trustee at all or without a material delay. Accordingly, the Security Trustee may not have the ability to foreclose upon those assets and the value of the Collateral may significantly decrease.

The right of holders of Notes to direct the enforcement of Collateral will be restricted by the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. See "*—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances.*"

The Note Guarantee and the Collateral might be challenged or voidable in insolvency proceedings.

The Note Guarantee and the Collateral may be voidable by the Parent Guarantor, the Issuer or the relevant grantor of Collateral or by an insolvency trustee, liquidator, receiver or administrator or by other creditors, or may be otherwise set aside by a court, if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified "clawback" period following the grant. At each time, if the Note Guarantee or Collateral granted, perfected or recreated were to be enforced before the end of the respective clawback period applicable in such jurisdiction, it may be declared void. To the extent that the issuance of the Note Guarantee or the creation of the Collateral is voided, Holders and the Security Trustee would lose the benefit of the Note Guarantee or Collateral and would be creditors solely of the Issuer and would therefore benefit only from any remaining Collateral. The Holders, the Security Trustee may also be required to repay any amounts received with respect to the Note Guarantee or such Collateral.

In order to effectively secure future indebtedness, including additional Notes, that is permitted by the S-Verwaltungs Group Security Pooling and Intercreditor Agreement to share in the Collateral, it may be necessary to create additional, junior-ranking security in the jurisdictions over the Collateral at the time such Indebtedness is incurred. Any such new security as well as any security interests for future Indebtedness arising under the existing security documents over the Collateral will likely be subject to new clawback periods and, consequently, to potential insolvency challenges as described under "*Limitations on validity and enforceability of the Collateral and certain insolvency law considerations*." Since the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will provide that any proceeds from the enforcement of Collateral will be distributed on a pro rata basis among the Holders, the lenders under the S-Verwaltungs Group Facilities Agreement, certain hedge counterparties and the holders of any future indebtedness that shares in the Collateral and becomes subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement after the Issue Date, a successful challenge of any new junior-ranking security or any security interest arising for future indebtedness under the existing security documents would reduce the amount of enforcement proceeds available for distribution to the secured creditors under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, including the Holders. The same applies to new guarantees and guarantee obligations arising for future indebtedness under the guarantees *mutatis mutandis*.

In addition, in case the Issuer issues additional Notes with the same securities identification numbers as the initial Notes issued on the Issue Date, including any additional Notes paid as PIK Interest, an insolvency administrator may seek to challenge the enforceability of Collateral and the Note Guarantee securing both the additional Notes and the initial Notes issued on the Issue Date even if the clawback period with respect to the Collateral and Note Guarantee securing the initial Notes has expired, based on the fact that the initial Notes and the additional Notes are fungible and not distinguishable. Any such successful challenge would further reduce the proceeds available to Holders.

A summary description of certain aspects of the insolvency laws of Germany and the Netherlands are set out in "*Limitations on validity and enforceability of the Collateral and certain insolvency law considerations*."

Your rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Applicable law requires that a security interest in certain assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if the Security Trustee is not able to take the actions necessary to perfect any of these liens on or prior to the Issue Date. The Issuer and the Parent Guarantor have limited obligations to assist the Security Trustee in perfecting the Holders' security interest in specified Collateral. There can be no assurance that the Trustee, the Security Trustee for the Notes will monitor, or that the Issuer will inform such Trustee, Security Trustee of, the future acquisition of property and rights that should constitute Collateral, and that the necessary action will be taken to properly create and perfect the security interest in such after-acquired property and rights. The Security Trustee for the Notes has no obligation to monitor the acquisition of additional property or rights that should constitute Collateral or the creation or perfection of any security interest. Such failure may result in such security interest being created in such property or rights or in the priority of such security interest in favor of the Notes against third parties being adversely affected.

Enforcement of the Collateral across certain jurisdictions may be difficult.

The Collateral will be governed by the laws of Germany and the Netherlands. In the event of bankruptcy, insolvency or a similar event, proceedings might be initiated in any of these jurisdictions. The rights under the Collateral will therefore be subject to the laws of the respective jurisdiction, and it may be difficult to effectively enforce such rights in two bankruptcy, insolvency and other similar proceedings. In addition, such proceedings involving more than one jurisdiction are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of German and Dutch law could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the collateral and to realize any recovery under the Notes and the Note Guarantee.

A summary description of certain aspects of the insolvency laws the EU, of Germany and the Netherlands are set out in "*Limitations on validity and enforceability of the Collateral and certain insolvency law considerations*."

Use of proceeds

The Issuer estimates that the net proceeds from the sale of the Notes will amount to approximately €1,467 million after payment of the estimated commissions and other expenses related to the offering of the Notes that are to be borne by the Issuer.

The net proceeds from the issuance of the Notes, together with drawings under the S-Verwaltungs Group Facilities Agreement, are expected to be used for prepayment in full of the IHO Debt Instruments and to pay related transaction expenses.

The following table sets forth the expected sources and uses of funds (*pro forma*) in connection with the Transactions (all amounts shown are principal amounts).

Sources of Funds	**in € million**
Notes offered hereby(1)	1,547
S-Verwaltungs Group Facilities Agreement	2,175
New term loan A	—
New term loan B1	*1,200*
New term loan B2	*450*
New term loan B3	*525*
Total Sources	**3,722**

Uses of Funds	**in € million**
Repayment of the IHO Debt Instruments(2)	3,633
Term loan B1(3)	*1,519*
Term loan B3(3)	*833*
IHO Bonds(4)	*1,281*
Estimated fees and expenses(5)	80
Cash and cash equivalents	9
Total Uses	**3,722**

(1) The amount reflects the proceeds from the issuance of the Notes of €1,547 million (equivalent). For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.3100 to €1.00. This exchange rate differs from the exchange rate in effect as of March 31, 2013.

(2) Gross of unamortized transaction costs.

(3) The amounts include the related PIK components as of July 31, 2013 and junior term loan B1 is adjusted for mandatory prepayments from dividends by Continental AG as well as from a tax refund.

(4) The amount reflects the early redemption amount of the IHO Bonds as of July 31, 2013.

(5) Represents the Issuer's estimate of fees and expenses in connection with or otherwise related to the offering of the Notes and the application of the proceeds therefrom, including underwriting fees, commissions, other financing fees, professional and legal fees, financial advisory and other transaction costs. Actual fees and expenses may differ.

Capitalization

The following table provides an overview of our unaudited consolidated capitalization, the unaudited consolidated capitalization of Schaeffler Verwaltungs GmbH and the unaudited consolidated capitalization of Schaeffler Group and Schaeffler Verwaltungs GmbH on a combined basis, each as of March 31, 2013 (a) on an actual basis and (b) as adjusted to give effect to the S-Group April / May 2013 Transactions and to the S-Verwaltungs Group Transactions (assuming, for purposes of this presentation, that the Notes are issued by Schaeffler Verwaltungs GmbH instead of the Issuer). The capitalization of Schaeffler Verwaltungs GmbH is also adjusted for certain interest accruals and repayments occurring after March 31, 2013 under the IHO debt instruments.

The information set out below relating to the Schaeffler Group is derived from, and should be read in conjunction with, our unaudited consolidated interim financial statements as of and for the three months ended March 31, 2013 included elsewhere in this Offering Memorandum. The information relating to Schaeffler Verwaltungs GmbH is derived from the audited unconsolidated financial statements of Schaeffler Verwaltungs GmbH as of December 31, 2012 pursuant to German GAAP, which are included elsewhere in this Offering Memorandum, adjusted for effects occurring after that date, which have been derived from Schaeffler Verwaltungs GmbH's unaudited accounting records. The combined information for the Schaeffler Group and Schaeffler Verwaltungs GmbH, which is presented for illustrative purposes only, was prepared by adding the figures of Schaeffler Group and Schaeffler Verwaltungs GmbH and eliminating intercompany debt. All values shown are book values (except where otherwise stated).

in € million	As of March 31, 2013 Actual	S-Group April / May 2013 Transactions[1] Adjustments	S-Verwaltungs Group Transactions Adjustments	As of March 31, 2013 As Adjusted
		(unaudited)		
Schaeffler Group (IFRS)				
Cash and cash equivalents[2]	**458**	**(102)**	**(51)**	**305**
Annuity Loan	42	—	—	42
S-Group Senior Facilities	**4,569**	**(1,487)**	**—**	**3,082**
New revolving credit facility (€1,000m)	—	—	—	—
Term loan A	*2,193*	*(2,193)*	—	—
Term loan B1	*504*	*(504)*	—	—
New term loan C-EUR[2][3]	*625*	*(0)*	—	*625*
New term loan C-USD[2][3][4]	*1,328*	*(0)*	—	*1,328*
New term loan D[2][3]	—	*1,204*	—	*1,204*
Unamortized transaction costs	*(80)*	*6*	—	*(74)*
Existing Notes	**2,356**	**1,254**	**—**	**3,610**
EUR Notes	*1,526*	*600*	—	*2,126*
USD Notes[4]	*859*	*664*	—	*1,523*
Unamortized transaction costs	*(29)*	*(10)*	—	*(39)*
Other financial debt	24	—	—	24
Financial debt (current and non-current)[5]	**6,991**	**(232)**	**—**	**6,758**
Shareholder loans[6]	**301**	**—**	**—**	**301**

in € million	As of March 31, 2013 Actual	IHO Facilities Adjustments until Issue Date(7) Adjustments	S-Verwaltungs Group Transactions Adjustments	As of March 31, 2013 As Adjusted
		(unaudited)		
Schaeffler Verwaltungs GmbH (German GAAP)(8)				
Cash and cash equivalents	**107**	**(16)**	**(40)**	**51**
IHO Debt Instruments(9)	**3,631**	**2**	**(3,633)**	**—**
Revolving credit facility	—	—	—	—
Term loan B1	*1,569*	*(50)*	*(1,519)*	—
Term loan B3	*819*	*14*	*(833)*	—
IHO Bonds	*1,243*	*38*	*(1,281)*	—
Unamortized transaction costs	—	—	—	—
S-Verwaltungs Group Facilities	**—**	**—**	**2,175**	**2,175**
Revolving credit facility	—	—	—	—
New term loan B1	—	—	*1,200*	*1,200*
New term loan B2	—	—	*450*	*450*
New term loan B3	—	—	*525*	*525*
Notes offered hereby(10)	—	—	1,547	1,547
Other financial debt	0	—	—	0
Financial debt (current and non-current)(11)(12)	**3,631**	**2**	**89**	**3,722**
Shareholder loans(13)	**7**	**—**	**—**	**7**
Shareholders' equity(12)(14)	**10,535**	**(97)**	**(80)**	**10,358**

in € million	As of March 31, 2013 Actual	S-Group April / May 2013 Transactions and IHO Facilities Adjustments until Issue Date Adjustments	S-Verwaltungs Group Transactions Adjustments	As of March 31, 2013 As Adjusted
		(unaudited)		
Combined Schaeffler Group and Schaeffler Verwaltungs GmbH(15)				
Total combined cash and cash equivalents of Schaeffler Group and Schaeffler Verwaltungs GmbH	565	(118)	(91)	356
Total combined financial debt of Schaeffler Group and Schaeffler Verwaltungs GmbH	10,622	(230)	89	10,480
Total combined financial shareholder loans of Schaeffler Group and Schaeffler Verwaltungs GmbH(16)	27	—	—	27
Shareholders' equity of Schaeffler Verwaltungs GmbH	10,535	(97)	(80)	10,358
Total combined capitalization of Schaeffler Group and Schaeffler Verwaltungs GmbH(17)	**21,184**	**(328)**	**9**	**20,865**

(1) Adjustments reflect the effects of the S-Group April /May 2013 Transactions, including related transaction costs.

(2) As adjusted cash and cash equivalents includes, among others, the voluntary prepayment under the S-Group Senior Facilities Agreement in the amount of €87 million using cash and assumed advisory fees for the S-Group April / May 2013 Transactions of €5.5 million and the transfer of cash in the amount of €51 million from Schaeffler AG to Schaeffler Verwaltungs GmbH in the context of the S-Verwaltungs Group Transactions.

(3) In the context of the S-Group April / May 2013 Transactions, the nominal amount of new term loan D was €1,453 million. In May 2013, the dividend received on shares of Continental AG held by us of €163 million and a voluntary prepayment of €87 million were applied for a *pro rata* mandatory repayment of new term loan C-EUR of €0.4 million, new term loan C-USD of €0.1 million and new term loan D of €249 million.

(4) For presentational purposes, dollar amounts have been converted into euro at an exchange rate of $1.2805 to €1.00 as of March 31, 2013.

(5) Excluding shareholder loans.

(6) Shareholder loans refers to the special receivables loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by our parent companies Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. These loans are subordinated in right of payment to the Notes and indebtedness under the S-Group Senior Facilities Agreement pursuant to the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. After March 31, 2012, we made no distributions to our parent company by way of our special receivables loan to service our direct and indirect parent companies' liquidity needs.

(7) The adjustments reflect the accrual of the PIK component on the IHO Debt Instruments from April 1, 2013 until July 31, 2013 and mandatory prepayments from dividends by Continental AG as well as from a tax refund.

(8) Schaeffler Verwaltungs GmbH only compiles statutory financial statements in accordance with German GAAP. These financial statements are prepared as of December 31 of each fiscal year. The figures used in this table are based on the audited financial statements as of December 31, 2012 and are adjusted for effects thereafter. These adjustments are based on the unaudited accounting records of Schaeffler Verwaltungs GmbH. Immediately prior to the Offering, an amount of €100 million was transferred to IHO to service IHO's liquidity needs.

(9) €3,631 million consist of the carrying amount of €3,571 million as of December 31, 2012 and a PIK component of €61 million for the period from January 1, 2013 until March 31, 2013.

(10) The amount reflects the gross proceeds from the issuance of the Notes of €1,547 million (equivalent). For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.3100 to €1.00. This exchange rate differs from the exchange rate in effect as of March 31, 2013.

(11) Financial debt consists of bank debt. Intra-group financial liabilities due to Schaeffler Vermögensverwaltungs GmbH, a restricted subsidiary of Schaeffler Verwaltungs GmbH, amounting to €787 million are excluded.

(12) For this illustration, we have assumed that expected transaction costs of €80 million are not amortized and have thus deducted this amount from shareholders' equity.

(13) As of December 31, 2012, shareholder loans amounted to €0 million. As of March 31, 2013, shareholder loans amounted to €7 million.

(14) €10,535 million consists of the carrying amount of €10,607 million as of December 31, 2012 adjusted for cash and accrued interest expenses amounting to €11 million and PIK interest expenses amounting to €61 million for the period from January 1, 2013 until March 31, 2013.

(15) For presentation purposes, the figures of Schaeffler Verwaltungs GmbH (based on German GAAP) are combined with the figures of Schaeffler Group (based on IFRS), i.e. no consolidation is performed, however intercompany debt between Schaeffler Group and Schaeffler Verwaltungs GmbH is eliminated.

(16) The special receivables loan between Schaeffler Group and Schaeffler Verwaltungs GmbH of €282 million is not included in combined financial shareholder loans.

(17) Total combined capitalization of Schaeffler Group and Schaeffler Verwaltungs GmbH consists of total combined financial debt of Schaeffler Group and Schaeffler Verwaltungs GmbH, total combined financial shareholder loans of Schaeffler Group and Schaeffler Verwaltungs GmbH and shareholders' equity of Schaeffler Verwaltungs GmbH.

For further information relating to the debt instruments described above, see "*Management's discussion and analysis of our financial condition and results of operations—Liquidity and capital resources*" and "*Description of other indebtedness*."

Selected financial information

The following tables present our selected financial information and should be read in conjunction with the unaudited condensed consolidated financial statements as of and for the three-month periods ended March 31, 2013 and 2012, the audited consolidated financial statements as of and for the fiscal years ended December 31, 2012, 2011 and 2010, which are all reproduced elsewhere in this Offering Memorandum and the section entitled "Management's discussion and analysis of our financial condition and results of operations." The summary financial information provided below was derived from the consolidated financial statements. These financial statements were prepared in accordance with IFRS as adopted by the EU. Our consolidated financial statements as of and for the fiscal years ended December 31, 2012, 2011 and 2010 were audited by KPMG which issued an unqualified audit opinion for each fiscal year. The condensed consolidated financial statements as of and for the three-month periods ended March 31, 2013 and 2012, prepared in accordance with IFRS as adopted by the EU, have not been audited. The information below is not necessarily indicative of the results of future operations.

Consolidated Income Statement

	Year ended December 31,			Three Months ended March 31,		Twelve Months ended March 31,
in € million	**2010**	**2011**	**2012**	**2012**	**2013**	**2013**
				(unaudited)		**(unaudited)**
Revenue	**9,495**	**10,694**	**11,125**	**2,858**	**2,756**	**11,023**
Cost of sales	(6,506)	(7,463)	(7,836)	(1,973)	(1,965)	(7,828)
Gross profit	**2,989**	**3,231**	**3,289**	**885**	**791**	**3,195**
R&D expenses	(467)	(495)	(593)	(147)	(152)	(598)
Selling expenses	(645)	(725)	(759)	(191)	(188)	(756)
Administrative expenses	(366)	(408)	(465)	(127)	(113)	(451)
Other income	67	111	35	10	24	49
Other expenses	(69)	(25)	(94)	(29)	(7)	(72)
EBIT[(1)]	**1,509**	**1,689**	**1,413**	**401**	**355**	**(1,367)**
Financial income	51	40	53	25	51	79
Financial expense	(861)	(773)	(729)	(236)	(218)	(711)
Financial result[(1)]	**(810)**	**(733)**	**(676)**	**(211)**	**(167)**	**(632)**
Share of net income (loss) of equity-accounted investees[(1)]	**(349)**	**324**	**554**	**136**	**135**	**553**
EBT[(2)]	**350**	**1,280**	**1,291**	**326**	**323**	**1,288**
Income taxes	(277)	(378)	(407)	(88)	(89)	(408)
Net income	**73**	**902**	**884**	**238**	**234**	**880**
Attributable to shareholders of the parent company	63	889	872	235	233	870
Attributable to non-controlling interests	10	13	12	3	1	10

Consolidated Statement of Financial Position

in € million	As of December 31, 2010	2011	2012	As of March 31, 2013
				(unaudited)
Assets				
Intangible assets	575	553	554	549
Property, plant and equipment	3,041	3,328	3,515	3,500
Investments in equity-accounted investees	5,252	4,772	5,040	5,200
Other investments	8	14	14	14
Other assets	166	95	150	155
Income tax receivables	0	22	17	16
Deferred tax assets	289	350	364	398
Total non-current assets	**9,331**	**9,134**	**9,654**	**9,832**
Inventories	1,482	1,562	1,495	1,543
Trade receivables	1,443	1,607	1,626	1,855
Other assets	257	200	231	220
Income tax receivables	98	89	107	52
Cash and cash equivalents	733	397	433	458
Total current assets	**4,013**	**3,855**	**3,892**	**4,128**
Total assets	**13,344**	**12,989**	**13,546**	**13,960**
Shareholders' equity and liabilities				
Share capital	500	500	500	500
Reserves	2,801	1,324	2,042	2,010
Accumulated other comprehensive income (loss)	(7)	(163)	(495)	(464)
Equity attributable to shareholders of the parent company	**3,294**	**1,661**	**2,047**	**2,046**
Non-controlling interests	47	53	60	64
Total shareholders' equity	**3,341**	**1,714**	**2,107**	**2,110**
Provisions for pensions and similar obligations	1,111	1,217	1,553	1,608
Provisions	127	79	76	60
Financial debt	6,413	7,168	7,140	7,088
Income tax payables	102	172	267	281
Other liabilities	423	261	240	175
Deferred tax liabilities	116	124	119	145
Total non-current liabilities	**8,292**	**9,021**	**9,395**	**9,357**
Provisions	317	208	223	237
Financial debt	64	317	121	204
Trade payables	729	873	794	908
Income tax payables	115	184	232	192
Other liabilities	486	672	674	952
Total current liabilities	**1,711**	**2,254**	**2,044**	**2,493**
Total shareholders' equity and liabilities	**13,344**	**12,989**	**13,546**	**13,960**

Consolidated Statement of Cash Flows

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Operating activities						
EBIT	1,509	1,689	1,413	401	355	1,367
Interest paid	(644)	(686)	(593)	(166)	(190)	(617)
Interest received	10	13	9	2	2	9
Income taxes paid	(298)	(238)	(226)	(54)	(58)	(230)
Dividends received	0	0	81	0	0	81
Depreciation, amortization and impairments	588	554	618	148	157	627
(Gains) losses on disposal of assets	(2)	0	(1)	(1)	0	0
Other non-cash items	(3)	2	(21)	(19)	(10)	(12)
Changes in:						
• Inventories	(257)	(80)	55	(54)	(29)	80
• Trade receivables	(241)	(153)	(27)	(290)	(211)	52
• Trade payables	271	83	(52)	121	126	(47)
• Provisions for pensions and similar obligations	(55)	(61)	(45)	(8)	(9)	(46)
• Other assets, liabilities and provisions	12	(39)	2	57	39	(16)
Cash flows from operating activities	**890**	**1,084**	**1,213**	**137**	**172**	**1,248**
Investing activities						
Proceeds from disposals of intangible assets and property, plant and equipment	25	11	29	7	2	24
Capital expenditures on intangible assets	(21)	(15)	(35)	(9)	(4)	(30)
Capital expenditures on property, plant and equipment	(340)	(758)	(825)	(241)	(117)	(701)
Investments in other financial investments	(4)	(10)	(3)	(1)	(1)	(3)
Other investing activities	16	7	2	0	0	2
Cash used in investing activities	**(324)**	**(765)**	**(832)**	**(244)**	**(120)**	**(708)**
Financing activities						
Dividends paid to non-controlling interests	(1)	(1)	(1)	0	0	(1)
Receipts from loans	3	13	395	170	1	226
Repayments of loans	(83)	(42)	(449)	(11)	(14)	(452)
Acquisitions in stages	0	0	(13)	(13)	0	0
Dividends paid to Schaeffler Verwaltungs GmbH	(134)	(400)	(79)	0	0	(79)
Other financing activities(3)	15	(216)	(194)	(144)	(18)	(68)
Cash used in financing activities	**(200)**	**(646)**	**(341)**	**2**	**(31)**	**(374)**
Net increase (decrease) in cash and cash equivalents	**366**	**(327)**	**40**	**(105)**	**21**	**166**
Effects of foreign exchange rate changes on cash and cash equivalents	17	(9)	(4)	(1)	4	1
Cash and cash equivalents as at beginning of period	350	733	397	397	433	291
Cash and cash equivalents as at end of period	**733**	**397**	**433**	**291**	**458**	**458**

Other Financial and Operating Data

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Other financial information						
Revenue	9,495	10,694	11,125	2,858	2,756	11,023
Revenue growth	*29.4%*	*12.6%*	*4.0%*	*6.0%*	*(3.6)%* [4]	*1.5%* [5]
EBIT	1,509	1,689	1,413	401	355	1,367
EBIT margin	*15.9%*	*15.8%*	*12.7%*	*14.0%*	*12.9%*	*12.4%*
EBITDA[6]	2,097	2,243	2,031	549	512	1,994
EBITDA margin	*22.1%*	*21.0%*	*18.3%*	*19.2%*	*18.6%*	*18.1%*
Working capital (at end of period)[7]	2,196	2,296	2,327	2,512	2,490	2,490
Free cash flow[8]	566	319	381	(107)	52	540
Free cash flow before net interest paid[8]	1,200	992	965	57	240	1,148
Net financial debt (at end of period)[9]	5,711	6,668	6,505	6,884	6,533	6,533
Other operating information						
Number of employees (at the end of period)	67,509	74,031	76,099	74,948	76,186	76,186

Selected Segment[10] Information

Automotive Division

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Revenue	**6,325**	**7,157**	**7,663**	**1,933**	**1,988**	**7,713**
Revenue growth	*33.4%*	*13.2%*	*7.1%*	*6.2%*	*2.8%*	*6.1%*
Gross profit	**1,842**	**1,950**	**2,107**	**532**	**536**	**2,111**
EBIT	**990**	**1,074**	**998**	**244**	**277**	**1,030**
Depreciation, amortization and impairments	401	396	431	102	111	440
EBITDA	**1,391**	**1,470**	**1,429**	**346**	**388**	**1,470**
Gross profit margin	*29.1%*	*27.2%*	*27.5%*	*27.5%*	*27.0%*	*27.4%*
EBIT margin	*15.7%*	*15.0%*	*13.0%*	*12.6%*	*13.9%*	*13.4%*
EBITDA margin	*22.0%*	*20.5%*	*18.6%*	*17.9%*	*19.5%*	*19.1%*

Industrial Division

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Revenue	**3,002**	**3,463**	**3,401**	**908**	**768**	**3,265**
Revenue growth	*19.5%*	*15.4%*	*(1.8)%*	*6.1%*	*(15.4)%*	*(7.1)%*
Gross profit	**1,147**	**1,281**	**1,182**	**353**	**255**	**1,084**
EBIT	**519**	**615**	**415**	**157**	**78**	**337**
Depreciation, amortization and impairments	187	158	187	46	46	187
EBITDA	**706**	**773**	**602**	**203**	**124**	**524**
Gross profit margin	*38.2%*	*37.0%*	*34.8%*	*38.9%*	*33.2%*	*33.2%*
EBIT margin	*17.3%*	*17.8%*	*12.2%*	*17.3%*	*10.2%*	*10.3%*
EBITDA margin	*23.5%*	*22.3%*	*17.7%*	*22.4%*	*16.1%*	*16.0%*

(1) In the fiscal year ended December 31, 2010 and in the fiscal year ended December 31, 2011, share of net income (loss) of equity-accounted investees was included in financial result and is now shown in a separate line below financial result and above earnings before income taxes in the consolidated income statement as of and for the year ended December 31, 2012. Consequently, the item "EBIT" in the consolidated income statement was renamed "Earnings before financial result, share of net income (loss) of equity-accounted investees, and income taxes." The financial result for 2010 and 2011 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2012 for comparability purposes.

(2) Earnings before taxes.

(3) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of €0 million for the three months ended March 31, 2013 (three months ended March 31, 2012: €150 million) and of €227 million in the fiscal year ended December 31, 2012 (2011: €186 million; 2010: nil).

(4) Defined as revenue growth in the three months ended March 31, 2013 relative to the three months ended March 31, 2012.

(5) Defined as revenue growth in the twelve months ended March 31, 2013 relative to the twelve months ended March 31, 2012.

(6) We define EBITDA (Earnings before financial result, share of income (loss) of equity-accounted investees, income taxes, depreciation, amortization and impairments) as the aggregate of (i) EBIT and (ii) depreciation and amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS. The EBITDA reported is not necessarily comparable to the performance figures published by other companies as EBITDA or the like. The following is a reconciliation of Net Income to EBITDA for the periods below:

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Net Income	**73**	**902**	**884**	**238**	**234**	**880**
Income taxes	277	378	407	88	89	408
Share of net (income) loss of equity-accounted investees	349	(324)	(554)	(136)	(135)	(553)
Financial expense	861	773	729	236	218	711
Financial income	(51)	(40)	(53)	(25)	(51)	(79)
EBIT	**1,509**	**1,689**	**1,413**	**401**	**355**	**1,367**
Depreciation, amortization and impairments	588	554	618	148	157	627
EBITDA	**2,097**	**2,243**	**2,031**	**549**	**512**	**1,994**

(7) The following table sets forth our working capital:

in € million	As of December 31, 2010	2011	2012	As of March 31, 2012	2013
				(unaudited)	
Inventories	1,482	1,562	1,495	1,603	1,543
Trade receivables	1,443	1,607	1,626	1,885	1,855
Trade payables	(729)	(873)	(794)	(976)	(908)
Working capital	**2,196**	**2,296**	**2,327**	**2,512**	**2,490**

(8) The following table sets forth our free cash flow before net interest paid:

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Cash flows from operating activities	890	1,084	1,213	137	172	1,248
Cash used in investing activities	(324)	(765)	(832)	(244)	(120)	(708)
Free cash flow	566	319	381	(107)	52	540
Net interest paid	634	673	584	164	188	608
Free cash flow before net interest paid	**1,200**	**992**	**965**	**57**	**240**	**1,148**

(9) The following table sets forth our net financial debt:

in € million	As of December 31, 2010	2011	2012	As of March 31, 2012	2013
				(unaudited)	
Financial debt—non-current	6,413	7,168	7,140	7,155	7,088
Financial debt—current	64	317	121	300	204
Financial debt	**6,477**	**7,485**	**7,261**	**7,455**	**7,292**
Shareholder loans[*1]	33	420	323	280	301
Financial debt[*2]	**6,444**	**7,065**	**6,938**	**7,175**	**6,991**
Cash and cash equivalents	(733)	(397)	(433)	(291)	(458)
Net financial debt[*2]	**5,711**	**6,668**	**6,505**	**6,884**	**6,533**

(*1) Shareholder loans refers to the Special Receivables Loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by our parent company Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. The shareholder loans are subordinated in right of payment to the Notes and the S-Group Senior Facilities Agreement by operation of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. For further details, please refer to "*Related parties transactions and major shareholders of the Parent Guarantor—IBV Loan" and "Description of other indebtedness—IBV Loan.*"

(*2) Excludes the shareholder loans.

(10) The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information in our financial statements is comparable, prior year information is also presented using the current year's customer structure. The segment information for the three months and the twelve months ended March 31, 2012 and 2013 contained in this Offering Memorandum is based on the segment reporting in the interim financial report for the three months ended March 31, 2013. The segment information for the fiscal years ended December 31, 2012 and 2011 contained in this Offering Memorandum is based on the segment reporting in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2012 and the segment information for 2010 is based on the segment reporting in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2011. In this regard, the 2010 segment information is not fully comparable to the 2011 and 2012 segment information.

Management's discussion and analysis of our financial condition and results of operations

The following discussion and analysis of our financial condition and results of operation are based on the unaudited condensed consolidated financial statements of the Company as of and for the three-months periods ended March 31, 2013 and 2012, the audited consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2012, 2011 and 2010, which are all reproduced elsewhere in this Offering Memorandum and should be consulted when reading the information presented below. The consolidated financial statements were prepared in accordance with IFRS as adopted by the EU. Our consolidated financial statements as of and for the fiscal years ended December 31, 2012, 2011 and 2010 were audited by KPMG which issued an unqualified audit opinion for each fiscal year. The condensed consolidated financial statements as of and for the three-month periods ended March 31, 2013 and 2012, prepared in accordance with IFRS as adopted by the EU, have not been audited.

Some of the statements contained below relate to future revenue, costs, capital expenditures, acquisitions and financial condition and include forward-looking statements. Because such statements involve inherent uncertainties, actual results may differ materially from the results expressed in or implied by such forward-looking statements. A discussion of such uncertainties can be found in "Important information about this Offering Memorandum—Forward-looking statements." In addition, investing in the Notes involves risks. Such risks are discussed in "Risk factors."

Overview

We are one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. We supply high quality and technologically advanced components and systems to a broad range of automotive and industrial customers. Employing a workforce of about 76,000 employees in approximately 50 countries (as of March 31, 2013), we are one of the largest family-owned industrial companies in Europe. In the twelve months ended March 31, 2013, we had revenues of approximately €11.0 billion, and EBITDA of approximately €2.0 billion.

We operate through two main divisions: Automotive and Industrial. Our Automotive Division generated approximately 70% of our revenue in the twelve months ended March 31, 2013, supplying more than 60,000 products to approximately 7,500 customers globally. Our Industrial Division accounted for approximately 30% of our revenue in the twelve months ended March 31, 2013, supplying approximately 90,000 products to approximately 16,000 customers in many different industrial sectors. In the twelve months ended March 31, 2013, 24% of our total revenue was generated from our aftermarket business.

We distribute our products throughout our markets mainly under three globally recognized brands, LuK, INA and FAG, mainly serving high-quality products to both the premium and volume segments and using different distribution channels. Our LuK brand covers, among others, clutch and transmission systems, dual mass flywheels and torque converters. Our INA brand covers rolling and plain bearings, linear guides, engine components and systems, such as camshaft phasing systems or standard valve trains and other precision components. Our FAG brand covers a broad range of rolling bearings, high-precision bearings and aerospace applications.

Key factors affecting results of operations

Our results of operations, financial condition and liquidity have been influenced in the periods discussed in this Offering Memorandum by the following events, facts, developments and market characteristics. We believe that these factors have influenced and are likely to continue to influence our operations in the future.

Revenue

Our business is divided into two divisions: the Automotive Division and the Industrial Division. Thus, our revenue development is dependent on the economic developments in the automotive and the industrial sectors. In 2010, 2011 and 2012, revenue was generally impacted by a volatile economic environment in the course of the recovery of the global economy from the financial and economic crises in 2008 and 2009.

Developments in the global automotive market

We are a main supplier to large OEMs and Tier 1 suppliers in the automotive industry and therefore highly dependent on developments in the global automotive market.

Our Automotive Division's revenue is primarily impacted by factors influencing consumer demand for new passenger vehicles and commercial vehicles. The Automotive Division is indirectly affected by factors such as unemployment, interest rates (and, most generally, overall monetary and fiscal policy), gasoline prices, consumer confidence and the availability of vehicle financing. In addition, the Automotive Division is also indirectly impacted by factors such as the levels of international trade and the availability of vehicle financing, as these factors particularly affect the demand for commercial vehicles. In 2011, the Automotive Division outpaced market growth as a result of the positive economic situation in the automotive markets. In 2012, the tense economic situation in the automotive markets reduced our growth rate compared to the prior year.

Developments in the global industrial sector

Within our Industrial Division, we have customers in approximately 60 different sectors selling a diverse range of applications, ranging from wind turbines to aerospace engines and dentists' drills. This high degree of diversification in our businesses as well as the stability of our aftermarket businesses support the resilience of our revenues. Each of these end-markets is influenced by different economic factors and is affected by a downturn in different stages, making us less vulnerable to adverse changes in the micro-economic environment or fluctuations of a particular economic parameter in any of our industry segments. The major customers of the Industrial Division are companies involved in the manufacturing of production machinery, power transmission, wind power, heavy industries and aerospace.

The economic recovery led to an increase in order intake and revenues in 2010. In 2011, the Industrial Division benefited over-proportionately from the strong global economy. In 2012, the Industrial Division was affected by slowing demand.

Operating expenses

Our key operating expenses are raw material costs, production costs, research and development expenses as well as administrative expenses.

Raw material costs

Most of the raw materials that we use, such as steel, plastics, brass, cast iron and cast aluminum, are subject to price volatility. In 2009, raw material prices dropped significantly which, as a result of our contractual situation, only affected us positively in 2010, *i.e.*, with a one year delay. The unexpectedly fast recovery from the economic crisis in 2010, in particular, led to a sharp increase in raw material prices. The impact from this affected us negatively in 2011. Prices for coking coal, iron ore and scrap metal remained at a historic high until fall 2011, keeping price pressures high, particularly for flat steel products. In addition, manufacturers' sometimes very short-term pricing policies increased uncertainty, which facilitated the continued instability of prices in the steel market. Due to the further rise in commodities prices, price increases for some purchased parts could not be avoided entirely. In 2012, raw material prices were again heavily affected by the price volatility of commodities used to produce steel. The moderate trend in the price of scrap metal, which declined slightly, particularly during the second half of the year, stabilized or slightly reduced prices for steel bar and wire. Changes in the price of iron ore and coking coal drove down the steel mills' cost to manufacture flat steel products. Overall, raw materials costs remained similar to the prior year.

Most steel producers re-established their full plant capacities after the ramp-up in 2010; as a result, supply was largely smooth. We used the calmer situation to come to agreements on fundamental principles regarding logistics processes with those suppliers in order to be able to counter future fluctuations in supply with improved planning processes. Supply continued to be smooth through 2011 and 2012. Overall, we were able to fully satisfy the procurement needs of our 70 plants around the world by utilizing our global procurement sources in the form of existing and new suppliers, particularly in the strong growth markets of Asia.

Research and development (R&D) expenses

Innovation regarding product development and production technology is important in order to maintain the profitability of our business in the long term.

R&D expenses reflect the cost of undertaking R&D activities in our worldwide research and development centers. We employ nearly 6,000 people within a global R&D network comprising 40 locations. Key locations outside Germany are China, India, Brazil and the United States.

In the fiscal years 2010, 2011 and 2012, we have invested approximately 5% of revenue in research and development.

Financial result

High level of financial debt

Our results are significantly affected by our high level of financial debt and corresponding interest expenses. The financial debt originally was a result of the acquisition of the share interests in Continental AG in late 2008 and January 2009.

The structure and composition of our financial debt has changed through various refinancing measures taken between November 20, 2009 and today. For a more detailed description of our refinancing measures, see "*Business—Our history—Our refinancing*."

Our current financial debt consists of term loans and corporate bonds in euro and in U.S. dollars. In April 2013, we lastly amended the S-Group Senior Facilities Agreement and issued an additional €1,250 million (equivalent) in aggregate principal amount of senior secured notes through Schaeffler Finance B.V. For a detailed description of our existing indebtedness, see *"—Financial debt*" and "*Description of other indebtedness*."

Interest rate derivatives

The floating rate tranches of the financial debt denominated in euro and in U.S. dollars give rise to interest rate risk relating to fluctuations in EURIBOR and LIBOR. A change in interest rates could have an impact on our results.

This interest rate risk is hedged by entering into interest rate derivatives such as swaps, including cross-currency swaps and caps, which generally offset the interest rate risk exposure and reduce the impact on our results.

In the fourth quarter of the fiscal year 2011, we have restructured our hedging portfolio to align the maturity profile, the hedged interest rate level and the hedge ratio with our interest rate risk exposure, i.e., closing out certain derivatives and modifying the remaining ones. As a result, since then, we have reduced the impact on our results, i.e. we experienced and expect to continue to experience less volatility.

Investment in Continental AG

Our investment in Continental AG has a material impact on our results of operations.

Under IFRS, Continental AG is accounted for using the equity method. Under the equity method, the investment is initially measured at cost and subsequently adjusted for the investor's share of the investee's net income or loss, taking into account effects of the purchase price allocation (*e.g.*, amortization) and movements in the investee's other comprehensive income or loss (*e.g.*, share-based compensation).

The share of net income (loss) from Continental AG was €(349) million in 2010 (including a one-off dilution loss (€(396) million) resulting from the capital increase of Continental AG, in which we did not participate), €324 million in 2011, €554 million in 2012 and €135 million in the three months ended March 31, 2013.

Until September 30, 2011, Continental AG was an associate of Schaeffler AG according to IAS 28. On September 30, 2011, Schaeffler AG transferred its share interest of 72,290,458 shares, or 36.1%, in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG. Schaeffler Beteiligungsholding GmbH & Co. KG is a joint venture as defined in IAS 31 and is accounted for at equity in the consolidated financial statements. Schaeffler AG is the limited partner and holds 100% of the interest, therefore, the transfer of Continental AG shares does not change the underlying economics of this investment. For this reason, the accounting treatment and presentation in the consolidated financial statements remained substantially unchanged.

Income taxes

The legal structure of the Schaeffler Group was established on June 28, 2010.

Since fiscal year 2010, the Schaeffler Group entities are filing tax returns in the current legal structure.

The Schaeffler AG is in substance subject to a combined tax rate of approximately 28%, including corporation tax, German solidarity surcharge and trade income tax.

Explanation of key line items

Revenue

Our revenue is mainly derived from sales of bearings for automotive and industrial applications, as well as engine components, clutches, transmission components and modules. These applications, components and modules are sold to OEMs, Tier 1 and Tier 2 suppliers and through the aftermarket.

Cost of sales

Cost of sales consists primarily of the cost of producing products, rendering services or acquiring merchandise sold. Production cost comprises all direct costs attributable to the process of manufacturing goods and rendering services (*e.g.*, raw material, labor, depreciation of production machinery) as well as allocated production-related overheads.

Our raw material costs are mainly related to steel, plastics, brass and cast iron as well as cast aluminum.

Gross profit and gross margin

Our gross profit is defined as revenue less cost of sales. Gross margin is gross profit in relation to revenue.

Research and development (R&D) expenses

Our R&D expenses mainly comprise labor costs for personnel, *e.g.*, for our R&D engineers. Furthermore, material cost, service fees and amortization of machinery related to our R&D activities are recognized in R&D expenses.

Selling expenses

Our selling expenses generally comprise personnel expenses and general freight and logistics expenses.

Administrative expenses

Our administrative expenses consist mainly of personnel expenses and consulting fees.

Other income and other expenses

Other income and other expenses mainly consist of gains and losses from foreign exchange, disposal of assets and increase and decrease of allowances.

Our main foreign exchange exposure is from net inflows in U.S. dollars (surplus) and from net outflows in Romanian Leu (demand). The exposures are hedged, in general, by at least 80% of the remaining currency risk from operations of the next twelve months, using appropriate derivative financial instruments, particularly forward exchange contracts and options. Portfolio aspects, such as correlations, and the current market environment are taken into account in executing our hedging strategy.

The table below sets forth our remaining currency risk from operations of these currencies as of December 31, 2012:

	As of December 31, 2012	
in € million	**U.S.$**	**RON**
Estimated currency risk from operations	942	(194)
Forward exchange contracts	(762)	149
Currency options	0	0
Remaining currency risk from operations	**180**	**(45)**

EBIT

EBIT is defined as earnings before financial result, share of net income (loss) of equity-accounted investees and income taxes.

Financial income

Financial income includes financial income on pension plan assets, fair value changes and compensation payments on derivatives, foreign exchange gains, interest income on financial assets and income from reversal of impairment losses on financial assets in the class "other loans receivable."

Financial expenses

Financial expenses mainly comprise interest expense on financial debt, amortization of cash flow hedge accounting reserve, financial expense on pensions and partial retirement obligations, foreign exchange losses and fair value changes and compensation payments on derivatives.

Interest expense on financial debt includes interest paid and accrued on our financing arrangements, transaction costs and interest expense on shareholder loans to Schaeffler Verwaltungs GmbH.

Fair value changes and compensation payments on derivatives are due to compensation payments and changes in the value of interest rate and cross-currency derivatives as well as embedded derivatives.

Financial result

Our financial result consists of financial income and financial expenses. For more details, please refer to "*—Key factors affecting results of operations—Financial result*."

Share of net income (loss) of equity-accounted investees

Under the equity method, the investment is initially measured at cost and subsequently adjusted for the investor's share of the investee's net income or loss, taking into account effects of the purchase price allocation (*e.g.*, amortization) and movements in the investee's other comprehensive income or loss (*e.g.*, share-based compensation).

Our only significant associated company is Continental AG. For more details, please refer to "*—Key factors affecting results of operations—Investment in Continental AG*."

Income taxes
Our income taxes consist of current income taxes and deferred income taxes.

Critical accounting principles

Critical accounting principles are those that (i) are relevant to the presentation of our financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex.

In order to provide an understanding of how our management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, we have identified the critical accounting policies discussed below. While we believe that all aspects of our financial statements should be studied and understood in assessing our current and expected financial condition and results of operations, we consider the following critical accounting policies to warrant particular attention.

Our consolidated financial statements have been prepared in euro, the functional and presentation currency of our parent company. Unless stated otherwise, all amounts are in millions of euro. As amounts (in millions of euro) and percentages have been rounded, rounding differences may occur.

Except for the following, assets and liabilities have generally been measured on the basis of historical cost:

- derivative financial instruments,
- financial instruments recorded at fair value through profit or loss, and
- available-for-sale financial assets.

These assets and liabilities were measured at fair value.

Estimation uncertainty and management judgment
In the preparation of financial statements in accordance with IFRS, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Both estimates and the basis on which assumptions are made are reviewed regularly. Changes in estimates are recognized in the period in which the changes are made as well as in all subsequent periods affected by the changes.

Presentation of reporting periods prior to our legal creation (Carve-Out)
For legal purposes, the Schaeffler Group was created upon the registration of the hive-down in the Commercial Register on June 28, 2010. As a result, part of the reporting period ending on December 31, 2010 occurred before our current structure legally existed.

Financial data for the periods prior to June 28, 2010, *i.e.*, carve-out financial statements, have been derived from the consolidated IFRS financial statements of the IHO Group. Our operations are presented as if the legal structure created by the hive-down had already existed before June 28, 2010.

Assets, liabilities, expenses and income allocated to us were transferred from the consolidated IFRS financial statements of the IHO Group at their carrying values (predecessor accounting). For the periods prior to our legal creation, the assets and liabilities transferred to us were recognized and measured in accordance with IFRS as adopted by the EU and effective at the end of the respective reporting periods.

Assets, liabilities, expenses and income were generally allocated to us based on the hive-down agreements by and between Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltung Eins GmbH as well as by and between Schaeffler Verwaltung Eins GmbH and Schaeffler Verwaltung Zwei GmbH, both dated May 25, 2010. In addition, certain financial statement line items were allocated appropriately based on certain assumptions, estimates and the principle of substance over form. The assumptions and estimates may affect the recognition, measurement and presentation of assets and liabilities as well as the amounts and presentation of the corresponding items of income and expense. Our management considers the allocation methods applied to be appropriate and justifiable.

More information on the allocation methods of major financial statement items can be found in our consolidated financial statements as of December 31, 2011.

Share interest in Continental AG

Associated companies are those entities for which we have significant influence, but not control or joint control, over the financial and operating policy decisions of the investee. Significant influence is presumed to exist if we hold, directly or indirectly, between 20% and 50% of the voting power of an investee.

Our investments in equity-accounted investees consist primarily of the indirectly held shares in Continental AG. Schaeffler Beteiligungsholding GmbH & Co. KG has a 36.14% share interest as of March 31, 2013. The total stake of the IHO Group in Continental AG is approximately 49.9% as of March 31, 2013.

The share interest in Continental AG is accounted for using the equity method. Under this method, the investment is initially recognized at cost, which includes the goodwill identified on acquisition. After initial recognition, the carrying amount of the investment is increased or decreased by our share of Continental AG's net income or loss and other items recognized directly in equity.

R&D expenses

R&D expenses include costs incurred for research and development and expenditures for customer-specific applications, prototypes and testing.

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge are recognized as expenses as incurred.

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Related development costs are only capitalized as intangible assets if (1) their technical feasibility, (2) the intention to complete, (3) the ability to use or sell, (4) the future economic benefits from the sale or use of the assets, (5) the availability of adequate technical, financial and other resources and (6) the reliable measurement of the expenditure are given.

In contrast to costs of developing new or substantially improved products, advance development costs and costs incurred to produce customer-specific applications (*i.e.*, to customize existing products without substantial improvement) are not capitalized, but instead expensed as incurred.

Goodwill

Goodwill results from the acquisition of a subsidiary. It is calculated as the excess of total consideration transferred over the net identifiable assets of the acquiree, with acquisition costs defined as the aggregate of the fair value of (1) consideration transferred, (2) non-controlling interests and (3) the acquirer's previously held equity interest in the acquiree, if the business combination is achieved in stages. Non-controlling interests in the acquired company are measured either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Goodwill is not amortized, but is instead tested for impairment at least annually and when an indication of possible impairment exists. It is measured at costs less accumulated impairment losses. For associated companies, goodwill is included in the carrying amount of the investment in the associated company and is tested for impairment as part of the investment when an indication of possible impairment exists.

Impairment

Financial assets are tested for impairment individually at the end of each reporting period and when objective evidence of impairment exists.

Non-financial assets are tested for impairment by comparing their carrying amount with their recoverable amount. If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, the impairment test is not performed at the level of the individual asset but instead at the level of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest unit with largely independent cash flows. Our cash-generating units are our two divisions, Automotive and Industrial. If there is an indication of impairment, assets are tested for impairment during the year. In addition, financial assets, goodwill and intangible assets not yet available for use are also tested for impairment at the end of each reporting period.

An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, being the higher of fair value less costs to sell and value in use. To determine the recoverable amount of each division, considerable valuation assumptions and judgments are exercised. The value in use of each division is calculated by discounting estimated future cash flows expected to arise from the respective division. The future cash flows are based on a three year planning period as well as an annual growth rate of 0.5% in 2012, 0.5% in 2011 and 0.5% in 2010 beyond the planning horizon. Depending on the underlying business and our country of operation, we used an assumed pre-tax interest rate of 15.0% in 2012, 13.9% in 2011 and 13.1% in 2010 as the weighted average cost of capital for the Automotive Division and 15.3 % in 2012, 13.9% in 2011 and 13.1% in 2010 for the Industrial Division. This corresponds to a post-tax interest rate of 10.3% in 2012, 9.6% in 2011 and 9.1% in 2010 for the Automotive Division and 10.4 % in 2012, 9.8% in 2011 and 9.2% in 2010 for the Industrial Division. Other valuation assumptions are normally identical across cash-generating units.

Derivative financial instruments

We hold derivative financial instruments to hedge our currency and interest rate risk exposures inherent in assets and liabilities and in future cash flows.

These derivatives are initially recognized as an asset or liability at fair value; attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss. We do not have any fair value hedges.

Non-derivative host instruments are reviewed for embedded derivatives (*e.g.*, prepayment options). Embedded derivatives are separated from the host instrument when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument. Embedded derivatives required to be separated are measured at fair value.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in accumulated other comprehensive income (loss) to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in accumulated other comprehensive income remains in equity until the forecast transaction occurs or is no longer expected to occur. Otherwise, the amount is reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value. Acquisition costs of raw materials, supplies and purchased merchandise are determined using the weighted average method. Work in progress and manufactured finished goods (including goods in transit) are valued at production costs consisting of direct material and labor costs as well as production-related overheads. Net realizable value is defined as the estimated selling price in the ordinary course of business less estimated costs of completion and estimated necessary selling costs.

Deferred taxes

We recognize deferred taxes based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets are also recognized on tax loss carryforwards and tax credits to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed with respect to whether it is probable that future taxable profit will be available.

Pension obligations

Our obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions among other things the discount rate and anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets.

All actuarial gains and losses arising from defined benefit plans are recognized in accumulated other comprehensive income. Interest expenses on provisions for pensions and similar obligations and interest income on plan assets, based on the discount rate used for determining the defined benefit obligation, are included in financial result.

Provisions

A provision is recognized if, as a result of a past event, we have a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the recognition criteria for provisions are not met, a contingent liability is disclosed in the notes to the financial statements provided certain criteria are met.

Provisions are measured at the best estimate of the amount required to settle the obligation. This estimate is subject to uncertainty.

Warranty provisions are generally recognized when the claim becomes known and are measured at the estimated cost of meeting a specific obligation to perform rework free of charge, provide a replacement, or to pay damages. In addition, when there is a large number of similar transactions, warranty provisions are recognized based on historical experience.

Non-current provisions are recognized at present value by discounting expected future cash outflows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest, including effects of changes in interest rates, is shown in the financial result.

Results of operations

Overview

The following table shows our operating results for the twelve months ended March 31, 2013, the three months ended March 31, 2013 and 2012 and for the fiscal years ended December 31, 2012, 2011 and 2010.

In € million (except where otherwise stated)	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited)
Revenue	**9,495**	**10,694**	**11,125**	**2,858**	**2,756**	**11,023**
Revenue growth	*29.4%*	*12.6%*	*4.0%*	*6.0%*	*(3.6)%*	*1.5%*
Cost of sales	(6,506)	(7,463)	(7,836)	(1,973)	(1,965)	(7,828)
Gross profit	**2,989**	**3,231**	**3,289**	**885**	**791**	**3,195**
Gross profit margin	*31.5%*	*30.2%*	*29.6%*	*31.0%*	*28.7%*	*29.0%*
R&D expenses	(467)	(495)	(593)	(147)	(152)	(598)
Selling expenses	(645)	(725)	(759)	(191)	(188)	(756)
Administrative expenses	(366)	(408)	(465)	(127)	(113)	(451)
Other income	67	111	35	10	24	49
Other expenses	(69)	(25)	(94)	(29)	(7)	(72)
EBIT	**1,509**	**1,689**	**1,413**	**401**	**355**	**1,367**
EBIT margin	*15.9%*	*15.8%*	*12.7%*	*14.0%*	*12.9%*	*12.4%*
Financial income	51	40	53	25	51	79
Financial expense	(861)	(773)	(729)	(236)	(218)	(711)
Financial result	**(810)**	**(733)**	**(676)**	**(211)**	**(167)**	**(632)**
Share of net income (loss) of equity-accounted investees	(349)	324	554	136	135	553
EBT	**350**	**1,280**	**1,291**	**326**	**323**	**1,288**
Income taxes	(277)	(378)	(407)	(88)	(89)	(408)
Net income	**73**	**902**	**884**	**238**	**234**	**880**
Attributable to shareholders of the parent company	63	889	872	235	233	870
Attributable to non-controlling interests	10	13	12	3	1	10

Comparison of the three months ended March 31, 2013 with the three months ended March 31, 2012

in € million (except where otherwise stated)	Three Months ended March 31, 2012	 2013	Change in %
	(unaudited)		
Revenue	**2,858**	**2.756**	**(3.6)**
Cost of sales	(1,973)	(1,965)	(0.4)
Gross profit	**885**	**791**	**(10.6)**
Gross profit margin	*31.0%*	*28.7%*	*(2.3)pts*
R&D expenses	(147)	(152)	3.4
Selling expenses	(191)	(188)	(1.6)
Administrative expenses	(127)	(113)	(11.0)
Other income	10	24	140.0
Other expenses	(29)	(7)	(75.9)
EBIT	**401**	**355**	**(11.5)**
EBIT margin	*14.0%*	*12.9%*	*(1.1)pts*
Financial income	25	51	104.0
Financial expense	(236)	(218)	(7.6)
Financial result	**(211)**	**(167)**	**(20.9)**
Share of net income (loss) of equity-accounted investees	**136**	**135**	**(0.7)**
Earnings before income taxes	**326**	**323**	**(0.9)**
Income taxes	(88)	(89)	1.1
Net income	**238**	**234**	**(1.7)**
Attributable to shareholders of the parent company	235	233	(0.9)
Attributable to non-controlling interests	3	1	(66.7)

Revenue

The following table shows the revenue contributions of each of our divisions for the three months ended March 31, 2012 and 2013 and the period-to-period changes in these revenue contributions.

in € million (except where otherwise stated)	Three Months ended March 31, 2012	 2013	Change in %
	(unaudited)		
Automotive	1,933	1,988	2.8
Industrial	908	768	(15.4)
Other[(1)]	17	0	(100.0)
Group total	**2,858**	**2,756**	**(3.6)**

(1) Other revenues not attributable to a division.

Revenue decreased from €2,858 million in the three months ended March 31, 2012 by €102 million, or 3.6%, to €2,756 million in the three months ended March 31, 2013. The Automotive Division continued to increase its revenue against the general market trend. In the Automotive Division, revenue growth was primarily driven by new customer projects and related production start-ups. The Industrial Division's revenue declined given the slowdown in economic momentum in the emerging countries and in Europe.

The Automotive Division revenue increased from €1,933 million in the three months ended March 31, 2012 by €55 million, or 2.8%, to €1,988 million in the three months ended March 31, 2013. Revenue growth was driven by new customer projects and production start-ups. The key growth drivers enabling us to grow faster than the market were product innovations which help reduce drive train CO_2-emissions. These were partially offset by the impact of the economic situation in the European automotive markets as well as minor unfavorable foreign exchange effects. In the three months ended March 31, 2013, revenue growth was primarily driven by the Asia/Pacific (+11.5%) and North American (+6.3%) regions. Revenue generated in Europe (-0.8%) and in South America (-1.6%) decreased slightly. Compared to the development of production volumes for passenger vehicles of up to 6 tons, the various regions saw their revenue grow faster than the market. Significant operational growth in South America was considerably more than offset by negative foreign exchange effects. In Europe, revenue decreased significantly less than production volumes for passenger vehicles. Among the top-selling product groups, dry double clutches, camshaft phasing units and valve train components – from mechanical valve lash adjustment elements to fully variable valve train systems, balancer shafts with rolling bearing supports, chain tensioning systems, and clutch release systems, as well as gearshift components – continued to be the growth drivers. Innovative new products such as the thermal management module used to improve the emissions performance of combustion engines experienced high growth rates as well.

The Industrial Division revenue decreased from €908 million in the three months ended March 31, 2012 by €140 million, or 15.4%, to €768 million in the three months ended March 31, 2013. Revenue decreased compared to the three months ended March 31, 2012, during which our Industrial Division revenue was at an all-time high, as a result of the weak market trends in important emerging countries, such as China, and the restrictive commercial and public investment and spending policies due to the continuing worldwide financial crisis. Foreign exchange effects also had a negative impact on revenue. However, revenue for the three months ended March 31, 2013 was nearly flat with revenue for the fourth quarter of 2012 of €788 million, which indicates, as does the slight improvement in order intake, that the revenue trend may be stabilizing. The amount of revenue generated by the production machinery sector in the three months ended March 31, 2013 was the lowest in more than a year, in particular due to the weak momentum in the manufacturing and textile machinery sectors. Although the power transmission sector was able to halt the negative revenue trend of the prior year during the last two quarters, it fell considerably behind the revenue levels generated in the three months ended March 31, 2012. Revenue in the aerospace sector increased primarily for jet engines as a result of significant capital spending on new aircraft by commercial airlines. However, public spending cuts in some countries had a dampening effect on revenue. Revenue in the windpower sector continued to decrease considerably in the three months ended March 31, 2013 compared to the prior quarter, primarily in Germany and the Asia/Pacific region. The entire windpower sector is still suffering from excess capacity and price competition as well as the uncertain environment for investing and financing in this sector. In the off-highway equipment sector, revenue declined compared to the prior year quarter as a result of the weakness in the construction industry worldwide. Revenue in the Industrial Aftermarket business fell significantly across all regions compared to the prior year period. Declining demand by end customers around the world caused dealers to reduce their inventory levels and, consequently, to significantly reduce their order volumes. In the three months ended March 31, 2013, revenue declined across all regions. The largest decrease occurred in South America (-27.1%), followed by the Asia/Pacific region (-24.3%) and Europe (-13.2%). In North America, revenue fell by 6.1%.

The regional distribution (by customer location) of our revenue in the three months ended March 31, 2012 and 2013 and the period-to-period changes are shown below.

in € million (except where otherwise stated)	Three Months ended March 31, 2012[(1)]	2013	Change in %
	(unaudited)		
Germany	788	722	(8.4)
Europe (excluding Germany)	872	851	(2.4)
North America	436	446	2.3
South America	145	133	(8.3)
Asia/Pacific	617	604	(2.1)
Group total	**2,858**	**2,756**	**(3.6)**

(1) The regional distribution of our revenue for the three months ended 2012 is presented based on the three months ended 2013 segment structure.

Revenue decreased in Germany, Europe (excluding Germany), South America and Asia/Pacific mainly due to the weak revenue trend in the Industrial Division. North America, on the other hand, continued its encouraging trend, generating revenue growth of 2.3%.

Cost of sales

The following table shows the cost of sales of each of our divisions for the three months ended March 31, 2012 and 2013 and the period-to-period changes in these costs.

in € million (except where otherwise stated)	Three months ended March 31, 2012	2013	Change in %
	(unaudited)		
Automotive	1,401	1,452	3.6
Industrial	555	513	(7.6)
Other[(1)]	17	0	(100.0)
Group total	**1,973**	**1,965**	**(0.4)**

(1) Other costs not attributable to a division.

Cost of sales decreased from €1,973 million in the three months ended March 31, 2012 by €8 million, or 0.4%, to €1,965 million in the three months ended March 31, 2013. This decrease was generally due to lower revenue levels. However, the cost of sales decreased less compared to revenue, as there have been offsetting effects in both divisions. In the Automotive Division personnel expenses increased and in the Industrial Division some of our plants have not yet been able to fully adapt production capacity to the lower revenue levels. In both divisions the cost of raw materials was slightly below the prior year comparative period.

Gross profit

The following table shows the gross profit contributions of each of our divisions for the three months ended March 31, 2012 and 2013 and the period-to-period changes in these gross profit contributions.

in € million (except where otherwise stated)	Three Months ended March 31, 2012	2013	Change in %
	(unaudited)		
Automotive			
Gross Profit	**532**	**536**	**0.8**
Gross profit margin	*27.5%*	*27.0%*	*(0.5)pts*
Industrial			
Gross Profit	**353**	**255**	**(27.8)**
Gross profit margin	*38.9%*	*33.2%*	*(5.7)pts*
Group total			
Gross Profit	**885**	**791**	**(10.6)**
Gross profit margin	*31.0%*	*28.7%*	*(2.3)pts*

Gross profit decreased from €885 million in the three months ended March 31, 2012 by €94 million, or 10.6%, to €791 million in the three months ended March 31, 2013. This decrease was primarily due to the decrease in revenue in the Industrial Division and the resulting residual fixed overheads as well as to the change in revenue mix away from the Industrial Division toward the Automotive Division.

The gross profit margin decreased on group level from 31.0% (Automotive Division: 27.5%, Industrial Division: 38.9%) in the three months ended March 31, 2012 by 2.3 percentage points (Automotive Division: 0.5pts, Industrial Division: 5.7pts) to 28.7% (Automotive Division: 27.0%, Industrial Division: 33.2%) in the three months ended March 31, 2013. The decrease in gross profit margin was primarily due to increased personnel expenses in the Automotive Division and some plants of our Industrial Division which were unable to fully adapt production capacity to the lower revenue levels.

R&D expenses

R&D expenses increased from €147 million in the three months ended March 31, 2012 by €5 million, or 3.4%, to €152 million in the three months ended March 31, 2013. This increase was primarily due to continued improvement of existing products and various activities in the field of eMobility, where we linked research and development activities across our two divisions Automotive and Industrial.

In the three months ended March 31, 2013, R&D expenses comprised 5.5% of our revenue (three months ended March 31, 2012: 5.1%).

Selling expenses

Selling expenses decreased from €191 million in the three months ended March 31, 2012 by €3 million, or 1.6%, to €188 million in the three months ended March 31, 2013. This decrease was primarily due to lower freight and logistics expenses.

Administrative expenses

Administrative expenses decreased from €127 million in the three months ended March 31, 2012 by €14 million, or 11.0%, to €113 million in the three months ended March 31, 2013. This decrease was primarily due to lower consulting costs in connection with our refinancing. Administrative expenses as a percentage of revenue decreased from 4.4% in the three months ended March 31, 2012 to 4.1% in the three months ended March 31, 2013.

Other income and expenses

The following table shows our other income for the three months ended March 31, 2012 and 2013 and the period-to-period changes.

in € million (except where otherwise stated)	Three Months ended March 31, 2012	 2013	Change in %
	(unaudited)		
Exchange gains	0	19	—
Reversal of provisions	0	0	—
Reduction of allowances	2	1	(50.0)
Gains on disposal of assets	1	0	(100.0)
Miscellaneous income	7	4	(42.9)
Total	**10**	**24**	**140.0**

The following table shows our other expenses for the three months ended March 31, 2012 and 2013 and the period-to-period changes.

in € million (except where otherwise stated)	Three Months ended March 31, 2012	 2013	Change in %
	(unaudited)		
Exchange losses	21	0	(100.0)
Increase in allowances	2	3	50.0
Losses on disposal of assets	0	0	—
Miscellaneous expenses	6	4	(33.3)
Total	**29**	**7**	**(75.9)**

Other income increased from €10 million in the three months ended March 31, 2012 by €14 million, or 140.0% to €24 million in the three months ended March 31, 2013.

Other expenses decreased from €29 million in the three months ended March 31, 2012 by €22 million, or 75.9%, to €7 million in the three months ended March 31, 2013.

Earnings before financial result, share of net income (loss) of equity-accounted investees and income taxes (EBIT)

The following table shows the contributions to EBIT of each of our divisions for the three months ended March 31, 2012 and 2013 and the period-to-period changes in these EBIT contributions.

in € million (except where otherwise stated)	**Three Months ended March 31,**		
	2012	**2013**	**Change in %**
	(unaudited)		
Automotive			
EBIT	**244**	**277**	**13.5**
EBIT margin	*12.6%*	*13.9%*	*1.3pts*
EBITDA	**346**	**388**	**12.1**
EBITDA margin	*17.9%*	*19.5%*	*1.6pts*
Industrial			
EBIT	**157**	**78**	**(50.3)**
EBIT margin	*17.3%*	*10.2%*	*(7.1)pts*
EBITDA	**203**	**124**	**(38.9)**
EBITDA margin	*22.4%*	*16.1%*	*(6.3)pts*
Group total			
EBIT	**401**	**355**	**(11.5)**
EBIT margin	*14.0%*	*12.9%*	*(1.1)pts*
EBITDA	**549**	**512**	**(6.7)**
EBITDA margin	*19.2%*	*18.6%*	*(0.6)pts*

EBIT decreased from €401 million in the three months ended March 31, 2012 by €46 million, or 11.5%, to €355 million in the three months ended March 31, 2013. As a result, the EBIT margin decreased from 14.0% in the three months ended March 31, 2012 by 1.1 percentage points to 12.9% in the three months ended March 31, 2013. This decrease was primarily due to a lower gross profit margin and increased costs for R&D.

The Automotive Division's total EBIT increased from €244 million in the three months ended March 31, 2012 by €33 million, or 13.5%, to €277 million in the three months ended March 31, 2013. The EBIT margin increased from 12.6% in the three months ended March 31, 2012 by 1.3 percentage points to 13.9% in the three months ended March 31, 2013.

The Industrial Division's total EBIT decreased from €157 million in the three months ended March 31, 2012 by €79 million, or 50.3%, to €78 million in the three months ended March 31, 2013. The EBIT margin decreased from 17.3% in the three months ended March 31, 2012 by 7.1 percentage points to 10.2% in the three months ended March 31, 2013. This decrease was primarily due to the economic slowdown combined with the inability to fully adapt production capacity to the lower revenue levels as discussed above under "—*Revenue*" and "—*Cost of sales*."

Financial result

The following table shows our financial results for the three months ended March 31, 2012 and 2013 and the period-to-period changes.

in € million (except where otherwise stated)	Three Months ended March 31, 2012	Three Months ended March 31, 2013	Change in %
	(unaudited)		
Financial expenses			
Interest expense on financial debt[(1)]	(177)	(128)	(27.7)
Fair value changes and compensation payments on derivatives	(16)	(21)	31.3
Foreign exchange losses	0	(45)	—
Amortization of cash flow hedge accounting reserve[(2)]	(18)	(14)	(22.2)
Interest expense on pensions and partial retirement obligations[(3)]	(14)	(13)	(7.1)
Other	(11)	3	(127.3)
Total financial expenses	**(236)**	**(218)**	**(7.6)**
Financial income			
Fair value changes and compensation payments on derivatives	6	42	600.0
Foreign exchange gains	16	7	(56.3)
Other	3	2	(33.3)
Total financial income	**25**	**51**	**104.0**
Financial result	**(211)**	**(167)**	**(20.9)**

(1) Including transaction costs.

(2) Hedge accounting terminated in connection with the refinancing arrangement in 2009.

(3) Prior year amounts adjusted for initial application of IAS 19 (rev. 2011).

Our financial result improved from €(211) million in the three months ended March 31, 2012 by €44 million, or 20.9%, to €(167) million in the three months ended March 31, 2013. In the three months ended March 31, 2013, financial result comprised financial income of €51 million (three months ended March 31, 2012: €25 million) and financial expenses of €218 million (three months ended March 31, 2012: €236 million).

In the three months ended March 31, 2013, interest expense on financial debt of €128 million (three months ended March 31, 2012: €177 million) included interest paid and accrued on our financing arrangements of €108 million (three months ended March 31, 2012: €110 million) and expenses of €13 million (three months ended March 31, 2012: €60 million) relating to transaction costs. Interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH was also included.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of €21 million in the three months ended March 31, 2013 (three months ended March 31, 2012: net losses of €10 million). The amount consisted largely of compensation payment expenses of €31 million (three months ended March 31, 2012: €14 million), €13 million in losses (three months ended March 31, 2012: €50 million in gains) related to changes in the value of embedded derivatives and €65 million in gains (three months ended March 31, 2012: €46 million in losses) related to favorable changes in the value of interest rate and cross-currency derivatives. The losses on the embedded derivatives were primarily the result of the reduction in the margin on the senior term loan C in connection with the repricing, while the gains on the interest rate and cross-currency derivatives were mainly due to changes in the U.S. dollar exchange rate. These exchange rate changes led to offsetting net foreign exchange losses on financial assets and liabilities of €38 million (prior year: gains of €16 million).

Additional expenses of €14 million in the three months ended March 31, 2013 (three months ended March 31, 2012: €18 million) arose from the amortization of the cash flow hedge accounting reserve related to interest rate hedging instruments.

In the three months ended March 31, 2013, pensions and partial retirement obligations gave rise to net interest expense of €13 million (three months ended March 31, 2012: €14 million).

Other items gave rise to a net amount of income of €5 million in the three months ended March 31, 2013 (three months ended March 31, 2012: expenses of €8 million) and included primarily interest income of €2 million (three months ended March 31, 2012: €2 million) on loans and receivables, impairment losses on loans of €0 million (three months ended March 31, 2012: €7 million), and other financial income of €3 million (three months ended March 31, 2012: expenses of €3 million).

Share of net income (loss) of equity-accounted investees

The share of net income (loss) of equity-accounted investees decreased from €136 million in the three months ended March 31, 2012 by €1 million, or 0.7%, to €135 million in the three months ended March 31, 2013. The share of net income (loss) of equity-accounted investees related almost entirely to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, which holds a 36.14% interest in Continental AG.

Income taxes

The following table shows our income tax expenses for the three months ended March 31, 2012 and 2013 and the period-to-period changes.

in € million (except where otherwise stated)	**Three Months ended March 31, 2012**	**2013**	**Change in %**
	(unaudited)		
Current income tax	107	83	(22.4)
Deferred income tax	(19)	6	(131.6)
Income taxes	**88**	**89**	**1.1**

Income taxes increased from €88 million in the three months ended March 31, 2012 by €1 million, or 1.1%, to €89 million in the three months ended March 31, 2013, consisting of current tax expenses of €83 million (three months ended March 31, 2012: €107 million) and deferred tax expenses of €6 million (three months ended March 31, 2012: tax benefit of €19 million). In the three months ended March 31, 2013, current tax expense of €79 million related to the current year and €4 million to prior years. In the three months ended March 31, 2013, interest expense of €61 million (three months ended March 31, 2012: €75 million) was not tax deductible due to interest barrier rules.

Net income (attributable to shareholders of the parent company)

For the reasons set forth above, net income attributable to shareholders of the parent company decreased from €235 million in the three months ended March 31, 2012 by €2 million, or 0.9%, to €233 million in the three months ended March 31, 2013.

Comparison of the fiscal year ended December 31, 2011 with the fiscal year ended December 31, 2012

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Revenue	**10,694**	**11,125**	**4.0**
Cost of sales	(7,463)	(7,836)	5.0
Gross profit	**3,231**	**3,289**	**1.8**
Gross profit margin	*30.2%*	*29.6%*	*(0.6)pts*
R&D expenses	(495)	(593)	19.8
Selling expenses	(725)	(759)	4.7
Administrative expenses	(408)	(465)	14.0
Other income	111	35	(68.5)
Other expenses	(25)	(94)	276.0
EBIT	**1,689**	**1,413**	**(16.3)**
EBIT margin	*15.8%*	*12.7%*	*(3.1)pts*
Financial income	40	53	32.5
Financial expense	(773)	(729)	(5.7)
Financial result	**(733)**	**(676)**	**(7.8)**
Share of net income (loss) of equity-accounted investees	**324**	**554**	**71.0**
Earnings before income taxes	**1,280**	**1,291**	**0.9**
Income taxes	(378)	(407)	7.7
Net income	**902**	**884**	**(2.0)**
Attributable to shareholders of the parent company	889	872	(1.9)
Attributable to non-controlling interests	13	12	(7.7)

Revenue

The following table shows the revenue contributions of each of our divisions for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes in these revenue contributions.

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Automotive	7,157	7,663	7.1
Industrial	3,463	3,401	(1.8)
Other[(1)]	74	61	(17.6)
Group total	**10,694**	**11,125**	**4.0**

(1) Other revenues not attributable to a division.

Revenue increased from €10,694 million in the fiscal year ended December 31, 2011 by €431 million, or 4.0%, to €11,125 million in the fiscal year ended December 31, 2012. The Automotive Division continued to report high growth rates in the fiscal year ended December 31, 2012 despite the challenging market environment in Europe. In the Automotive Division, revenue growth was driven by growth of top-selling product groups, such as camshaft phasing units, torque converters, continuously variable transmission systems, chain drives, and axial needle roller bearings. Our increasingly innovative product offerings and the resulting growth in production volumes – primarily in the developed European markets – were also significant revenue drivers. The Industrial Division's strong growth rates in the aerospace sector and in heavy industries partially offset the significantly weaker or declining growth trends seen in other sectors. Revenue in the wind power, production machinery, and railway sectors declined during the year.

The Automotive Division revenue increased from €7,157 million in the fiscal year ended December 31, 2011 by €506 million, or 7.1%, to €7,663 million in the fiscal year ended December 31, 2012. Revenue growth was driven by new customer projects and production start-ups, and also by the favorable impact of currency translation. In the fiscal year ended December 31, 2012, revenue growth was primarily driven by the Asian (+21.9%) and North American (+21.2%) regions. While a slight increase in revenue was generated in Europe (+1.7%), revenue in South America declined (-11.8%). Compared to the development of production volumes for passenger vehicles of up to 6 tons, the various regions saw their revenue grow faster than the market, South America being the only exception. We were able to increase our revenue considerably against the adverse market trend, particularly in Europe. Among the top-selling product groups, dry double clutches, continuously variable transmission systems, and camshaft phasing units showed above-average growth. Innovative new products, such as ball screw drives used in modern electromechanical power steering systems and chassis solutions, also experienced high growth rates.

The Industrial Division revenue decreased from €3,463 million in the fiscal year ended December 31, 2011 by €62 million, or 1.8%, to €3,401 million in the fiscal year ended December 31, 2012. Revenue decrease was primarily caused by a decline in demand across nearly all industrial sectors. Strong growth in the heavy industry and aerospace sectors, positive currency translation effects and slight growth of 0.9% in the industrial aftermarket sector only partially compensated for declines in the wind power, production machinery and power transmission sectors. The wind power sector experienced significantly lower revenue, primarily due to the delay in grid expansion in key markets and wind turbine operators facing increasing difficulties in obtaining financing as a result of high levels of national debt in many countries. In addition, the adverse impact of excess capacity and price competition was felt across the entire wind power sector. In production machinery, the trend in machine tools, while still positive, was unable to fully offset declining revenues in printing machinery, textile machinery and electronics manufacturing. The power transmission business saw slight declines in revenue in many sectors, especially in agricultural machinery due to the elimination of public investments in South America and in the construction machinery market in Europe and Asia. In the fiscal year ended December 31, 2012, North America (+12.6%) and Central- and Eastern Europe, the Middle East and Africa (EMEA; +12.7%) exceeded their prior year revenue levels, but were unable to offset the declining revenue in the remaining regions. Asia/Pacific (-6.6%), in particular, fell behind prior year levels, primarily due to the weakness in the wind power and railway sectors.

The regional distribution (by customer location) of our revenue in the fiscal year ended December 31, 2011 and 2012 and the year-to-year changes are shown below.

in € million (except where otherwise stated)	**Year ended December 31, 2011[(1)]**	**2012**	**Change in %**
Germany	2,857	2,926	2.4
Europe (excluding Germany)	3,454	3,401	(1.5)
North America	1,409	1,665	18.2
South America	628	560	(10.8)
Asia/Pacific	2,346	2,573	9.7
Group total	**10,694**	**11,125**	**4.0**

(1) The regional distribution of our revenue for 2011 is presented based on 2012 segment structure.

Revenue increased in Germany, North America and Asia/Pacific while revenue decreased slightly in Europe (excluding Germany) and South America. The decrease in Europe (excluding Germany) was primarily due to the weak economic environment, the banks' restrictive lending practices, as well as the resulting declining consumption patterns of consumers. The decrease in South America was primarily due to the elimination of public investments in agricultural machinery.

Cost of sales

The following table shows the cost of sales of each of our divisions for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes in these costs.

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Automotive	5,207	5,556	6.7
Industrial	2,182	2,219	1.7
Other[1]	74	61	(17.6)
Group total	**7,463**	**7,836**	**5.0**

(1) Other costs not attributable to a division.

Cost of sales increased from €7,463 million in the fiscal year ended December 31, 2011 by €373 million, or 5.0%, to €7,836 million in the fiscal year ended December 31, 2012. This increase was primarily due to increased production volumes in the Automotive Division. In the Industrial Division, large bearing production, in particular, was unable to fully adjust its production capacities to the lower sales volumes in the wind power sector. Raw materials costs for 2012 were similar to 2011 overall.

Gross profit

The following table shows the gross profit contributions of each of our divisions for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes in these gross profit contributions.

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Automotive			
Gross Profit	**1,950**	**2,107**	**8.1**
Gross profit margin	*27.2%*	*27.5%*	*0.3pts*
Industrial			
Gross Profit	**1,281**	**1,182**	**(7.7)**
Gross profit margin	*37.0%*	*34.8%*	*(2.2)pts*
Group total			
Gross Profit	**3,231**	**3,289**	**1.8**
Gross profit margin	*30.2%*	*29.6%*	*(0.6)pts*

Gross profit increased from €3,231 million in the fiscal year ended December 31, 2011 by €58 million, or 1.8%, to €3,289 million in the fiscal year ended December 31, 2012. This increase was primarily due to higher revenue and new processes and technological improvements to our manufacturing facilities and production methods. The gross profit margin decreased from 30.2% in the fiscal year ended December 31, 2011 by 0.6 percentage points to 29.6% in the fiscal year ended December 31, 2012 primarily due to preproduction costs necessary to sustainably improve our value creation through new products, localization activities and the expansion of capacity.

The gross profit of the Automotive Division increased from €1,950 million in the fiscal year ended December 31, 2011 by €157 million, or 8.1%, to €2,107 million in the fiscal year ended December 31, 2012. This increase was primarily due to the increase in revenue. Since cost of sales grew slower than revenue, the gross profit margin increased slightly from 27.2% in the fiscal year ended December 31, 2011 by 0.3 percentage points to 27.5 % in the fiscal year ended December 31, 2012.

The gross profit of the Industrial Division decreased from €1,281 million in the fiscal year ended December 31, 2011 by €99 million, or 7.7%, to €1,182 million in the fiscal year ended

December 31, 2012. This decrease was mainly due to our large bearing production which was unable to fully adjust its production capacities to the lower sales volumes in the wind power sector. Since cost of sales grew and revenue decreased slightly, our gross profit margin declined slightly from 37.0% in the fiscal year ended December 31, 2011 by 2.2 percentage points to 34.8% in the fiscal year ended December 31, 2012.

R&D expenses

R&D expenses increased from €495 million in the fiscal year ended December 31, 2011 by €98 million, or 19.8%, to €593 million in the fiscal year ended December 31, 2012. This increase was primarily due to continued improvement of existing products and various activities in the field of eMobility, where we linked research and development activities across our two divisions Automotive and Industrial.

In the fiscal year ended December 31, 2012, R&D expenses comprised 5.3% of our revenue (prior year: 4.6%).

Selling expenses

Selling expenses increased from €725 million in the fiscal year ended December 31, 2011 by €34 million, or 4.7%, to €759 million in the fiscal year ended December 31, 2012. This increase was primarily due to higher variable freight and logistics expenses.

Administrative expenses

Administrative expenses increased from €408 million in the fiscal year ended December 31, 2011 by €57 million, or 14.0%, to €465 million in the fiscal year ended December 31, 2012. This increase was primarily due to an increase in corporate function staff. Administrative expenses as a percentage of revenue increased from 3.8% in the fiscal year ended December 31, 2011 to 4.2% in the fiscal year ended December 31, 2012.

Other income and expenses

The following table shows our other income for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes.

in € million (except where otherwise stated)	**Year ended December 31, 2011**	**2012**	**Change in %**
Exchange gains	73	0	(100.0)
Reversal of provisions	6	1	(83.3)
Reduction of allowances	3	4	33.3
Gains on disposal of assets	3	5	66.7
Miscellaneous income	26	25	(3.9)
Total	**111**	**35**	**(68.5)**

The following table shows our other expenses for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes.

in € million (except where otherwise stated)	**Year ended December 31, 2011**	**2012**	**Change in %**
Exchange losses	0	44	—
Increase in allowances	3	9	200.0
Losses on disposal of assets	3	4	33.3
Miscellaneous expenses	19	37	94.7
Total	**25**	**94**	**276.0%**

Other income decreased from €111 million in the fiscal year ended December 31, 2011 by €76 million, or 68.5% to €35 million in the fiscal year ended December 31, 2012. Foreign exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate. The netting of foreign exchange gains and losses has resulted in a net exchange loss in 2012 which is presented in other expenses (2011: exchange gain of €73 million).

Other expenses increased from €25 million in the fiscal year ended December 31, 2011 by €69 million, or 276.0%, to €94 million in the fiscal year ended December 31, 2012. The increase in other expenses is primarily due to movements in the U.S. dollar. Expenses for land transfer taxes on intra-group transfers recognized in miscellaneous expenses have also contributed to the increase in other expenses.

Earnings before financial result, share of net income (loss) of equity-accounted investees and income taxes (EBIT)

The following table shows the contributions to EBIT of each of our divisions for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes in these EBIT contributions.

in € million (except where otherwise stated)	**Year ended December 31, 2011**	**2012**	**Change in %**
Automotive			
EBIT	**1,074**	**998**	**(7.1)**
EBIT margin	*15.0%*	*13.0%*	*(2.0)pts*
EBITDA	**1,470**	**1,429**	**(2.8)**
EBITDA margin	*20.5%*	*18.6%*	*(1.9)pts*
Industrial			
EBIT	**615**	**415**	**(32.5)**
EBIT margin	*17.8%*	*12.2%*	*(5.6)pts*
EBITDA	**773**	**602**	**(22.1)**
EBITDA margin	*22.3%*	*17.7%*	*(4.6)pts*
Group total			
EBIT	**1,689**	**1,413**	**(16.3)**
EBIT margin	*15.8%*	*12.7%*	*(3.1)pts*
EBITDA	**2,243**	**2,031**	**(9.5)**
EBITDA margin	*21.0%*	*18.3%*	*(2.7)pts*

EBIT decreased from €1,689 million in the fiscal year ended December 31, 2011 by €276 million, or 16.3%, to €1,413 million in the fiscal year ended December 31, 2012. As a result, the EBIT margin decreased from 15.8% in the fiscal year ended December 31, 2011 by 3.1 percentage points to 12.7% in the fiscal year ended December 31, 2012. This decrease was primarily due to a slightly lower gross profit margin and increased costs for R&D and administration.

The Automotive Division's total EBIT decreased from €1,074 million in the fiscal year ended December 31, 2011 by €76 million, or 7.1%, to €998 million in the fiscal year ended December 31, 2012. The EBIT margin decreased from 15.0% in the fiscal year ended December 31, 2011 by 2.0 percentage points to 13.0% in the fiscal year ended December 31, 2012.

The Industrial Division's total EBIT decreased from €615 million in the fiscal year ended December 31, 2011 by €200 million, or 32.5%, to €415 million in the fiscal year ended December 31, 2012. The EBIT margin decreased from 17.8% in the fiscal year ended December 31, 2011 by 5.6 percentage points to 12.2% in the fiscal year ended December 31, 2012.

Financial result

The following table shows our financial results for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Financial expenses			
Interest expense on financial debt(1)	(494)	(523)	5.9
Fair value changes and compensation payments on derivatives	(101)	(6)	(94.1)
Foreign exchange losses	0	(10)	—
Amortization of cash flow hedge accounting reserve(2)	(75)	(72)	(4.0)
Interest expense on pensions and partial retirement obligations(3)	(81)	(83)	2.5
Other	(22)	(35)	59.1
Total financial expenses	**(773)**	**(729)**	**(5.7)**
Financial income			
Fair value changes and compensation payments on derivatives	0	8	—
Foreign exchange gains	0	3	—
Interest income on pensions and partial retirement obligations(3)	26	30	15.4
Other	14	12	(14.3)
Total financial income	**40**	**53**	**32.5**
Financial result	**(733)**	**(676)**	**(7.8)**

(1) Including transaction costs.

(2) Hedge accounting terminated in connection with the refinancing arrangement in 2009.

(3) Interest income on pensions and partial retirement obligations is presented in accordance with IAS 19 as of December, 31, 2012. The presentation is not adjusted according to IAS 19 (rev. 2011).

Our financial result improved from €(733) million in the fiscal year ended December 31, 2011 by €57 million, or 7.8%, to €(676) million in the fiscal year ended December 31, 2012. In the fiscal year ended December 31, 2012, financial result comprised financial income of €53 million (prior year: €40 million) and financial expenses of €729 million (prior year: €773 million).

In the fiscal year ended December 31, 2012, interest expense on financial debt of €523 million (prior year: €494 million) included interest paid and accrued on our financing arrangements of €453 million (prior year: €402 million) and expenses of €47 million (prior year: €78 million) relating to transaction costs. In addition, the amount also included interest expense on shareholder loans to Schaeffler Verwaltungs GmbH.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of €2 million in the fiscal year ended December 31, 2012 (prior year: losses of €101 million). The amount consisted largely of compensation payments of €105 million (prior year: €170 million) and favorable changes in the value of interest rate and cross-currency derivatives as well as embedded derivatives of €107 million (prior year: €69 million). The change from the prior year results mainly from the favorable development of embedded derivatives and lower compensation payments in the fiscal year ended December 31, 2012.

In the fiscal year ended December 31, 2012, net foreign exchange losses of €7 million on financial assets and liabilities were primarily due to movements of the U.S. dollar against the euro.

Additional expenses of €72 million in the fiscal year ended December 31, 2012 (prior year: €75 million) arose from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009 on interest rate hedging instruments.

In the fiscal year ended December 31, 2012, pensions and partial retirement obligations gave rise to net interest expense of €53 million (prior year: €55 million).

Other items giving rise to net expenses of €23 million in the fiscal year ended December 31, 2012 (prior year: €8 million) include primarily interest income of €11 million (prior year: €13 million) on loans and receivables, impairment losses on loans of €13 million (prior year: € nil), and other financial expenses of €21 million (prior year: €21 million).

Share of net income (loss) of equity-accounted investees

The share of net income (loss) of equity-accounted investees increased from €324 million in the fiscal year ended December 31, 2011 by €230 million, or 71.0%, to €554 million in the fiscal year ended December 31, 2012. The share of net income (loss) of equity-accounted investees related almost entirely to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, which holds a 36.14 % interest in Continental AG.

Income taxes

The following table shows our income tax expenses for the fiscal years ended December 31, 2011 and 2012 and the year-to-year changes.

in € million (except where otherwise stated)	**Year ended December 31,**		
	2011	**2012**	**Change in %**
Current income tax	386	384	(0.5)
Deferred income tax	(8)	23	387.5
Income taxes	**378**	**407**	**7.7**

Income taxes increased from €378 million in the fiscal year ended December 31, 2011 by €29 million, or 7.7%, to €407 million in the fiscal year ended December 31, 2012, consisting of current tax expenses of €384 million (prior year: €386 million) and deferred tax expenses of €23 million (prior year: tax benefit of €8 million). In 2012, current income tax expense of €12 million related to prior years (prior year: €16 million). In addition, we had no deferred tax income related to prior years in 2012 (prior year: €14 million).

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during the reporting period. Trade tax is levied by municipalities.

The average domestic tax rate for corporations was 27.9% in the fiscal year ended December 31, 2011 and remained the same in the fiscal year ended December 31, 2012. This tax rate consists of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.0% in 2011 and 2012. Partnerships located in Germany are only subject to trade tax.

Deviations from the expected tax rate resulted from differing country-specific tax rates applicable to German and foreign entities.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2012 is based on a 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler AG.

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Net income before tax	1,280	1,291	0.9
Expected tax expense	**358**	**361**	**0.8**
Addition/reduction due to deviating local tax bases	(1)	10	(1,100.0)
Foreign/domestic tax rate differences	(4)	(5)	25.0
Non-recognition of deferred tax assets	4	(1)	(125.0)
Non-deductible expenses	122	196	60.7
Share of net income (loss) of equity-accounted investees	(90)	(154)	71.1
Taxes for previous years	2	12	500.0
Other	(13)	(12)	(7.7)
Reported tax expense	**378**	**407**	**7.7**

The additional income tax on non-deductible expenses is mainly caused by interest expense that is non-deductible because of the interest deduction cap rules in Germany as well as the tax effect of the internal reorganization of the group structure. As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards. Please also see "*Risk factors—Legal, taxation and environmental risks—The Company, IBH and the Parent Guarantor are affected by the German interest barrier rules.*"

Share of net income (loss) of equity-accounted investees related primarily to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach.

Net income (attributable to shareholders of the parent company)

For the reasons set forth above, net income attributable to shareholders of the parent company decreased from €889 million in the fiscal year ended December 31, 2011 by €17 million, or 1.9% to €872 million in the fiscal year ended December 31, 2012.

Comparison of the fiscal year ended December 31, 2010 with the fiscal year ended December 31, 2011

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Revenue	**9,495**	**10,694**	**12.6**
Cost of sales	(6,506)	(7,463)	14.7
Gross profit	**2,989**	**3,231**	**8.1**
Gross profit margin	*31.5%*	*30.2%*	*(1.3)pts*
R&D expenses	(467)	(495)	6.0
Selling expenses	(645)	(725)	12.4
Administrative expenses	(366)	(408)	11.5
Other income	67	111	65.7
Other expenses	(69)	(25)	(63.8)
EBIT	**1,509**	**1,689**	**11.9**
EBIT margin	*15.9%*	*15.8%*	*(0.1)pts*
Financial income	51	40	(21.6)
Financial expense	(861)	(773)	(10.2)
Financial result	**(810)**	**(733)**	**(9.5)**
Share of net income (loss) of equity-accounted investees	**(349)**	**324**	**(192.8)**
Earnings before income taxes	**350**	**1,280**	**265.7**
Income taxes	(277)	(378)	36.5
Net income	**73**	**902**	**1,135.6**
Attributable to shareholders of the parent company	63	889	1,311.1
Attributable to non-controlling interests	10	13	30.0

Revenue

The following table shows the revenue contributions of each of our divisions for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes in these revenue contributions.

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Automotive	6,325	7,157	13.2
Industrial	3,002	3,463	15.4
Other[1]	168	74	(56.0)
Group total	**9,495**	**10,694**	**12.6**

(1) Other revenues not attributable to a division.

Revenue increased from €9,495 million in the fiscal year ended December 31, 2010 by €1,199 million, or 12.6%, to €10,694 million in the fiscal year ended December 31, 2011. In the Automotive Division, revenue growth was driven by the sustained global economic recovery of the automotive sector. In the Industrial Division, revenue growth was mainly driven by the aftermarket, machine tools and production systems and power transmission sectors. Furthermore, except for wind power, all sectors contributed to the growth in revenue during the fiscal year ended December 31, 2011. We saw revenue in both segments increase at rates exceeding market growth. In addition to the continuing positive trend in the automotive sector and still rising demand in the industrial sector, our innovative product offerings have also contributed to the increase in revenue.

The Automotive Division revenue increased from €6,325 million in the fiscal year ended December 31, 2010 by €832 million, or 13.2%, to €7,157 million in the fiscal year ended

December 31, 2011. All business divisions contributed to the growth in revenue during the fiscal year ended December 31, 2011. This revenue growth was driven by the continuing positive market situation of the automotive sector globally and increases, significantly in excess of market growth rates, due to new customer projects despite the turmoil in the financial markets during 2011. This was bolstered by a high level of average monthly order intake, where we were able to replace concluding projects through new projects with larger volumes and follow-up orders. In the fiscal year ended December 31, 2011, revenue growth was driven in particular by the sales markets in Asia (+20%), Europe (+13%) and North America (+13%). Top-selling product groups showing above-average growth included torque converters, tapered roller bearings, ball bearings and hydraulic valve lash adjustment elements. In addition, innovative new products, such as the dry double clutch, ball screw drives and the fully variable electro-hydraulic valve control system (UniAir/MultiAir) experienced particularly high growth rates.

The Industrial Division revenue increased from €3,002 million in the fiscal year ended December 31, 2010 by €461 million, or 15.4%, to €3,463 million in the fiscal year ended December 31, 2011. Except for wind power, all sectors contributed to the growth in revenue during the fiscal year ended December 31, 2011 compared to the previous year, with the production machinery and power transmission sectors as well as the aftermarket business performing particularly well. The wind power sector was influenced by a shortage of subsidies and a strong price competition due to excess capacity. All regions exhibited double-digit revenue growth during this period, with Germany (+25%) at the top, followed by South America (+18%) and Europe (excluding Germany) (+15%). The growth in revenue was accompanied by continuing high order intake levels. Capacity limits in our production prevented stronger growth in these areas.

The regional distribution (by customer location) of our revenue in the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes are shown below.

in € million (except where otherwise stated)	Year ended December 31, 2010(1)	Year ended December 31, 2011(2)	Change in %
Germany	2,575	2,857	11.0
Europe (excluding Germany)	3,037	3,454	13.7
North America	1,253	1,409	12.5
South America	602	628	4.3
Asia/Pacific	2,028	2,346	15.7
Group total	**9,495**	**10,694**	**12.6**

(1) The regional distribution of our revenue for 2010 is presented based on 2011 segment structure.

(2) The regional distribution of our revenue for 2011 is presented based on 2012 segment structure.

Revenue increased in each of the five regions. This growth was driven by the continuing recovery of the automotive industry and the increasing demand from various industrial sectors. In Europe, the revenue increase was mainly driven by the strong demand of our customers in the automotive industry. Asia/Pacific revenue primarily increased due to the strong demand in the automotive industry in Korea and in China.

Cost of sales

The following table shows the cost of sales of each of our divisions for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes in these costs.

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Automotive	4,483	5,207	16.1
Industrial	1,855	2,182	17.6
Other(1)	168	74	(56.0)
Group total	**6,506**	**7,463**	**14.7**

(1) Other costs not attributable to a division.

Cost of sales increased from €6,506 million in the fiscal year ended December 31, 2010 by €957 million, or 14.7%, to €7,463 million in the fiscal year ended December 31, 2011. This increase was primarily due to increased prices for materials such as steel and cost increases resulting from additional expansion of capacity. It was partially offset by economies of scale resulting from higher utilization of production capacities and productivity improvements.

Gross profit

The following table shows the gross profit contributions of each of our divisions for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes in these gross profit contributions.

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Automotive			
Gross Profit	**1,842**	**1,950**	**5.9**
Gross profit margin	*29.1%*	*27.2%*	*(1.9)pts*
Industrial			
Gross Profit	**1,147**	**1,281**	**11.7**
Gross profit margin	*38.2%*	*37.0%*	*(1.2)pts*
Group total			
Gross Profit	**2,989**	**3,231**	**8.1**
Gross profit margin	*31.5%*	*30.2%*	*(1.3)pts*

Gross profit increased from €2,989 million in the fiscal year ended December 31, 2010 by €242 million, or 8.1%, to €3,231 million in the fiscal year ended December 31, 2011. This increase was primarily due to improved productivity and increased production volumes. It was offset by increased prices for raw materials and energy and cost increases resulting from additional expansion of capacity.

The gross profit margin decreased on the group level from 31.5% (Automotive Division: 29.1%, Industrial Division: 38.2%) in the fiscal year ended December 31, 2010 by 1.3 percentage points (Automotive Division: 1.9 percentage points, Industrial Division: 1.2 percentage points) to 30.2% (Automotive Division: 27.2%, Industrial Division: 37.0%) in the fiscal year ended December 31, 2011. The decrease in gross profit margin was a result of increasing raw material prices as well as energy costs and additional headcount necessary for the anticipated future growth.

R&D expenses

R&D expenses increased from €467 million in the fiscal year ended December 31, 2010 by €28 million, or 6.0%, to €495 million in the fiscal year ended December 31, 2011. In the fiscal year ended December 31, 2011, R&D expenses comprised 4.6% of our revenue (prior year: 4.9%).

In addition to developing new applications for existing technologies, we have advanced our activities in the areas of energy efficiency and the megatrends CO_2-reduction, mechatronics, renewable energies and electric mobility.

Selling expenses

Selling expenses rose slightly less than sales, increasing from €645 million in the fiscal year ended December 31, 2010 by €80 million, or 12.4%, to €725 million in the fiscal year ended December 31, 2011. This increase was primarily due to higher sales-related costs, such as general freight and logistics expenses.

Administrative expenses

The percentage increase in administrative expenses was less than the percentage increase in revenue in the fiscal year ended December 31, 2011 as a result of the continuing strong cost discipline and economies of scale. The 11.5% increase from €366 million in the fiscal year ended December 31, 2010 to €408 million in the fiscal year ended December 31, 2011 was primarily due to consulting costs incurred in connection with optimizing the financial structure.

Administrative expenses as a percentage of revenue decreased from 3.9% in the fiscal year ended December 31, 2010 to 3.8% in the fiscal year ended December 31, 2011.

Other income and expenses

The following table shows our other income for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2010	Year ended December 31, 2011	Change in %
Exchange gains	0	73	—
Reversal of provisions	4	6	50.0
Reduction of allowances	8	3	(62.5)
Gains on disposal of assets	5	3	(40.0)
Miscellaneous income	50	26	(48.0)
Total	**67**	**111**	**65.7**

The following table shows our other expenses for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2010	Year ended December 31, 2011	Change in %
Exchange losses	11	0	(100.0)
Increase in allowances	4	3	(25.0)
Losses on disposal of assets	3	3	0.0
Miscellaneous expenses	51	19	(62.7)
Total	**69**	**25**	**(63.8)**

Other income increased from €67 million in the fiscal year ended December 31, 2010 by €44 million, or 65.7%, to €111 million in the fiscal year ended December 31, 2011. Foreign exchange gains consisted primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate. The netting of foreign exchange gains and losses resulted in a net exchange gain of €73 million in the fiscal year ended December 31, 2011 (2010: exchange loss of €11 million).

Other expenses decreased from €69 million in the fiscal year ended December 31, 2010 by €44 million, or 63.8%, to €25 million in the fiscal year ended December 31, 2011. The development of exchange rates, particularly between the euro and the U.S. dollar, led to a decline in exchange losses realized on derivative currency hedging instruments compared to the prior year.

Earnings before financial result, share of net income (loss) of equity-accounted investees and income taxes (EBIT)

The following table shows the contributions to EBIT of each of our divisions for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes in these EBIT contributions.

in € million (except where otherwise stated)	Year ended December 31, 2010	Year ended December 31, 2011	Change in %
Automotive			
EBIT	**990**	**1,074**	**8.5**
EBIT margin	*15.7%*	*15.0%*	*(0.7)pts*
EBITDA	1,391	1,470	5.7
EBITDA margin	*22.0%*	*20.5%*	*(1.5)pts*
Industrial			
EBIT	**519**	**615**	**18.5**
EBIT margin	*17.3%*	*17.8%*	*0.5pts*
EBITDA	**706**	**773**	**9.5**
EBITDA margin	*23.5%*	*22.3%*	*(1.2)pts*
Group total			
EBIT	**1,509**	**1,689**	**11.9**
EBIT margin	*15.9%*	*15.8%*	*(0.1)pts*
EBITDA	**2,097**	**2,243**	**7.0**
EBITDA margin	*22.1%*	*21.0%*	*(1.1)pts*

EBIT grew from €1,509 million in the fiscal year ended December 31, 2010 by €180 million, or 11.9%, to €1,689 million in the fiscal year ended December 31, 2011. The EBIT margin of 15.8% remained nearly unchanged (prior year: 15.9%).

The Automotive Division's total EBIT increased from €990 million in the fiscal year ended December 31, 2010 by €84 million, or 8.5%, to €1,074 million in the fiscal year ended December 31, 2011. Following the high level in the prior year, the EBIT margin decreased slightly from 15.7% in the fiscal year ended December 31, 2010 by 0.7 percentage points to 15.0% in the fiscal year ended December 31, 2011.

The Industrial Division's total EBIT increased from €519 million in the fiscal year ended December 31, 2010 by €96 million, or 18.5%, to €615 million in the fiscal year ended December 31, 2011. The EBIT margin increased from 17.3% in the fiscal year ended December 31, 2010 by 0.5 percentage points to 17.8% in the fiscal year ended December 31, 2011.

__Financial result__

The following table shows our financial results for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Financial expenses			
Interest expense on financial debt[1]	(386)	(494)	28.0
Fair value changes and compensation payments on derivatives	(282)	(101)	(64.2)
Foreign exchange losses	0	0	—
Amortization of cash flow hedge accounting reserve[2]	(91)	(75)	(17.6)
Interest expense on pensions and partial retirement obligations[3]	(81)	(81)	0
Other	(21)	(22)	4.8
Total financial expenses	**(861)**	**(773)**	**(10.2)**
Financial income			
Fair value changes and compensation payments on derivatives	0	0	—
Foreign exchange gains	0	0	—
Interest income on pensions and partial retirement obligations[3]	25	26	4.0
Other	26	14	(46.2)
Total financial income	**51**	**40**	**(21.6)**
Financial result	**(810)**	**(733)**	**(9.5)**

(1) Including transaction costs.

(2) Hedge accounting terminated in connection with the refinancing arrangement in 2009.

(3) Interest income on pensions and partial retirement obligations is presented in accordance with IAS 19 as of December, 31, 2012. The presentation is not adjusted according to IAS 19 (rev. 2011).

Our financial result decreased from €(810) million in the fiscal year ended December 31, 2010 by €77 million, or 9.5%, to €(733) million in the fiscal year ended December 31, 2011. In the fiscal year ended December 31, 2011, our financial result comprised financial income of €40 million (prior year: €51 million) and financial expenses of €773 million (prior year: €861 million).

In the fiscal year ended December 31, 2011, interest expense on financial debt of €494 million (prior year: €386 million) included interest paid and accrued on our financing arrangements of €402 million (prior year: €351 million) and expenses of €78 million (prior year: €30 million) relating to transaction costs. In addition, the amount also included interest expense on shareholder loans to Schaeffler Verwaltungs GmbH.

Changes in the fair value of and compensation payments on derivatives resulted in net losses of €101 million in the fiscal year ended December 31, 2011 (prior year: losses of €282 million). The amount consisted largely of compensation payments of €170 million (prior year: €252 million) and changes in the value of interest rate derivatives which resulted in a net income of €69 million (prior year: net loss of €30 million). The change from the prior year resulted mainly from lower compensation payments and a lower effect of the fair value change of our junior cap in the fiscal year ended December 31, 2011.

Additional expenses of €75 million in the fiscal year ended December 31, 2011 (prior year: €91 million) arose from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009 on interest rate hedging instruments.

In the fiscal year ended December 31, 2011, pensions and partial retirement obligations gave rise to net interest expense of €55 million (prior year: €56 million).

Other items giving rise to net expenses of €8 million in the fiscal year ended December 31, 2011 (prior year: net income of €5 million) included primarily interest income of €13 million (prior year: €8 million) on loans and receivables and other financial expenses of €21 million (prior year: €3 million).

Share of net income (loss) of equity-accounted investees

The share of net income (loss) of equity-accounted investees increased from €(349) million in the fiscal year ended December 31, 2010 by €673 million, or 192.8%, to €324 million in the fiscal year ended December 31, 2011. The increase was related to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, to which the 36.14% investment in Continental AG was transferred on September 30, 2011, and which is accounted for in the Schaeffler Group's consolidated financial statements using the equity method. The share of net income (loss) from equity-accounted investees represents Continental AG's earnings for the fiscal year ended December 31, 2011.

Income taxes

The following table shows our income tax expenses for the fiscal years ended December 31, 2010 and 2011 and the year-to-year changes.

in € million (except where otherwise stated)	**Year ended December 31, 2010**	**2011**	**Change in %**
Current income tax	314	386	22.9
Deferred income tax	(37)	(8)	(78.4)
Income taxes	**277**	**378**	**36.5**

Income taxes increased from €277 million in the fiscal year ended December 31, 2010 by €101 million, or 36.5%, to €378 million in the fiscal year ended December 31, 2011, consisting of current income tax of €386 million (prior year: €314 million) and deferred income tax benefit of €8 million (prior year: €37 million). In 2011, current income tax expense related to prior years amounted to €16 million (prior year: €19 million). In addition, we had deferred income tax of €14 million related to prior years (prior year: €20 million).

As a corporation, we were subject to German corporation tax and trade tax during the reporting period. Trade tax is levied by municipalities.

The average domestic tax rate for corporations was 27.9% in the fiscal year ended December 31, 2010 and remained the same in the fiscal year ended December 31, 2011. This tax rate consists of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.0% in 2010 and 2011. Partnerships located in Germany are only subject to trade tax.

Deviations from the expected tax rate resulted from differing country-specific tax rates applicable to German and foreign entities.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2011 is based on a 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler AG.

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Net income before tax	350	1,280	265.7
Expected tax expense	**98**	**358**	**265.3**
Addition/reduction due to deviating local tax bases	4	(1)	(125.0)
Foreign/domestic tax rate differences	(1)	(4)	300.0
Non-recognition of deferred tax assets	7	4	(42.9)
Change in tax rate and law	(5)	0	(100.0)
Non-deductible expenses	146	122	(16.4)
Share of net (income) loss of equity-accounted investees	54	(90)	(266.7)
Taxes for previous years	(1)	2	(300.0)
Other	(25)	(13)	(48.0)
Reported tax expense	**277**	**378**	**36.5**

The additional income tax on non-deductible expenses is, among others, caused by interest expense that is non-deductible because of the interest deduction cap rules in Germany. As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards. Please also see "*Risk factors—Legal, taxation and environmental risks—The Company, IBH and the Parent Guarantor are affected by the German interest barrier rules.*"

Share of net (income) loss of equity-accounted investees related primarily to the investment in Continental AG, Hanover.

Net income (attributable to shareholders of the parent company)

For the reasons set forth above, net income attributable to shareholders of the parent company increased from €63 million in the fiscal year ended December 31, 2010 by €826 million, or 1,311.1%, to €889 million in the fiscal year ended December 31, 2011.

Liquidity and capital resources

For the three months ended March 31, 2013 and 2012 and the fiscal years ended December 31, 2012, 2011 and 2010, our principal source of liquidity was cash generated from operating activities. As of March 31, 2013, we had cash and cash equivalents totaling €458 million as well as an unused credit line from the revolving facility of €943 million. We expect to meet our working capital, capital expenditures according to cash flow, dividend payment and investment requirements for the next twelve months primarily through cash flows from operations. We may also, from time to time, seek other sources of funding, which may include debt or equity financings, including euro-denominated loans from German banks, depending on our financing needs and market conditions.

Year-to-year analysis of cash flows

The summary cash flow statement below shows how our cash and cash equivalents changed over the relevant periods indicated by cash inflows and outflows.

in € million	Year ended December 31, 2010	2011	2012	Three Months ended March 31, 2012	2013	Twelve Months ended March 31, 2013
				(unaudited)		(unaudited))
Operating activities						
EBIT	1,509	1,689	1,413	401	355	1,367
Interest paid	(644)	(686)	(593)	(166)	(190)	(617)
Interest received	10	13	9	2	2	9
Income taxes paid	(298)	(238)	(226)	(54)	(58)	(230)
Dividends received	0	0	81	0	0	81
Depreciation, amortization and impairments	588	554	618	148	157	627
(Gains) losses on disposal of assets	(2)	0	(1)	(1)	0	0
Other non-cash items	(3)	2	(21)	(19)	(10)	(12)
Changes in:						
• Inventories	(257)	(80)	55	(54)	(29)	80
• Trade receivables	(241)	(153)	(27)	(290)	(211)	52
• Trade payables	271	83	(52)	121	126	(47)
• Provisions for pensions and similar obligations	(55)	(61)	(45)	(8)	(9)	(46)
• Other assets, liabilities and provisions	12	(39)	2	57	39	(16)
Cash flows from operating activities	**890**	**1,084**	**1,213**	**137**	**172**	**1,248**
Investing activities						
Proceeds from disposals of intangible assets and property, plant and equipment	25	11	29	7	2	24
Capital expenditures on intangible assets	(21)	(15)	(35)	(9)	(4)	(30)
Capital expenditures on property, plant and equipment	(340)	(758)	(825)	(241)	(117)	(701)
Investments in other financial investments	(4)	(10)	(3)	(1)	(1)	(3)
Other investing activities	16	7	2	0	0	2
Cash used in investing activities	**(324)**	**(765)**	**(832)**	**(244)**	**(120)**	**(708)**
Financing activities						
Dividends paid to non-controlling interests	(1)	(1)	(1)	0	0	(1)
Receipts from loans	3	13	395	170	1	226
Repayments of loans	(83)	(42)	(449)	(11)	(14)	(452)
Acquisition in stages	0	0	(13)	(13)	0	0
Dividends paid to Schaeffler Verwaltungs GmbH	(134)	(400)	(79)	0	0	(79)
Other financing activities(1)	15	(216)	(194)	(144)	(18)	(68)
Cash used in financing activities	**(200)**	**(646)**	**(341)**	**2**	**(31)**	**(374)**
Net increase (decrease) in cash and cash equivalents	**366**	**(327)**	**40**	**(105)**	**21**	**166**
Effects of foreign exchange rate changes on cash and cash equivalents	17	(9)	(4)	(1)	4	1
Cash and cash equivalents as of beginning of period	350	733	397	397	433	291
Cash and cash equivalents as at end of period	**733**	**397**	**433**	**291**	**458**	**458**

(1) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of €0 million for the three months ended March 31, 2013 (three months ended March 31, 2012: €150 million) and of €227 million in the fiscal year ended December 31, 2012 (2011: €186 million; 2010: nil).

Cash flows for the three months ended March 31, 2012 and 2013

Cash flows from operating activities

Cash flows from operating activities increased from €137 million in the three months ended March 31, 2012 by €35 million, or 25.5%, to €172 million in the three months ended March 31, 2013. This increase was due to fewer funds required for inventories and the lower increase in trade receivables with an impact of €104 million, which partially offset the decrease in EBIT by €46 million. This was a result of lower revenue levels and an adjustment of production levels given the current environment in various industrial sectors. The increase in interest paid of €24 million to €190 million (three months ended March 31, 2012: €166 million) was mainly due to the change in interest payment dates as a result of the refinancing arrangement completed in early 2012.

Cash used in investing activities

Cash outflow for investing activities (cash paid for property, plant and equipment and intangible assets) decreased from €244 million in the three months ended March 31, 2012 by €124 million, or 50.8%, to €120 million in the three months ended March 31, 2013. This decrease was a result of a reduction of capital expenditures to reflect the current market conditions, in particular in the industrial sectors and taking into account the high investment level of the prior year.

The following table sets forth our capital expenditures by division for the three months ended March 31, 2012 and 2013:

in € million (except where otherwise stated)	Three Months ended March 31, 2012	 2013	 Change in %
	(unaudited)		
Automotive	177	79	(55.4)
Industrial	58	24	(58.6)
Group total	**235**	**103**	**(56.2)**
Non-cash effective/Payments for previous years	15	18	20.0
Capital expenditures according to cash flow	**250**	**121**	**(51.6)**

We incurred capital expenditures on property, plant and equipment and intangible assets of €103 million (Automotive Division: €79 million, Industrial Division: €24 million) for the three months ended March 31, 2013, less than the corresponding amount for the three months ended March 31, 2012 of €235 million (Automotive Division: €177 million, Industrial Division: €58 million). This decrease was a result of a reduction of capital expenditures to reflect the current market conditions, in particular in the industrial sectors and taking into account the high investment level of the prior year.

For information purposes, the following table sets forth our capital expenditures divided into capacity, extension and new products, function extension and rationalization and replacement and other:

in € million (except where otherwise stated)	Three Months ended March 31, 2012	 2013	 Change in %
	(unaudited)		
Capacity extension and new products	165	82	(50.3)
Function extension and rationalization	45	12	(73.3)
Replacement and other	25	9	(64.0)
Additions according to fixed assets register	**235**	**103**	**(56.2)**
Non-cash effective/Payments for previous years	15	18	20.0
Capital expenditures according to cash flow	**250**	**121**	**(51.6)**

Cash used in financing activities

Cash used in financing activities changed from an inflow of €2 million in the three months ended March 31, 2012 by €33 million to a cash outflow of €31 million in the three months ended March 31, 2013 primarily to repay loans and for other financing activities. The repricing and full prepayment of tranches B2 EUR and B2 USD completed in March 2013 using newly obtained loan tranches C EUR and C USD was largely non-cash in nature. Transaction costs paid related to this repricing were included in cash flows from operating activities.

Cash flows for the fiscal years ended December 31, 2011 and 2012

Cash flows from operating activities

Cash flows from operating activities increased from €1,084 million in the fiscal year ended December 31, 2011 by €129 million, or 11.9%, to €1,213 million in the fiscal year ended December 31, 2012. This increase was primarily due to fewer funds required for inventories and the lower increase in trade receivables which offset the year-on-year decrease in EBIT. Lower interest payments of €593 million (prior year: €686 million) and the dividend of €80 million (prior year: nil) paid by Continental AG to Schaeffler AG through Schaeffler Beteiligungsholding GmbH & Co. KG also had a favorable effect.

Cash used in investing activities

Cash outflow for investing activities (cash paid for property, plant and equipment and intangible assets) increased from €765 million in the fiscal year ended December 31, 2011 by €67 million, or 8.8%, to €832 million in the fiscal year ended December 31, 2012. This increase was primarily due to expansion of capacity to support our growth as well as payments for previous years for capital expenditures on property, plant and equipment and intangible assets.

The following table sets forth our capital expenditures by division for the fiscal years ended 2011 and 2012:

in € million (except where otherwise stated)	**Year ended December 31, 2011**	**2012**	**Change in %**
Automotive	630	617	(2.1)
Industrial	216	210	(2.8)
Group total	**846**	**827**	**(2.2)**
Non-cash effective/Payments for previous years	(73)	33	145.2
Capital expenditures according to cash flow	**773**	**860**	**11.3**

We incurred capital expenditures on property, plant and equipment and intangible assets of €827 million (Automotive Division: €617 million, Industrial Division: €210 million) for the fiscal year ended December 31, 2012, slightly less than the corresponding amount for the prior year period of €846 million (Automotive Division: €630 million, Industrial Division: €216 million).

In 2012, our capital expenditure strategy was again consistently aimed at facilitating future growth. The focus of our additions to intangible assets and property, plant and equipment was on expanding capacity and on situating production in locations close to markets and customers.

The regional focus of our investing activities was on continuing the projects started at the production facilities in Asia and North America. The additions in China and India, as well as in the United States and Mexico, form the basis for further expanding the proportion of value added locally. Another focus remained on creating capacity for new products and technologies in Germany, mainly at the Herzogenaurach, Schweinfurt, and Bühl locations. Additional significant additions were made on the plants in Slovakia, Romania, and Hungary.

For information purposes, the following table sets forth our capital expenditures divided into capacity, extension and new products, function extension and rationalization and replacement and other:

in € million (except where otherwise stated)	Year ended December 31, 2011	2012	Change in %
Capacity extension and new products	616	593	(3.7)
Function extension and rationalization	106	137	29.2
Replacement and other	124	97	(21.8)
Additions according to fixed assets register	**846**	**827**	**(2.2)**
Non-cash effective/Payments for previous years	(73)	33	145.2
Capital expenditures according to cash flow	**773**	**860**	**11.3**

Cash used in financing activities

Cash outflows from financing activities decreased from €646 million in the fiscal year ended December 31, 2011 by €305 million, or 47.2%, to €341 million in the fiscal year ended December 31, 2012. The financing transactions completed in the first quarter of 2012 to refinance the Company's senior loans – replacing existing loans with new loan agreements, issuing the February 2012 Notes (through the Issuer), and placing loans with institutional investors – were largely non-cash in nature. The issuance of the July 2012 Notes (through the Issuer) resulted in cash inflows of €323 million, all of which were used to repay financial debt. Dividends received from Continental AG through Schaeffler Beteiligungsholding GmbH & Co. KG were used to make additional repayments of €80 million. Other changes in cash used in financing activities related primarily to the net total of cash outflows for withholding tax on a dividend payment of €79 million (prior year: €400 million) and payments of €227 million (prior year: €186 million) to Schaeffler Verwaltungs GmbH, the 100% shareholder of Schaeffler AG.

Cash flows for the fiscal years ended December 31, 2010 and 2011

Cash flows from operating activities

Cash flows from operating activities increased from €890 million in the fiscal year ended December 31, 2010 by €194 million, or 21.8%, to €1,084 million in the fiscal year ended December 31, 2011. This increase was primarily due to improved earnings in the fiscal year ended December 31, 2011 as reflected in the EBIT of €1,689 million.

The cash outflows within working capital (€150 million cash outflow in the fiscal year ended December 31, 2011, €227 million cash outflow in the fiscal year ended December 31, 2010) were predominantly driven by revenue growth.

Cash used in investing activities

Cash used in investing activities (cash paid for property, plant and equipment and intangible assets) increased from €324 million in the fiscal year ended December 31, 2010 by €441 million, or 136.1%, to €765 million in the fiscal year ended December 31, 2011. This increase was primarily due to the growth-related expansion of capacity.

The following table sets forth our capital expenditures by division for the fiscal years ended December 31, 2010 and 2011:

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Automotive	284	630	121.8
Industrial	102	216	111.8
Group total	**386**	**846**	**119.2**
Non-cash effective	(25)	(73)	192.0
Capital expenditures according to cash flow	**361**	**773**	**114.1**

Capital expenditures increased from €386 million in the fiscal year ended December 31, 2010 by €460 million, or 119.2%, to €846 million in the fiscal year ended December 31, 2011. Capital expenditures increased in the Automotive Division from €284 million in the fiscal year ended December 31, 2010 by €346 million, or 121.8%, to €630 million in the fiscal year ended December 31, 2011 and increased in the Industrial Division from €102 million in the fiscal year ended December 31, 2010 by €114 million, or 111.8%, to €216 million in the fiscal year ended December 31, 2011. This increase was due to the expansion of capacity resulting from our growth.

For information purposes, the following table sets forth the Schaeffler Group's capital expenditures divided into capacity, extension and new products, function extension and rationalization and replacement and other:

in € million (except where otherwise stated)	Year ended December 31, 2010	2011	Change in %
Capacity extension and new products	253	616	143.5
Function extension and rationalization	75	106	41.3
Replacement and other	58	124	113.8
Additions according to fixed assets register	**386**	**846**	**119.2**
Non-cash effective	(25)	(73)	192.0
Capital expenditures according to cash flow	**361**	**773**	**114.1**

Cash used in financing activities

Cash used in financing activities increased from €200 million in the fiscal year ended December 31, 2010 by €446 million, or 223.0%, to €646 million in the fiscal year ended December 31, 2011. The dividend of €400 million paid to Schaeffler Verwaltungs GmbH and the repayment of the IBV Loan due to Schaeffler Holding GmbH & Co. KG of €186 million were the largest cash outflows in 2011. Other payments also include the repayment of a loan due to an IHO Group company of €30 million.

Capital resources

The table below gives an overview of our available liquidity for the following period:

in € million	As of December 31, 2010	2011	2012	As of March 31, 2013
				(unaudited)
Cash and cash equivalents	733	397	433	458
Credit lines and available financing from banks	742	742	943	943
Total	**1,475**	**1,139**	**1,376**	**1,401**

Financial debt

Sources of financing

As of March 31, 2013, our financial debt amounted to €7,292 million (€7,088 million non-current financial debt and €204 million current financial debt) compared to €7,455 million as of March 31, 2012 (€7,155 million non-current financial debt and €300 million current financial debt). As of December 31, 2012, our financial debt amounted to €7,261 million (€7,140 million non-current financial debt and €121 million current financial debt) compared to €7,485 million as of December 31, 2011 (€7,168 million non-current financial debt and €317 million current financial debt) and €6,477 million as of December 31, 2010 (€6,413 million non-current financial debt and €64 million current financial debt). The main sources of financing made available to us are described below.

For a description of the financial debt of the Parent Guarantor, see "*Summary—Summary of our corporate and debt structure*" and "*Description of other indebtedness*." The financial debt of the Parent Guarantor is not reflected in our consolidated financial statements.

S-Group Senior Facilities Agreement and Existing Notes

In the past, the major part of our financial debt was incurred under the Repaid Senior Facilities Agreement, which was entered into in November 2009 as part of our efforts to rearrange the debt financing of the acquisition of Continental AG shares.

In February 2012, the Repaid Senior Facilities Agreement was fully refinanced by the January 2012 Senior Facilities Agreement and the February 2012 Notes.

The February 2012 Notes comprise €800,000,000 in aggregate principal amount of senior secured notes due 2017, $600,000,000 in aggregate principal amount of senior secured notes due 2017, €400,000,000 in aggregate principal amount of senior secured notes due 2019 and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (together, the "**February 2012 Notes**") issued by Schaeffler Finance B.V. As of March 31, 2013, the February 2012 Notes had a carrying amount of €2,033 million.

In July 2012, outstanding amounts under the January 2012 Senior Facilities Agreement were partially repaid by the July 2012 Notes.

The July 2012 Notes comprise €325,979,000 in aggregate principal amount of senior secured notes due 2017 (the "**July 2012 Notes**") issued by Schaeffler Finance B.V. As of March 31, 2013, the July 2012 Notes had a carrying amount of €322 million.

The March 2013 Senior Facilities Agreement comprised (i) a €2,192 million term loan facility due January 27, 2015 (which was prepaid in full with (A) the proceeds from the sale of the April 2013 Notes (as defined below) and (B) term loans made available under Facility D (as defined below)); (ii) a €503.6 million term loan facility due January 27, 2017 (which was prepaid in full with the proceeds from the sale of the April 2013 Notes); (iii) a €625 million term loan facility ("**Facility C-EUR**") and a $1,700 million term loan facility due January 27, 2017; and (iv) a €1,000 million revolving credit facility, which was undrawn as of March 31, 2013 and under which ancillary facilities in an amount of €200 million had been made available (the "**Ancillary Facilities**") and which were drawn in an amount of €57 million as of March 31, 2013. The carrying amounts of these loans totaling €4,569 million as of March 31, 2013, which is presented as non-current financial debt, differed from the principal amount due to unamortized transaction costs of €80 million and due to the undrawn Revolving Facility A.

Subsequently, in April 2013, the April 2013 Notes were issued and the March 2013 Senior Facilities Agreement was amended.

The April 2013 Notes comprise €600,000,000 in aggregate principal amount of senior secured notes due 2018 and $850,000,000 in aggregate principal amount of senior secured notes due 2021 (together, the "**April 2013 Notes**" and, together with the February 2012 Notes and the July 2012 Notes, the "**Existing Notes**") issued by Schaeffler Finance B.V.

Pursuant to the April 2013 Amendment Agreement, (i) a €1,453 million term loan facility and (ii) a €1,000 million revolving credit facility were made available. As a result, as of April 30, 2013, the S-Group Senior Facilities Agreement comprises (i) a €625 million term loan facility ("**Facility C-EUR**") and a $1,700 million term loan facility ("**Facility C-USD**" and, together with Facility C-EUR, "**Facility C**") due January 27, 2017; (ii) a €1,453 million term loan facility ("**Facility D**" and, together with Facility C, the "**Term Loan Facilities**") and (iii) a €1,000 million revolving credit facility, ("**Revolving Facility B**" and, together with the Term Loan Facilities, the "**S-Group Facilities**"), under which ancillary facilities in an amount of €200 million have been made available (the "**Ancillary Facilities**"). The carrying amounts of these loans totaling €3,303 million as of April 30, 2013, which is presented as non-current financial debt, differs from the principal amount due to unamortized transaction costs of €76 million and due to the undrawn Revolving Facility B.

For a detailed description of our financial debt, see "*Description of other indebtedness*."

Other financial debt

The other sources of financing comprise mainly a further annuity loan in Germany as well as some smaller bank loans outside of Germany.

Overview of financial debt and maturity profile

As of March 31, 2013, we had a financial debt of €7,292 million, of which €7,003 million was secured. Financial debt of €204 million had a term of up to one year, €7,088 million of more than one year. As of December 31, 2013, the Parent Guarantor had bank debt of €3,571 million (based on German GAAP financial statements as of December 31, 2012 which will be repaid in full from the net proceeds of the issuance of the Notes and drawings under the S-Verwaltungs Group Facilities Agreement).

The following table summarizes the principal payments we and the Parent Guarantor are obligated to make as of March 31, 2013 under current and non-current debt obligations after giving *pro forma* effect to the Transactions (assuming, for purposes of this presentation, that the Notes are issued by Schaeffler Verwaltungs GmbH instead of the Issuer) (see "*Use of proceeds*").

							Payments due by period[(1)]
in € million	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
				(unaudited)			
Schaeffler Group							
Annuity Loan	42	42	—	—	—	—	—
S-Group Senior Facilities	**3,156**	**—**	**—**	**—**	**1,204**	**1,952**	**—**
Revolving credit facility	—	—	—	—	—	—	
Term loan A	—	—	—	—	—	—	—
Term loan B1	—	—	—	—	—	—	—
New term loan C-EUR[(2)]	*625*	—	—	—	—	*625*	—
New term loan C-USD[(2)(3)]	*1,328*	—	—	—	—	*1,328*	—
New term loan D[(2)]	*1,204*	—	—	—	*1,204*	—	—
Existing Notes	**3,649**	**—**	**—**	**—**	**—**	**1,595**	**2,054**
EUR Notes	*2,126*	—	—	—	—	*1,126*	*1,000*
USD Notes[(3)]	*1,523*	—	—	—	—	*469*	*1,054*
Other financial debt[(4)]	24	21	—	—	1	1	1
Pro Forma Financial debt (current and non-current)	**6,871**	**63**	**—**	**—**	**1,205**	**3,548**	**2,055**
Shareholder loans[(5)]	**301**	**—**	**—**	**—**	**—**	**—**	**301**
Schaeffler Verwaltungs GmbH[(6)]					—	—	—
S-Verwaltungs Group Facilities	**2,175**	**—**	**—**	**—**	**—**	**2,175**	**—**
Revolving credit facility	—	—	—	—	—	—	—
New term loan B1	*1,200*	—	—	—	—	*1,200*	—
New term loan B2	*450*	—	—	—	—	*450*	—
New term loan B3	*525*	—	—	—	—	*525*	—
Notes offered hereby[(7)]	1,547	—	—	—	—	—	1,547
Other financial debt	0	0	—	—	—	—	—
Pro Forma Financial debt (current and non-current)[(8)]	**3,722**	**0**	**—**	**—**	**—**	**2,175**	**1,547**
Shareholder loans[(9)]	**7**	**—**	**—**	**—**	**—**	**—**	**7**
Combined Schaeffler Group and Schaeffler Verwaltungs GmbH[(10)]							
Pro Forma Financial debt (current and non-current)	**10,593**	**63**	**—**	**—**	**1,205**	**5,723**	**3,602**

(1) As adjusted to give effect to the Transactions (see "*Use of proceeds*") and S-Group April / May 2013 Transactions as though these had taken place on March 31, 2013.

(2) In the context of the S-Group April / May 2013 Transactions the nominal amount of new term loan D was €1,453 million. In May 2013, the received dividend on shares on Continental AG held by us of €163 million and a voluntary prepayment of €87 million were applied for a pro rata mandatory repayment of new term loan C-EUR of €0.4 million, new term loan C-USD of €0.1 million and new term loan D of €249 million.

(3) For presentational purposes, dollar amounts have been converted into euro at an exchange rate of $1.2805 to €1.00 as of March 31, 2013.

(4) Includes €20 million of short term debt to credit institutions and €4 million of other debt.

(5) Shareholder loans refers to the special receivables loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by our parent companies Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. These loans are subordinated in right of payment to the Notes and indebtedness under the S-Group Senior Facilities Agreement pursuant to the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

(6) Schaeffler Verwaltungs GmbH only compiles statutory financial statements in accordance with German GAAP.

(7) The amount reflects the gross proceeds from the issuance of the Notes of €1,547 million (equivalent). For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.3100 to €1.00. This exchange rate differs from the exchange rate in effect as of March 31, 2013.

(8) Financial debt consists of bank debt. Intra-group financial liabilities due to Schaeffler Vermögensverwaltungs GmbH, a restricted subsidiary of Schaeffler Verwaltungs GmbH, amounting to €787 million are excluded.

(9) Shareholder loans refer to a loan due to Schaeffler Holding GmbH & Co. KG.

(10) For presentation purposes, the figures of Schaeffler Verwaltungs GmbH (based on German GAAP) are combined with the figures of Schaeffler Group (based on IFRS), i.e. no consolidation is performed, however intercompany debt between Schaeffler Group and Schaeffler Verwaltungs GmbH is eliminated.

Contractual obligations

The following table sets forth our contractual obligations and commitments as of December 31, 2012.

	Contractual obligations and commitments Payments due by period			
in € million	**Total**	**Up to 1 year**	**1-5 years**	**More than 5 years**
Financial debt	9,014	796	7,338	880
Operating Lease Obligations	101	46	52	3
Trade payables	794	794	—	—
Other liabilities	170	157	7	6
Derivative financial liabilities	252	144	108	—
Total	**10,331**	**1,937**	**7,505**	**889**

Non-recognized contingent liabilities and other obligations

As of December 31, 2012, we have the following non-recognized contingent liabilities and other obligations.

in € million	**December 31, 2012**
Contingent Liabilities on guarantees and warranties	0
Other contingent liabilities	37
Non-recognized contingent liabilities and other obligations	**37**

On November 8, 2011, the EU Commission conducted an inspection of the Company concerning possible infringements of EU competition law in the automotive and industrial bearings sectors. The EU Commission is now further investigating the matter. In addition, the U.S. Department of Justice served a grand jury subpoena on Schaeffler Group USA, Inc. on November 9, 2011 and commenced its own investigation concerning possible antitrust law infringements in these sectors. The Japanese Fair Trade Commission sent various requests for information to the Company's Japanese subsidiary. The Korean Fair Trade Commission has started an investigation against Schaeffler Korea Yuhan Hoesa and a search was conducted in the company in July 2012.

The Company is conducting an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors and is cooperating with the competition authorities in the context of these investigations. Starting in May 2012, several class action lawsuits were filed by plaintiffs in the U.S. and Canada against Schaeffler Group companies and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants.

In addition, in May 2013, the Spanish Competition Authority opened antitrust proceeding against Schaeffler Iberia concerning possible antitrust law infringements in the railway bearings sector. See "*Risk factors—Legal, taxation and environmental risks—We are subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims.*"

Pension obligations

The following table sets forth our pension provisions as of December 31, 2012:

in € million	Germany	United Kingdom	United States	Other	Total
	As of December 31, 2012				
DBO[1]	(1,506)	(165)	(190)	(227)	(2,087)
Plan assets	136	192	120	132	580
Funded status	**(1,369)**	**27**	**(70)**	**(95)**	**(1,507)**
Balance sheet					
Provisions for Pensions	(1,386)	(2)	(70)	(95)	(1,553)
Pension assets	17	29	0	0	46
Net balance sheet obligations	**(1,369)**	**27**	**(70)**	**(95)**	**(1,507)**

(1) Including other employee benefits similar to pensions.

We grant our employees various types of pension benefits. The defined benefit pension obligations are primarily towards beneficiaries in Germany, most of which are unfunded. In addition to the German pension plans, the most significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. In these countries, our pension obligations are financed by separate pension funds. At the end of 2012, approximately 88% (prior year: 86%) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

The net balance sheet provision for pensions and similar obligations comprises a defined benefit obligation of €2,087 million and a market value of plan assets of €580 million. This is presented on the balance sheet as a provision for pensions and similar obligations of €1,553 million. Some overfunded plans lead to plan assets of €46 million recognized in other assets in the statement of financial position.

Off-balance sheet arrangements

There are no material off-balance sheet arrangements in place for the periods presented.

Qualitative disclosure on market risk

We are exposed to a number of financial risks arising from the ordinary course of business, such as credit risks, interest rate risks and currency risks.

Credit risk

Credit risk arising on trade receivables is managed by continuously monitoring customers' financial status, creditworthiness and payment history. Efficient collection procedures and classification of customers in defined risk categories are additional components of our credit risk management. Appropriate credit limits are set and commercial credit insurance policies further reduce credit risk.

Interest rate risk

Due to the floating rate senior term loan, we are subject to an interest rate risk relating to fluctuations in one-month EURIBOR. As part of interest rate risk management, this interest rate risk is hedged by entering into interest rate swaps, caps and collars. Currently, existing interest rate hedging transactions were entered into at a higher interest rate level than current rates to limit the risk of fluctuations in one-month EURIBOR over the entire term of the senior term loan. Interest rate risk, market values of interest rate derivatives and development of interest rate markets are continually monitored as part of the market risk reporting to the Chief Financial Officer.

Currency risk

We are exposed to diverse foreign exchange risks due to our international presence. The focus on hedging is on transaction risk, *i.e.*, the impact from currency fluctuations on future cash flow of the Schaeffler Group and financial risk, *i.e.*, the impact from currency fluctuations on payments due under the February 2012 Notes, the April 2013 Notes and the S-Group Senior Facilities Agreement, see "*Description of other indebtedness.*" The largest transaction foreign currency risks result from exchange rate fluctuations of the U.S. dollar (surplus) and Romanian Leu (demand). Potential foreign currency fluctuations have an effect on revenue as well as on purchase costs. Foreign exchange risks are managed centrally by corporate treasury, using various hedging instruments, such as forward exchange contracts and options. Specific exchange rate exposures and exchange rate effects on earnings are continuously monitored and evaluated as part of a regular reporting program and risk management system.

Industry

In this Offering Memorandum, we rely on and refer to information regarding our business and the industry in which we operate and compete. All automotive and industrial market data is based on or derived from reports provided by independent, widely-used and respected industry research providers.

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. We supply high quality and technologically advanced components and systems to a broad range of automotive and industrial customers.

Automotive

We offer products and services to customers in the automotive sector. These include OEMs and their suppliers (Tier 1 and Tier 2) as well as companies focusing on the aftermarket. Products range from components and systems for the engine (such as belt and chain drive systems, variable valve train systems and camshaft phasing systems) to components and systems for the transmission (such as CVTs and torque converters) to chassis components (such as wheel bearings and ball screw drives). Bearings are utilized in many engine, transmission and chassis components and systems, such as wheel bearings and components for the steering column.

Definition, size and structure

The global automotive industry designs, develops, manufactures, sells and services light vehicles and heavy commercial vehicles. The light vehicle segment consists of passenger cars, vans and light trucks (all weighing less than six tons), while the heavy vehicle segment is generally defined as the market for vehicles with an allowable weight of more than six tons. In 2012, approximately 81.5 million light vehicles were produced on a worldwide basis (*source*: IHS Global Insight Automotive (March 2013)).

The automotive production value chain is broken down into OEMs, such as Daimler, Ford, Toyota and Volkswagen, and automotive part suppliers, such as us, BorgWarner, Continental and ZF Friedrichshafen. The automotive part supplier space can be further segmented into three different Tiers. Tier 1 automotive suppliers sell their products directly to OEMs. Tier 2 suppliers sell products to Tier 1 suppliers, and in turn are supplied by Tier 3 suppliers. In general, suppliers develop components and systems on the basis of agreements with OEMs to meet their technological and regulatory requirements.

In addition to sales to OEMs, some components are sold directly to the aftermarket, representing a smaller but typically more profitable and stable revenue source for many automotive suppliers. The term "aftermarket" refers to the market of spare parts that are used in the maintenance and repair of passenger cars and commercial vehicles. Such spare parts include mechanical parts, electrical parts and electronics, body parts (including headlights), assembly parts, tires, oils and lubricants, car paint, other chemical products, accessories and windows. The same products supplied to OEMs are generally also distributed in the aftermarket sector.

Automotive—OEM

Growth drivers

The most important driver of the automotive supply industry is the overall vehicle production volume, driven, in turn, by vehicle sales volume. Although suppliers will have contracts for particular vehicle platforms, which typically have an average life of five to seven years, the actual production volume is rarely fixed and may vary depending on macro and other contingent factors. The economic environment generally has the largest impact, with more minor impacts from regulations and government policies (such as the scrappage schemes introduced in the United States and Europe in 2009). Other specific factors that can influence automotive production include changing demographics (growing population, increase of median age, urbanization), consumer preferences (*e.g.*, low cost cars for basic transportation), specific levels of disposable income, replacement of old vehicles and affordability.

Key trends

The automotive supply industry is influenced by a range of complementary trends, which, together, influence the performance of the individual participants. The key trends are described below:

Megatrends

The automotive industry is currently impacted by a number of key growth trends ("megatrends") which primarily derive from regulations, technological development as well as increasing consumer standards. These trends include:

- *Increased fuel efficiency and reduced CO_2 emissions:* Tightening environmental standards for vehicles globally are imposing a need to develop more environmentally-friendly technologies, aimed at lower fuel consumption and, consequently, at reduced CO_2 emissions. This can generally be achieved by enhancing the efficiency, or reducing the weight, of existing technologies or by developing new alternative technologies. Powertrain and transmission related technologies are expected to be critical for OEMs' ability to comply with stricter standards. For example, the emergence of hybrid and electric propulsion systems represent a fundamental change to established vehicle technology. Given our general R&D activities to reduce friction in a wide range of our components for engine and transmission solutions, we are well positioned to further drive and benefit from this trend.
- *Improved driver safety:* Stricter legal requirements, particularly in Western markets, customer preference for safer vehicles and increasing volumes of traffic all over the world are driving demand for active and passive safety components and other solutions to enhance driver safety. We are actively working on solutions for rear-wheel steering that enhance steering dynamics.
- *Enhanced comfort and convenience:* OEMs are constantly looking for ways to enhance driving experience, comfort and convenience through new technologies. Examples of this include the significant increase in electronic components per vehicle, with many car functions now controlled electronically (*e.g.*, front axle steering or fully variable valve control systems), various driver assistance systems (*e.g.*, leveling systems and anti-roll stabilization) and solutions that improve ride, for example, in terms of noise and vibration control (*e.g.*, dual-mass flywheels, balancer shat dampers and crankshaft dampers).
- *Improved driving dynamics and drive design:* Customers in the premium segment increasingly base their purchase decisions on driving dynamics. Together with selected OEM customers, we develop solutions to this end, *e.g.*, allowing higher curve speed or improved gravel road driving with sporting cars.

Suppliers that provide solutions that enable OEMs to address these trends and meet regulatory standards are well positioned to experience above average growth and establish themselves as key future technology partners for OEMs.

OEM trends

Changes in the development, sourcing and production strategy of OEMs can also influence the automotive supplier market. These include:

- *Global vehicle platforms and consolidation of supplier base*: Over the past decade, OEMs have increasingly shifted to global vehicle platforms with the aim of maximizing the commonality of components and systems and to derive cost savings via economies of scale. Consequently, OEMs are looking for global suppliers that can provide standardized components worldwide, at a competitive cost level and with close proximity to OEM production sites. Typically, OEMs would use two to three suppliers globally per component and platform to ensure a degree of multiple sourcing and in order to avoid overdependence on a single supplier. This trend benefits suppliers, such as Schaeffler Group, with global presence and scale, and the ability to deliver the same technological / quality standard at competitive costs across regions.

- *Outsourcing:* OEMs are increasingly outsourcing the engineering and production of modules and systems to their suppliers. The development costs are initially and primarily borne by Tier 1 suppliers, who aim to subsequently recover these R&D costs over the components' lifecycle. Larger automotive suppliers tend to be better placed to act as system providers and component integrators, provided they have a larger capital base.

Growth trends

Certain market segments are more attractive for automotive suppliers due to their higher growth, profitability and / or resilience in a downturn. These include:

- *Emerging markets:* The increase in disposable income, low existing vehicle penetration as well as the development of efficient road infrastructure are driving the demand for light vehicles in emerging markets. As a result of high and rapidly growing local demand combined with low manufacturing costs, global OEMs are expanding their production and sales networks in these markets. At the same time, local vehicle manufacturers, particularly in China, India and Russia, are also gaining significant scale. Large scale suppliers with strong OEM relationships and resources to invest in their production footprint are well positioned to tap growth opportunities in emerging markets, both with existing and new local OEM customers.
- *Premium segment:* Increasing wealth (particularly in China and other emerging markets) is driving demand for premium and luxury cars. Suppliers with strong relationships with leading global premium car makers, such as Audi, BMW and Mercedes are likely to have above average growth. Given the generally higher profitability of premium car makers, their focus on new technologies and quality of components (rather than price) and lower competitive pressures, suppliers are also typically able to generate higher margins from premium OEM customers.

Historical and forecast market development

Production

The following table shows historical and forecast light vehicle production in key regions and selected key countries in which we operate for the 2008-2016 period, as well as annualized growth rates in production for 2008-2012 and 2012-2016. Both historical and forecast data is based on data published by IHS Global Insight Automotive in March 2013.

There can be no assurance that any of the forecasts presented below will prove to be accurate.

	Production of light vehicles (units in millions)									CAGR	
	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2008-12	2012-16E
Developed markets											
Western Europe	14.7	12.1	13.6	14.0	13.0	12.2	12.7	13.1	13.6	(3.0)%	1.1%
US / Canada	10.6	7.1	9.7	10.6	12.6	13.0	13.2	13.7	13.9	4.4%	2.5%
Japan	11.1	7.7	9.3	8.1	9.6	8.5	8.6	8.6	8.5	(3.6)%	(3.0)%
Korea	4.3	3.6	4.5	5.0	4.8	4.6	4.6	4.6	4.6	2.8%	(1.1)%
Australia	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	(9.2)%	10.7%
Sub-total	*41.0*	*30.7*	*37.3*	*37.9*	*40.2*	*38.5*	*39.4*	*40.3*	*40.9*	(0.5)%	0.4%
Emerging markets											
Eastern Europe	5.9	4.7	5.6	6.2	6.4	6.5	6.8	7.5	8.0	2.1%	5.7%
Latin America.	5.6	5.0	6.2	6.5	6.8	7.1	7.5	8.3	8.8	5.0%	6.7%
Asia (ex-Japan / Korea)	13.6	17.6	23.5	24.2	26.6	28.9	31.9	35.0	37.4	18.3%	8.9%
Middle-East and Africa	1.5	1.5	1.8	2.0	1.5	1.7	1.9	2.1	2.3	0.0%	11.3%
Sub-total	*26.6*	*28.8*	*37.1*	*38.9*	*41.3*	*44.2*	*48.1*	*52.9*	*56.5*	11.6%	8.1%
Total	**67.6**	**59.5**	**74.4**	**76.8**	**81.5**	**82.7**	**87.5**	**93.2**	**97.4**	**4.8%**	**4.6%**
Selected countries											
Germany	5.6	4.9	5.6	5.9	5.7	5.6	5.7	5.6	6.0	0.4%	1.3%
Brazil	2.8	2.9	3.1	3.2	3.2	3.3	3.6	3.9	4.1	3.4%	6.4%
Russia	1.3	0.5	0.9	1.3	1.5	1.5	1.6	1.7	1.8	3.6%	4.7%
India	2.1	2.4	3.2	3.6	3.7	3.9	4.4	4.9	5.6	15.2%	10.9%
China	8.7	12.9	16.9	17.3	18.3	20.0	22.3	24.5	26.3	20.4%	9.5%
BRIC as % of total	**22.0%**	**31.4%**	**32.4%**	**33.1%**	**32.8%**	**34.7%**	**36.5%**	**37.6%**	**38.8%**		
Mexico	2.1	1.5	2.3	2.6	2.9	2.9	3.1	3.5	3.7	8.4%	6.3%
Thailand	1.6	1.2	1.9	1.7	2.3	3.0	3.1	3.3	3.3	9.5%	9.4%
Indonesia	0.5	0.4	0.6	0.7	0.9	1.0	1.2	1.4	1.4	15.8%	11.7%

Source: IHS Global Insight Automotive (March 2013).

The worldwide automotive market again performed well in 2012. With a total of 81.5 million passenger cars and light commercial vehicles, production grew by 6.0% from the high level of 2011.

Production of light vehicles is increasingly moving towards emerging markets which accounted for 50.6% of global production volume in 2012, compared to 39.3% in 2008. This trend has been led by China where production of light vehicles more than doubled from 8.7 million units in 2008 to 18.3 million units in 2012, with the country becoming the largest single light vehicle production market globally (22.5% of global production in 2012 vs. 12.9% in 2008).

In the years 2012 to 2016, global growth in light vehicle production will be led by emerging markets, which are expected to account for 58.1% of global production volume in 2016 (compared to 50.6% in 2012). The growth is expected to remain robust across BRIC countries with forecast annualized growth rates of 10.4% in India, 4.7% in Russia, 9.4% in China and 6.4% in Brazil from 2012 to 2016. Thailand and Indonesia are becoming increasingly important production locations with forecast annualized growth rates of 3.4% and 11.7%, respectively. North America expected to have five consecutive years of positive growth at an annualized rate of 2.3%. Western Europe is not expected to recover quickly from the recent euro crisis, its annualized rate of growth is expected to be at 0.9% from 2012 to 2016. In total, global light vehicle production volume is expected to grow at an annualized rate of 4.4% from 2012 to 2016.

Automotive aftermarket

The *Automotive Aftermarket* business sells automotive products through a comprehensive network of external distribution partners to more than 2,500 customers in over 100 countries worldwide as of March 31, 2013.

Growth drivers

In the aftermarket, the total number of vehicles on the road (also known as "vehicle parc") is the key driver for growth. The development of the vehicle parc is directly related to the number of new registrations in a certain period minus the number of vehicles retired during that same period. The growth of the independent aftermarket depends on a number of different factors, both in terms of demand (dimension, average age and composition of the vehicles on the road, mileage and technological development of the vehicles) and in terms of the service rendered and the range of products offered.

Key trends

Due to its dependence on vehicle parc (rather than new car production), the aftermarket has historically been largely resistant to economic downturns and characterized by stable growth, even during the difficult economic context of the last three years. In addition, due to lower development costs and lower customer pricing power, aftermarket products typically generate higher margins for suppliers.

Industrial

Our Industrial Division is a market and technology leader for bearings and related systems. We maintain our technical leadership by providing the best solutions for all market segments with customer-oriented products and services worldwide.

We design, engineer and manufacture products and offer services to producers of capital goods and other products. These include OEMs and their suppliers (Tier 1 and Tier 2) as well as companies focusing on the industrial aftermarket. The customer range of the industrial segment is highly fragmented. We supply around 60 different industrial sectors, the largest ones being power transmission, production machinery, wind power, heavy industries, aerospace and the industrial aftermarket. Products range from rolling and plain bearings to linear guidance systems and direct drives. The vast majority of our Industrial Division's revenue relates to the production of bearings.

Definition, size and structure

The world bearing market is generally defined as the supply of rolling bearings, comprising ball and roller bearing assemblies of various designs including mounted bearing units. Bearings are used in multiple segments of the industrial sector which follow different drivers and business cycles. Global industrial production is an indicator for the overall trend of the market, as most of the end markets are highly diversified.

In 2011, the global bearing market was worth approximately $66 billion (*source:* The Freedonia Group Inc., Bearings Report (July 2012)), including bearings for the automotive industry), up by approximately 8% from 2006. Asia-Pacific represents the largest regional market for bearings worldwide (50% of total bearings volume). Europe and the United States are the other major markets (20% and 14%, respectively, of total bearings volume).

The industrial bearings market is a highly consolidated market. We are one of the major global Tier 1 suppliers, along with JTEKT, NSK, NTN, SKF and Timken. All major bearings producers supply bearings to OEMs in a broad range of end-markets. In most applications, bearings are critical components for the functionality of the equipment. This is reflected in significant aftermarket business opportunities, including the sale of replacement parts and service. Companies in this sector try to differentiate their products by offering (i) intelligent products with integrated functionalities like sensors, integrated measuring systems, lubrication reservoirs, clamping and damping elements and (ii) customized products.

Industrial—OEM

Growth drivers

The most important driver in the supply of bearings for industrial OEM customers is the growth in global industrial production volume that, in turn, is driven by megatrends, such as population growth and increased standard of living. The major factors that distinguish suppliers from one another and, thus, are growth drivers for us as a leading supplier to the industrial sector, are product quality and availability, application know-how, worldwide customer relation and reliability of supply.

Key trends

The main trends that are shaping the industrial sector in general and the bearings market in particular are:

Key technology trends

- *Energy efficiency:* Due to customers' focus on reducing operating costs and emissions, demand for products improving energy efficiency will increase. Wherever mechanical work is done and objects are in motion, the rolling bearing, a universal and very frequently used machine component, reduces friction and, thus, improves energy efficiency. Simulation methods and calculation tools enable suppliers to tailor their products precisely to customer requirements and render higher energy efficiency.
- *Total cost of ownership:* Customers require products that reduce outlay and operating, servicing and maintenance costs. With high quality products, longer maintenance intervals, lower friction and condition monitoring, shut-down times and the cost of ownership can be reduced.
- *Electrification:* The industrial sector has been impacted by the electrification of the drivetrain. This trend will positively impact the growing need for insulated bearings, high speed e-motor applications and mechanical components.

Key market trends

Certain regions and market segments are expected to grow at a faster pace than the overall industry. The key trends include:

- *Asia driving global growth:* Growth in the bearings market is expected to be led by Asia Pacific, which is projected to be the fastest growing regional market during the forecast through 2015. A major factor driving growth is the rapidly expanding Chinese market but also other Asian markets, such as India, Thailand, Malaysia, Korea and Indonesia, which play an important role.
- *New applications:* Examples of new applications are high speed trains, railway condition monitoring, tracking systems for solar energy, water power generation, medical diagnostic equipment, intelligent bearings for agriculture machinery and transportation industries.

Historical and forecast development

World Bearing Demand

	Bearing demand (in billion US dollars)				CAGR	
	2006	2011	2016E	2021E	2006-11	2011-2016E
North America	**10.4**	**11.8**	**15.2**	**19.0**	**2.6%**	**5.2%**
United States	8.5	9.2	11.9	14.7	1.6%	5.3%
Western Europe	**11.6**	**13.0**	**15.5**	**18.6**	**2.3%**	**3.6%**
Asia / Pacific	**17.7**	**33.1**	**53.5**	**85.4**	**13.3%**	**10.1%**
China	6.8	17.7	32.1	55.6	21.1%	12.6%
Japan	5.6	6.3	7.8	9.6	2.4%	4.4%
Other Asia / Pacific	5.4	9.0	13.7	20.3	10.8%	8.8%
Other Regions	**5.3**	**8.1**	**11.7**	**16.6**	**8.9%**	**7.6%**
Total	**45.0**	**66.0**	**95.9**	**139.6**	**8.0%**	**7.8%**

Source: The Freedonia Group, Inc., Bearings Report (July 2012).

Global demand for ball, roller and plain bearings is expected to increase by 7.8% annually from 66 billion in 2011 to $96 billion in 2016. Market growth is expected to be supported by ongoing economic growth and an improved fixed investment environment in many of the world's developed and developing countries. Among other factors, the growth is based on increasing demand for more expensive and technologically-advanced bearing products.

The Asia/Pacific region is expected to post the strongest regional sales growth at 10.1% annually from $33 billion in 2011 to $54 billion in 2016, led by strong increases in Chinese demand. Gains are expected to be supported by the country's ongoing industrialization and growing manufacturing output. Historically, growth in bearing demand in the developed areas North America (CAGR of 5.2% for 2011-2016), Western Europe (CAGR of 3.6% for 2011-2016) and Japan (CAGR of 4.4% for 2011-2016) has been slower than in the developing world. Growth in developed countries is expected to be supported largely by a recovery in motor vehicle manufacturing and accelerating growth in durable goods manufacturing output. Furthermore, Western manufacturers are generally more likely to possess the technological expertise to produce high-value, technologically advanced bearing products than local suppliers based in developing countries. In addition, the large numbers of bearing-containing equipment in use will help bolster aftermarket bearing demand.

Historical and projected trends in the end-markets most relevant for the Schaeffler Group

In order to describe the historical and projected development of the bearings sector, we make reference to trends in the industrial end-markets most relevant to us. The top OE end markets for our Industrial Division services include power transmission, production machinery, wind power, off-highway equipment and aerospace. In addition, we derive significant revenue from the industrial aftermarket.

Power transmission

The Power Transmission sector develops products for use in construction and agricultural machinery, industrial gearboxes, fluid and conveying technologies, buildings and structures. A proxy of the level of activity in our Power Transmission sector is represented by global demand for construction machinery.

Construction activity in 2012 declined by 4.8% in the EU and increased by 3.2% in the United States. Construction activity increased by 2.5% in Russia, by 1.4% in Brazil, by 7.0% in India and by 9.3% in China in the same year.

Demand for construction activity is expected to grow by 1.5% (CAGR 2011-2015) in the EU and by 6.3% (CAGR 2013-2015) in the United States. Brazil, Russia, India and China forecast to generate compound annual growth of 3.7%, 7.0%, 8.1% and 8.2%, respectively, in 2013-2015 (*source*: Oxford Economics (Summer 2013)).

Production machinery

In the Production Machinery sector, we provide bearings for a wide range of capital goods. The major end-markets include machine tools and textiles, printing, food processing and packaging machinery. A proxy of the level of activity in our Production Machinery sector is represented by mechanical engineering.

Demand for mechanical engineering slightly increased by 1.5% in the EU and by 9.0% in the United States in 2012. Demand declined in Brazil by 5.7%, in Russia by 16.4% and in India by 6.1%. China experienced a growth rate of 5.4% in 2012.

In 2013 to 2015, demand for mechanical engineering is expected to grow by compound annual rates of 3.4% in the EU and by 3.9% in the United States. In line with economic development, emerging markets are expected to grow above-trend with Brazil at 4.0%, Russia at 7.7%, India at 10.8% and China at 9.2% in 2013 to 2015 on a CAGR basis (*source*: Oxford Economics (Summer 2013)).

Wind power

The Wind Power sector provides bearing supports for wind turbines along with condition-monitoring systems, lubricants, a fitting service and fitting and maintenance tools.

Based on forecast figures, installations of 48 gigawatts worldwide in order to beat expiring policy incentives have led to record levels in 2012 (*source*: Bloomberg New Energy Finance 2012 (May 2012)).

In the next two years, significant declines in new installations are expected across nearly all of the major markets, which will mostly be driven by changing or expiring policy incentives. A robust recovery is expected for 2015, driven mostly by a return in the United States and in emerging markets in Latin America and elsewhere. In total, Wind Power is expected to grow by 10.7% (CAGR 2013-2015) (*source*: Bloomberg New Energy Finance 2012 (May 2012)).

Off-highway equipment

The Off-Highway Equipment sector supports customers worldwide, mainly in raw material recovery, preparation and processing, steel and non-ferrous metals, cellulose, paper and power plant sectors. A proxy of the level of activity in the Off-Highway Equipment sector is represented by the global output for basic metals.

Global output of basic metals decreased by 4.0% in the EU and increased in the United States by 3.5% in 2012. Brazil and Russia experienced a decrease of 4.2% and 2.2%, respectively, in 2012, India experienced an increase of 2.5% and China of 6.6% during the same year.

In 2013 to 2015, demand for basic metals is expected to see compound annual growth of 2.4% in the EU and 4.7% in the United States. In line with the economic development, emerging markets are expected to grow (CAGR 2013-2015) above-trend, with Brazil growing at 5.9%, Russia at 7.6%, India at 6.8% and China at 5.6% (*source*: Oxford Economics (Summer 2013)).

Aerospace

The Aerospace sector develops and manufactures rolling bearing systems with integrated adjacent components for aircraft and spacecraft construction. Due to a strong demand, the Aerospace sector has seen an increase of 6.1% in the EU and 8.2% in the United States in 2012. Out of the BRIC markets, Brazil experienced an increase of 17.6% in 2012, whereas Russia saw an increase of 3.0% and China of 12.1%. India saw an increase of 13.9% in 2011. In 2012, the market stayed on the level of 2011. Aerospace production is expected to grow by 6.6% (CAGR 2013-2015) in the EU and 9.5% (CAGR 2013-2015) in the United States. Between 2013 and 2015, compound annual growth in BRIC countries is forecast to be 6.5% in Brazil, 19.0% in Russia, 11.3% in India and 6.6% in China (*source*: Oxford Economics (Summer 2013)).

Industrial aftermarket

The *Industrial Aftermarket* business sells industrial products through a comprehensive network of approximately 6,000 external partners in over 100 countries worldwide as of March 31, 2013.

Growth drivers

In the Industrial Aftermarket business, the total installed base of products and applications that include bearings and the further development of this installed base are the key drivers for growth. Future growth of demand is driven by various factors, such as average age and technological development of machinery, dimension of bearings, services rendered and the range of products offered.

Key growth drivers that will help companies to grow faster than the underlying market are:

- *Comprehensive product availability.* Companies that can offer a comprehensive product spectrum are likely to grow above market. We offer a complete premium quality core program, including complementary products (*i.e.*, housings, sealings, belts and grease) for the distribution network as well as for certain sectors (such as steel, mining and processing, pulp and paper, wind power, power plants, oil and gas).
- *Localization of technical services.* Companies that can offer local technical know-how and expertise in the various regions will benefit proportionally from market growth. We offer immediate customer support whereby dedicated sales engineers and field service technicians handle all technical inquires on-site in the respective time zone.

Key trends

Due to its dependence on installed product base, the Industrial Aftermarket business has historically been largely resistant to economic downturns and characterized by stable growth over the past three years. In addition, due to the lower development costs and lower customer pricing power, aftermarket products typically generate higher margins for suppliers.

A strong positioning in the following key areas will allow companies to grow above market:

- *Reducing total cost of ownership.* Suppliers and customers increasingly focus on the total product lifecycle of key machines and the bearings applied. In addition, all hidden costs, such as energy, repair and maintenance, productivity, risk or disposal are taken into account. We provide a consistent and systematic framework for customers to compare alternatives, increase productivity and reduce overall costs over the lifetime of the products, which we view as a key competitive advantage.
- *Downsizing.* Two key trends can be observed with regard to downsizing: (i) smaller bearing dimensions and the same bearing lifetime or (ii) the same bearing dimensions and an increase of a bearing lifetime (*e.g.*, we offer carbonitriding, coating of bearings and use of innovative materials to extend product lives). We are well positioned to drive these trends.
- *Energy reduction.* Development and implementation of bearing solutions to reduce energy costs by minimization of friction. We offer sealed bearings that reduce lubrication consumption and avoid contamination as well as alignment services of drive systems that save energy costs and increase service lifetime.
- *Growing demand for system solutions.* Systems solutions, such as combined bearings, housings and seals as well as bearings and accordant mounting or monitoring services are increasingly sought after. We offer a wide range of such integrated system solutions.
- *Online condition monitoring.* A condition-based maintenance strategy helps to reduce maintenance costs, improves plant availability and ensures product quality. Condition monitoring by means of vibration diagnosis is indispensable with production-critical machinery. We offer a wide range of products and service solutions for online condition monitoring.

- *Outsourcing of services.* In the processing industry, annual maintenance cost is in the high percentage range of the assets' acquisition value and is, therefore, a significant cost factor for the customer. As customers increasingly seek to reduce personnel cost associated with maintenance, demand for external services is steadily increasing. We offer such maintenance services on a selective basis.

Competition

We have leading market positions in most regions, especially in Europe and North America.

Schaeffler Group's key competitors

We compete with a wide number of other companies in our business divisions.

Our key competitors in the Automotive Division are in alphabetical order (i) Aisin Seiki Co Ltd, BorgWarner Inc., Denso Corp. and Litens Automotive Group in our Engine business division, (ii) Jatko Ltd., NSK Ltd., Toyota Motor Corp., Valeo S.A. and ZF Friedrichshafen AG in our Transmission business division, (iii) JTEKT Corp., NSK Ltd., NTN Corp. and SKF Group in our Chassis business division and (iv) Eaton Corp., Gates Corp., SKF Group and ZF Friedrichshafen AG in our Automotive Aftermarket business.

Our key competitors in the Industrial Division are in alphabetical order (i) JTEKT Corp., NSK Ltd., SKF Group and The Timken Company in our Industrial OEM business division and (ii) JTEKT Corp., NSK Ltd., AB SKF and The Timken Company in our Industrial Aftermarket business.

Business

We are one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. We supply high quality and technologically advanced components and systems to a broad range of automotive and industrial customers. Employing a workforce of about 76,000 employees in approximately 50 countries (as of March 31, 2013), we are one of the largest family-owned industrial companies in Europe. In the twelve months ended March 31, 2013, we had revenues of approximately €11.0 billion, and EBITDA of approximately €2.0 billion. We believe that we are among the top three manufacturers in each of our core sectors worldwide and have a large presence in rapidly growing emerging markets, such as Asia/Pacific and South America, which together account for 28% of our revenues in the twelve months ended March 31, 2013. We believe that our industry leading technology platform, high product quality, long-standing and diversified customer relationships, global production and comprehensive product and service offering position us well for future growth.

We operate through two main divisions: Automotive and Industrial. Our Automotive Division generated approximately 70% of our revenue in the twelve months ended March 31, 2013, supplying more than 60,000 products to approximately 7,500 customers globally. Our rolling bearings and automotive components and systems are generally engineered for our customers' particular applications and allow our automotive customers to capitalize on megatrends, such as reduced fuel consumption, lower CO_2 emissions, optimal safety and quality as well as increased driving pleasure. As a partner for nearly all major global automotive OEMs and for leading Tier 1 suppliers worldwide, we offer expertise for the entire drive train, covering engine transmission and chassis applications for passenger cars and commercial vehicles. On that basis, we divide our Automotive business into three business divisions: Engine, Transmission and Chassis.

Our Industrial Division accounted for approximately 30% of our revenue in the twelve months ended March 31, 2013, supplying approximately 90,000 products to approximately 16,000 customers in many different industrial sectors. While working closely with our customers, we develop bespoke bearing solutions for numerous tailored applications. The product portfolio ranges from high-speed super-precision bearings of a few millimeters in diameter (*e.g.*, for dentist drills or machine tools) to large heavyweight bearings of over four meters in diameter (*e.g.*, for machine tools, tunnel-drilling machines or wind turbines). Our bearings and related products are used, among others, in power transmission and generation, production machinery, wind power and heavy industries. In aerospace, we are a leading manufacturer of precision bearings for airplane and helicopter engines as well as for applications in space travel.

We complement our business with a comprehensive aftermarket offering for both our divisions, which includes the distribution of spare parts and service to customers worldwide. Our aftermarket services are an essential sales support function and also generate good margins as well as more stable and recurring revenues. In the twelve months ended March 31, 2013, 24% of our total revenue was generated from our aftermarket business.

We distribute our products throughout our markets mainly under three globally recognized brands, LuK, INA and FAG, mainly serving high-quality products to both the premium and volume segments and using different distribution channels. Our LuK brand covers, among others, clutch and transmission systems, dual mass flywheels and torque converters. Our INA brand covers rolling and plain bearings, linear guides, engine components and systems, such as camshaft phasing systems or standard valve trains and other precision components. Our FAG brand covers a broad range of rolling bearings, high-precision bearings and aerospace applications.

We have a strong global presence and divide our business operations into five regions: Germany, Europe (excluding Germany), Asia/Pacific, North America and South America. In addition to the traditional core markets in Europe (56% of revenue in the twelve months ended

March 31, 2013; including 26% in Germany) and North America (16% of revenue in the twelve months ended March 31, 2013), our business is increasingly significant in key growth markets, such as Asia/Pacific and South America, which together account for 28% of our revenues in the twelve months ended March 31, 2013. Following our integrated "*in the region, for the region*" approach, we have built a global manufacturing footprint with a strong regional foothold of our plants worldwide. As of March 31, 2013, we operate 43 plants in Europe, twelve in North America, two in South America and 13 in Asia/Pacific. All our plants operate at the same high standards of quality and environmental protection and are certified under international standards.

Competitive strengths

Our principal strengths are:

Leading positions in attractive growth markets

Top three positions in core sectors

We hold leading positions across our core sectors and believe each of our business units is positioned among the top three in their respective markets worldwide in terms of market share measured by revenue. Based on our research, we believe our Automotive Division is a leader with the Engine, Transmission and Chassis business divisions. Additionally, our Industrial Division holds top three market positions across the broad spectrum of industries it serves. We support OEMs throughout their full product life cycle from taking part in the early stage of product development to providing critical engineering application know-how and are therefore regarded as a key partner.

Strong aftermarket business

Our products are usually part of platforms that are in service for several years, thereby requiring continuous aftermarket support. In the twelve months ended March 31, 2013, aftermarket revenue from replacement parts and services represented approximately 24% of our total revenue. Based on (i) the increasing size of our installed base, (ii) the high service levels associated with most of the equipment in which our products are installed, (iii) the switching costs faced by customers and (iv) our strong positioning in the replacement part market, we are well positioned to grow our revenues from the aftermarket business in the future. At the same time, the aftermarket business has proven to be very resilient and profitable as it produces stable and recurring revenues and profit margins.

Attractive growth markets

We benefit from the fact that we have a strong footprint in regional markets and sectors that are growing above average. We are very well positioned in key growth markets, in particular in the Asia/Pacific region, where we have been present for decades in high-growth countries, such as Korea and India. In addition, we have been active in China for approximately two decades. Furthermore, our key sectors, such as Automotive, Power Transmission, Production Machinery and Aerospace are expected to grow above GDP forecasts.

In addition to the expected future growth, we regard our markets as attractive because of the following characteristics: (i) our customers' demand for engineered solutions and our expertise to develop and supply them; and (ii) a preference among automotive and industrial clients for selecting suppliers and partners with extensive industry and engineering experience. Additionally, as our products are critical to the overall performance, safety and durability of the end-product and as our products generally represent only a small percentage of the overall costs of the end-product, the primary criteria for purchasing decisions by our customers are based on quality and technological considerations rather than price alone.

Well-balanced business portfolio

Broad product and application spectrum

Our revenues are diversified across a wide range of bearings and automotive components and systems, generated by thousands of applications for customers across many diverse end-markets. Within our Automotive Division, we sell approximately 60,000 components and systems to both OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in many different sectors, selling approximately 90,000 components and systems into a diverse range of applications ranging from wind turbines to aerospace engines and tool machines. This high degree of diversification in our businesses as well as the stability of our aftermarket business supports the resilience of our revenues and our profitability. Each of these end-markets is influenced by different economic factors, making us less vulnerable to adverse changes in the micro-economic environment or fluctuations of a particular economic parameter in any of our market segments.

Highly-diversified customer base

Our products are sold to OEMs, Tier 1 and Tier 2 suppliers, aftermarket distributors and service providers in a variety of different sectors. Key customers include top-tier OEMs in the global automotive industry as well as leading industrial OEMs. As of March 31, 2013, we offered our products to approximately 7,500 automotive customers and 16,000 industrial customers in approximately 120 countries worldwide. In the twelve months ended March 31, 2013, our top ten customers represented approximately 60% of automotive revenues (with no single customer representing more than 18%), and approximately 16% of industrial revenues (with no single customer representing more than 5%). We believe this diversification mitigates counterparty risk and is broader than that of our peers.

Strong regional diversification

We have a geographically diversified customer footprint and currently operate production facilities in over 20 countries and sales and marketing offices in approximately 180 locations. Based on the "*in the region, for the region*" strategy, we are in close geographic proximity to our customers. As a result, we are perceived as a local supplier in many markets and our global manufacturing and sales platforms allow us to market our products and services to a larger and ever-globalizing customer base. Our position as one of the largest global mechanical components and systems manufacturers further allows us to capitalize on the growth opportunities associated with globalization and increasing trade flows while making us less susceptible to market risks in a single country or region. We also benefit from low-cost production (*e.g.*, we have an extensive production network in Eastern Europe) and local supply chains while still maintaining our industry-leading quality standards through full control of our operations. Further, we are well positioned in rapidly growing emerging markets with 23% of our revenues being generated from the Asia/Pacific region and 5% from South America in the twelve months ended March 31, 2013.

Technology, quality and innovation leadership

Technology leadership and superior quality

We have a high level of expertise in developing high precision mechanical components and systems, including electronics, software and mechatronics. Our technology leadership is recognized by many of our customers and is one of our key competitive advantages. Many of our products are mission-critical to the performance, durability and safety of the equipment in which they are installed. Quality and reliability are the key attributes of our products and services. We believe that we achieve failure rates that are significantly lower than the industry average.

Providing superior product quality to our customers is another key success factor of our business model and is paramount to our success. A holistic quality management system in all locations, including all manufacturing plants worldwide, ensures compliance with our highest standards which are monitored by means of regular internal audits. With various quality assurance programs, such as "Fit for Quality" and "MOVE" ("Mehr Ohne VErschwendung" or "more without waste"), as well as testing and simulation processes, mostly developed in-house, we emphasize our goal of achieving zero-defect quality for the entire supply chain worldwide. We have received numerous awards and certifications for our products and services which underline our commitment to the highest industry quality standards. In 2010 and 2011, we received supplier awards from *e.g.* Daimler, Fiat, Getrag, Goldwind, Great Wall Motors, Motortec, Porsche, Siemens, Toyota and Volkswagen. In 2012, we received, for example, General Motors' "Supplier Quality Excellence Award," Goldwind's "Excellent Quality Award" and Renault's "Nissan Global Quality Award."

Outstanding operational excellence

Our manufacturing facilities and processes are among the most efficient in the industry. We focus on lean manufacturing and continuous improvement and are seen as a reliable partner with a high level of value added for our customers. On average, in the last five years, we invested approximately 7% of our annual revenues to open new plants and facilities and acquire new equipment in order to operate state-of-the-art manufacturing plants, simulation processes and testing facilities.

We believe that our outstanding know-how in raw materials, such as steel, our proprietary machinery and tool design, our know-how in cold forming technology, our low-cost precision manufacturing processes and our attention to quality and service are competitive advantages that allow us to consistently provide high quality precision products and services. We perform all quality-related work in-house. This allows us to ensure that our products maintain a consistently high standard of quality, while our customers benefit from an outstanding price/performance ratio.

Best-in-class innovation platform

Innovative, high quality products sold under our three globally-recognized brands, INA, LuK and FAG, have formed the backbone of our success for many decades. In the financial years 2010, 2011 and 2012, we spent approximately 5% of our total revenue on R&D, consistently more than our industry peers in percentage of sales (based on our own research), to continuously improve our products and to position us at the forefront of our industry in terms of innovation and quality of design. In 2012, we received the "Steel Innovation Prize" for our large-size bearing test rig Astraios from the Steel Information Center. Astraios was also honored as a "selected landmark" in the "365 Landmarks in the Land of Ideas" competition sponsored by Deutsche Bank and was the national winner in the environmental category of the competition.

As of March 31, 2013, approximately 6,000 R&D staff were employed at approximately 40 development locations worldwide, including 16 R&D centers, developing new products, customer product applications, technologies, processes and methods for market-driven solutions. This powerful network of central and regional R&D expertise generated 1,854 new patent applications in 2012, making us the fourth most innovative company in Germany measured by the number of patent applications submitted (according to the German Patent and Trademark Office (DPMA, *Deutsches Patent- und Markenamt*)). In total, as of March 31, 2013, we held approximately 19,000 patents and patent applications.

Strong track record and experienced management team

Above average growth and sector-leading margins

We have consistently achieved above average market growth and a sector-leading average EBITDA margin of approximately 19% over the past five fiscal years. This is the result of our successful business model which is focused on our leading position in rapidly growing regions and product segments, our broad and high quality product offering, our technology and innovation leadership, our proximity to and entrenchment with our customers, and our low cost production. For the same reasons, we believe we are well-placed to maintain above average market growth and profitability in the future and are well positioned to benefit from the megatrends in our industry (see "*—Strategy—Focus on innovative components and systems to drive global industry trends*").

Proven ability to preserve cash flow

We have been able to preserve cash in downturns and maintain a high level of profitability through effective working capital and capital expenditures according to cash flow management as well as cost reductions. Over the last five fiscal years, we have achieved an average EBITDA margin of approximately 19%. As a result, we generated on average free cash flow before net interest paid of approximately €1 billion per year in the last five years.

Experienced management team

Our management team has extensive experience in the automotive and industrial sectors and a proven track record of successfully managing global businesses through economic cycles, including the most recent economic downturn. Our management team has a demonstrated track record of achieving long-term profitable growth as well as establishing Schaeffler Group as one of the technology, quality and innovation leaders in the industry.

Strategy

We are one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. We intend to further improve the balance of our revenue structure, streamline our cost structure, improve our cash flow generation and maintain our high level of profitability and growth. To this aim, the key focus areas of our strategy are to (i) maintain and build our quality and technology leadership, (ii) further expand into growing regions and business areas, (iii) focus on innovative components and systems to drive the global industry trends, (iv) increase our R&D activities to provide a leading systems offering in the field of mechatronics and (v) increase our cooperation with Continental Group.

Maintain and build our quality and technology leadership

Leverage our quality and technology leadership

Our goal is to provide our customers with a wide, best-in-class range of products and systems as well as consultation and engineering services. We analyze new product opportunities carefully by taking into account projected market prices, volumes and manufacturing costs and by only pursuing new product lines that we believe will achieve our stringent profitability targets. We achieve these targets by focusing on premium segments that require the highest quality standards. In addition, we continue to stay entrenched with our customers at an early stage in the product development process to satisfy their requirements and maintain our competitive edge.

Rigorously pursue operational excellence

We intend to keep providing maximum quality to our customers. To this end, we strive to maintain and further reduce our industry-leading low failure rates through investments in best-in-class, highly standardized and fully automated manufacturing facilities with the aim of maintaining the highest quality standards in the industry. At the same time, we focus on further reducing our cost base through efficiency gains in our manufacturing processes that will enable us to supply standard, low-cost and tailor-made products to our customers at an attractive cost/performance balance.

Further expand in attractive regions and business areas

Focus on rapidly growing regions

We continue to expand our international presence in rapidly growing emerging markets, in particular in the Asia/Pacific region and South America, which have become significant growth drivers for the automotive and industrial sectors. Over the last ten years, we have built 16 new manufacturing facilities in emerging market economies. Based on our guiding strategy "*in the region, for the region*," we are placing our facilities in close proximity to our customers. In 2012, approximately 27% of our total capital expenditures were spent in the Asia/Pacific region. We expect to increase our Asia/Pacific revenue share to approximately 25-30% of our group total by 2015, which will further enhance our regional diversification and revenue stability.

Our focus on further developing our network of manufacturing facilities in high growth countries has increased our exposure to low cost countries over the last ten years. A significant portion of our production network is now located in low cost countries, such as Slovakia, Hungary, Romania, China, India and Mexico. As we continue to increase our production in high growth and lower cost emerging market countries, the relative labor component of our production cost is likely to decline further over time.

As we expand our base in emerging markets, we also seek to further expand our local offering in these regions. It is our goal to continue to provide a comprehensive product and service offering to current and new customers globally. We strive to fully globalize our product portfolio and to provide an even broader range of components and systems to each customer.

Focus on attractive business areas

We seek to retain and extend our current level of diversification and independence from any particular market by further expanding our activities across sectors. We are also levering our core manufacturing and service competencies in order to diversify into additional component and systems solutions and services.

In addition, we intend to expand our aftermarket operations by increasing sales to third-party distributors, maintenance repair operations ("**MRO**") for replacement products and to the service business for customer support. Increasing our aftermarket sales of replacement parts and services will further enhance the continuity and predictability of our revenues and increase profitability. We believe that further developing our service business provides considerable new opportunities (*e.g.*, condition monitoring).

Focus on innovative components and systems to drive global industry trends

We are focused on designing, engineering and manufacturing highly-engineered and value-added components, modules and system solutions that address the key fundamental global trends in the automotive and industrial sectors. The trends that drive our end-markets are, in particular, energy efficiency, renewable energies, mechatronic systems and electric mobility. Our aim is to define new standards in modern engineering with respect to these major trends that will shape our industry and influence our operations. We believe that actively addressing these key trends reinforces our ability to maintain above-market growth.

Energy efficiency and renewable energies

Reducing fuel consumption and, consequently, carbon dioxide (CO_2) emissions, is a dominant feature in the automotive industry. We therefore intend to broaden our current product and systems portfolio for combustion engines by incorporating new and efficient technologies. Key products and systems, such as our variable valve timing system, thermal management module, double clutch transmission and electrical power steering help to reduce CO_2 emissions in conventional combustion engines and transmissions. In addition, available and engineered innovations for electric mobility, such as eDifferential, eWheel Drive and the hybrid synchron motor will be important for automotive producers as they reduce CO_2 emissions.

Harnessing renewable energy is a key part of many countries' plans to address climate change and cut CO_2 emissions. Our Industrial Division is seeking to capitalize on this trend. We offer a comprehensive product portfolio for wind turbines as well as various bearing solutions for other renewable energy technologies, such as solar and water power. We have positioned our Industrial Division early in new growth areas in order to secure and expand our long-term market share and competitiveness.

Mechatronic systems and electric mobility

Mechatronic systems (the combination of mechanical engineering with electronics) are increasingly gaining significance as OEMs seek to integrate components into more complex systems. We endeavor to be part of such growth by integrating our mechanical and Continental Group's electronic expertise.

Electric mobility is a megatrend in the automotive industry and various industrial sectors. We intend to grow our product portfolio for hybrid or electric mobility solutions with, among others, eWheel drive, eDifferential and eMotors into other areas, such as developing a torque sensor bottom bracket for e-bikes, which will help position ourselves as a major supplier in this field.

Increase cooperation with Continental Group

We believe that significant competitive advantages can be obtained from increasing our existing cooperation with Continental Group. Combining our mechanical expertise with Continental Group's know-how in electronic controllers will strengthen our presence in the rapidly growing mechatronic segment and will establish us as a leading systems provider in this field.

Furthermore, we aim to realize cost synergies by expanding our already existing cooperation agreements with the Continental Group in the area of procurement (see "*—Environment, insurance and legal—Material contracts—Joint procurement cooperation agreement*").

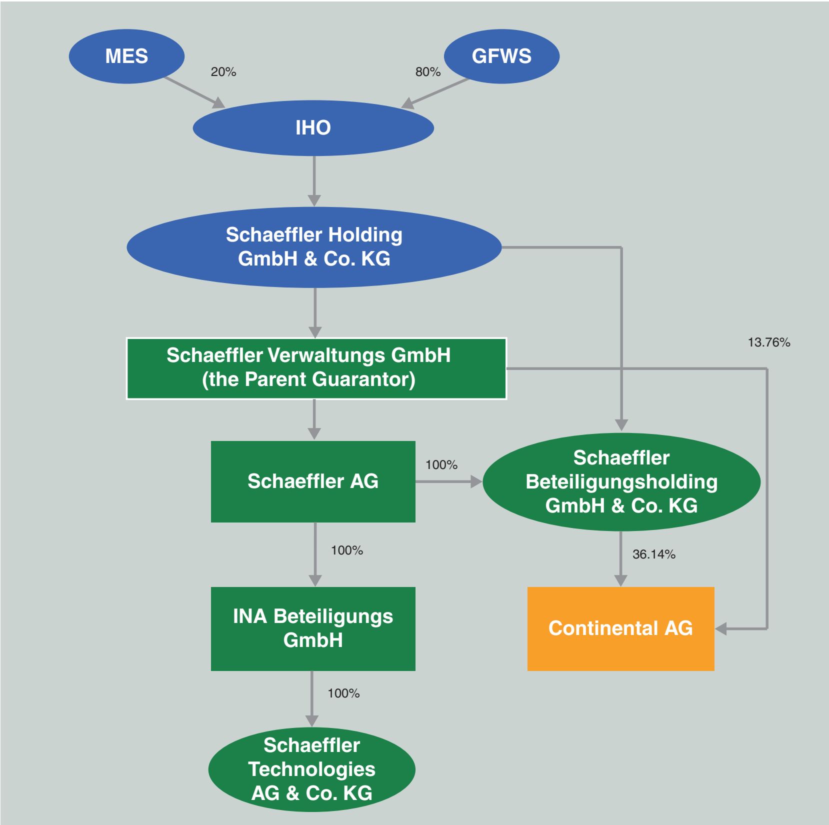
Our history

Company history until 2008

In 1946, brothers Dr. Wilhelm and Dr. Georg Schaeffler established INA (*Industrie-Nadellager*) in Herzogenaurach, Germany and, in 1965, LuK (*Lamellen- und Kupplungsbau*) GmbH was founded in Bühl, Germany (in cooperation with INA) which was later managed as a 50/50 joint venture. In 1999, Schaeffler Group took over the 50% of LuK from Valeo S.A. After Dr. Georg Schaeffler's death in 1996, Maria-Elisabeth Schaeffler and son Georg F. W. Schaeffler continued the family business to continue his life's work. In 2001, INA took over FAG (*FAG Kugelfischer Georg Schäfer AG*). Since 2002, INA, FAG and LuK are the main brands owned by Schaeffler Group.

Acquisition of Continental AG shares and subsequent transactions

In July 2008, we initiated the acquisition of Continental Aktiengesellschaft, a publicly listed stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany with its registered office in Hanover, Germany ("**Continental AG**") (Continental AG, together with its subsidiaries and affiliates, the "**Continental Group**") via a public tender offer. Following the tender offer, we owned approximately 88.9% of its share interest. In connection with this tender offer and the subsequent share transfers, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) entered into a €16,610 million term loan and multicurrency revolving credit facility, originally dated July 12, 2008 and as amended on August 7, 2008 and November 27, 2008 (the "**Acquisition Facility**").



For a more detailed description of our corporate structure and certain debt obligations, please see "*Summary—Summary of our corporate and debt structure.*"

As of March 31, 2013, Schaeffler Beteiligungsholding GmbH & Co. KG held 36.14% of the voting interest in Continental AG as a result of the following series of transactions and events:

- In July 2008, we initiated the acquisition of Continental AG via a public tender offer at €70.1 per share. We subsequently agreed with Continental AG to increase the offer price per share to €75.
- Following a significant drop in equity markets during the tender period as a result of the financial crisis, a majority of the share interest in Continental AG was tendered to us. As a result, we owned approximately 88.9% of the share interest in Continental AG.
- In an investor agreement, we agreed with Continental AG to limit our maximum holding of voting capital stock in Continental AG to 49.9% until August 31, 2012. As a result, we entered into sale and resale agreements in relation to the shares acquired that exceeded 49.9% of the capital stock in Continental AG with certain independent third parties ("**ITP Banks**"). While we have transferred legal ownership and voting rights of the shares, economic risks related to the shares remained with us.

- In January 2010, we did not participate in the rights offering of Continental AG, resulting in a dilution of our voting interest from 49.9% to 42.2%. The shares held by the ITP Banks were diluted on the same basis from 39.0% to 32.9%.
- In June 2010, the 42.2% share interest in Continental AG was transferred to the Company by way of a hive-down.
- In March 2011, 29,679,196 shares held by the ITP Banks were sold in the market, reducing their shareholding in Continental AG further from 32.9% to 18.1%.
- In addition, in March 2011, Schaeffler Verwaltungs GmbH acquired shares representing approximately 7.7% of Continental AG from the ITP Banks, thereby increasing the total stake of the IHO Group in Continental AG to approximately 49.9%. As a result, the shareholding of the ITP Banks in Continental AG was further reduced to 10.4%.
- In May 2011, the Company made a distribution of a dividend in kind in the form of 12,043,528 Continental AG shares to Schaeffler Verwaltungs GmbH, which further reduced the shareholding of the Company in Continental AG to 36.1% and increased the stake of Schaeffler Verwaltungs GmbH to 13.8%.
- In September 2011, Schaeffler AG transferred its share interest of 36.1% in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG.
- In September 2012, the remaining 20,779,086 shares held by the ITP Banks were sold in the market, reducing their shareholding in Continental AG to 0%.

Our reorganization

In 2009 and 2010, the IHO Group, with its ultimate parent company IHO, underwent a significant reorganization with the objective of establishing structures suitable for the capital markets. The major milestones of the reorganization included:

- Establishment of the Company (Schaeffler AG) as our Parent company; and
- Hive-down of the operative business of Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) to Schaeffler Technologies GmbH & Co. KG, (now Schaeffler Technologies AG & Co. KG) a directly wholly-owned subsidiary.

The following assets were hived down through the following transactions:

- Hive-down of the investments in subsidiaries and associated companies representing the operating business from Schaeffler KG (now Schaeffler Holding GmbH & Co. KG), through Schaeffler Verwaltungs GmbH, to the Company;
- Hive-down of the share interest of approximately 42.2% in Continental AG from Schaeffler KG (now Schaeffler Holding GmbH & Co. KG), through Schaeffler Verwaltungs GmbH, to Schaeffler GmbH (now Schaeffler AG) as referred to above in "—*Acquisition of Continental AG shares and subsequent transactions*"; and
- Hive-down of the Repaid Senior Facilities Agreement from Schaeffler KG (now Schaeffler Holding GmbH & Co. KG), through Schaeffler Verwaltungs GmbH, to Schaeffler GmbH (now Schaeffler AG).

The hive-down (*Ausgliederung*) under the German Transformation Act (*Umwandlungsgesetz*) was undertaken in return for new shares. The reorganization was finalized on June 28, 2010, when the hive-down to Schaeffler GmbH was registered with the Commercial Register. Following the completion of the Group reorganization, the entire operating activities of the IHO Group are now concentrated in Schaeffler Technologies AG & Co. KG.

Effective December 31, 2012, the Company transferred certain assets and subsidiaries, including all shares in the Issuer and its capital interest in Schaeffler Technologies AG & Co. KG to INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**") against the issuance of new shares, leaving the Company as the general partner in Schaeffler Technologies AG & Co. KG with 0% capital interest.

Our refinancing

On July 12, 2008, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) entered into a syndicated term and revolving facilities in an aggregate initial amount of €16.1 billion (subsequently increased to €16.6 billion) in connection with a public take-over offer for the shares in Continental AG (as amended from time to time, the "**Acquisition Facilities Agreement**").

On April 7, 2009, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) incurred a syndicated revolving liquidity facility in an aggregate amount of €1 billion replacing the €1 billion revolving facility made available under the Acquisition Facilities Agreement (as amended from time to time, the "**Liquidity Facility Agreement**").

On November 20, 2009, the Acquisition Facilities Agreement and the Liquidity Facility Agreement were amended and restated as (i) approximately €7,143 million senior term loan and multicurrency revolving facilities incurred by the Company under a euro senior term loan and multicurrency revolving facility agreement originally dated November 20, 2009 (as subsequently amended and restated) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries (the "**Repaid Senior Facilities Agreement**") and (ii) approximately €4,944 million term loan and revolving credit facilities incurred by Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG under a euro term loan and revolving facilities agreement originally dated November 20, 2009 (as amended and restated from time to time) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries, with, amongst others, IHO as company (the "**IHO Facilities Agreement**") and a contingent remuneration payment instrument and a contingent upside instrument relating to the facilities made available under the IHO Facilities Agreement were entered into in connection therewith. In addition, in July 2011, the Parent Guarantor issued German law governed zero-coupon bonds due April 2018 in an original aggregate amount of €3,293 million, which were partially redeemed in September 2012 (the "**IHO Bonds**" and, together with the IHO Facilities Agreement, the "**IHO Debt Instruments**").

Effective April 1, 2011, the Repaid Senior Facilities Agreement and the IHO Facilities Agreement were amended by way of a "**Master Agreement**" with additional implementation steps to occur on or before July 1, 2011. The relevant implementation agreement was concluded and became effective on July 1, 2011. In this context, the debt incurred by Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG under and in connection with the IHO Facilities Agreement was partially repaid, refinanced and, as the case may be, reduced (i) from distributions of excess cash flow by the Company, (ii) from the net proceeds of an accelerated bookbuilt offering of shares in Continental AG, (iii) the issue of a zero coupon bond and (iv) a debt push-down to the Company in an amount of €600 million (the "**Push-Down Debt**") (with the related contingent upside instrument having been closed out and the related contingent remuneration payment instrument having been terminated). The facilities made available under the Repaid Senior Facilities Agreement have been correspondingly increased in an amount equal to the amount of the Push-Down Debt.

Further amendments to the Repaid Senior Facilities Agreement and the IHO Facilities Agreement with regard to the holding of shares in Continental AG became effective on September 22, 2011.

On January 27, 2012, the Company entered into a syndicated senior term loan and revolving credit facilities agreement with an initial aggregate amount of €8,000 million (the "**January 2012 Senior Facilities Agreement**") to, among others, refinance the facilities made available under the Repaid Senior Facilities Agreement.

Concurrently with the January 2012 Senior Facilities Agreement, Schaeffler Verwaltungs GmbH entered into an amendment agreement with regard to the IHO Facilities Agreement providing for certain amendments of the IHO Facilities, in particular, in order to align certain covenants with the covenants in the January 2012 Senior Facilities Agreement and to extent the final maturing date to June 30, 2017.

On February 9, 2012, Schaeffler Finance B.V. issued €800,000,000 in aggregate principal amount of senior secured notes due 2017, $600,000,000 in aggregate principal amount of senior secured notes due 2017, €400,000,000 in aggregate principal amount of senior secured notes due 2019 and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (together, the "**February 2012 Notes**"). The drawings under the January 2012 Senior Facilities Agreement and the net proceeds from the issuance and sale of the February 2012 Notes were used to repay in full the outstanding amounts under the Repaid Senior Facilities Agreement. For details relating to the February 2012 Notes, see "*Description of other indebtedness.*"

On July 4, 2012 and July 20, 2012, Schaeffler Finance B.V. issued €300,000,000 and €25,979,000, respectively, in aggregate principal amount of senior secured notes due 2017 (the "**July 2012 Notes**"). The net proceeds from the issuance and sale of the July 2012 Notes were used to partially repay outstanding amounts under the January 2012 Senior Facilities Agreement. For details relating to the July 2012 Notes, see "*Description of other indebtedness.*"

On December 14, 2012, the IHO Facilities Agreement was further amended, providing for credit facilities in the aggregate amount of approximately €2,571 million.

In addition, on December 14, 2012, the Company, as borrower, entered into a syndicated term loan and revolving credit facilities agreement with an initial amount of €4,475 million and $1,500 million (the "**December 2012 Senior Facilities Agreement**") to refinance the January 2012 Senior Facilities Agreement.

Effective December 31, 2012, the Company assigned and transferred its rights as borrower under the December 2012 Senior Facilities Agreement, by way of novation, to IBH pursuant to a borrower exchange agreement dated December 14, 2012 (the "**Borrower Exchange Agreement**").

On March 12, 2013, the Company entered into an amendment agreement in relation to the December 2012 Senior Facilities Agreement (the "**March 2013 Amendment Agreement**") providing for the amendment and restatement of certain provisions of the December 2012 Senior Facilities Agreement, including the repricing and reallocation of certain of the term facilities made available thereunder.

On April 26, 2013, the Company entered into a further amendment agreement in relation to the December 2012 Senior Facilities Agreement (the "**April 2013 Amendment Agreement**") providing for the amendment and restatement of certain provisions of the December 2012 Senior Facilities Agreement, including the refinancing (including the repricing and/or extension of the maturity) of certain term loan and revolving credit facilities made available thereunder (the December 2012 Senior Facilities Agreement as amended and/or restated by the Borrower Exchange Agreement, the March 2013 Amendment Agreement and the April 2013 Amendment Agreement being the "**S-Group Senior Facilities Agreement**"). For details relating to the S-Group Senior Facilities Agreement, see "*Description of other indebtedness.*"

On April 29, 2013, Schaeffler Finance B.V. issued €600,000,000 in aggregate principal amount of senior secured notes due 2018 and $850,000,000 in aggregate principal amount of senior secured notes due 2021 (together, the "**April 2013 Notes**" and, together with the February 2012 Notes and the July 2012 Notes, the "**Existing Notes**"). The net proceeds from the issuance and sale of the April 2013 Notes were used to partially repay outstanding amounts under the March 2013 Senior Facilities Agreement. For details relating to the April 2013 Notes, see "*Description of other indebtedness.*"

On July 16, 2013, the Parent Guarantor as borrower entered into a syndicated term loan and revolving credit facilities agreement with an initial aggregate amount of €3,875 million (the "**S-Verwaltungs Group Facilities Agreement**") to, *inter alia*, refinance the IHO Debt Instruments.

Our divisions

We operate through two main divisions, the Automotive Division and the Industrial Division. The Automotive Division is divided into three business divisions, Engine, Transmission and

Chassis, and is supported by our Automotive Aftermarket business. The Industrial Division's Industrial OEM business division is further segregated into various sectors as described below and supported by our Industrial Aftermarket business.

Automotive Division

As of March 31, 2013, our Automotive Division offers approximately 60,000 products and system solutions for engines, transmissions, chassis and related products under our brands INA, LuK and FAG, supplemented by a comprehensive service portfolio through our Automotive Aftermarket business in the replacement parts segment. Due to scarce natural resources, growing mobility and increasing environmental awareness of consumers, modern automotive vehicles must meet numerous, and at times seemingly contradictory, requirements: they must be dynamic, powerful, quiet and economical, but also comfortable and safe.

Our Automotive Division accounted for approximately 70% of revenue and 74% of EBITDA in the twelve months ended March 31, 2013.

Customers

As of March 31, 2013, we supplied our components and systems to approximately 7,500 automotive customers. Customers of the Automotive Division include all major global automobile manufacturers and Tier 1 and Tier 2 suppliers in the areas of passenger cars as well as light, medium and heavy-duty trucks. Our customer base also comprises aftermarket distributors of automotive products. In the Automotive Division, 82% of the revenue in the twelve months ended March 31, 2013 related to business with OEMs. The remaining 18% of revenue was generated with non-OEM customers relating to the aftermarket.

Customers are serviced and supplied by our worldwide sales organizations and production sites in Germany, Europe (excluding Germany), North America, South America and Asia/Pacific.

Products

The Automotive Division comprises three business divisions with a distinctive product and service portfolio: (1) Engine, (2) Transmission, (3) Chassis and is supported by our Automotive Aftermarket business.

Engine

The business division *Engine* focuses on precision components for the drive unit of a vehicle, such as valve-lash adjustment elements, variable valve train and camshaft phasing systems, chain and belt drives, as well as rolling bearing arrangements. The products are designed to achieve lower fuel consumption and to support our customers in complying with increasingly strict standards for CO_2 emissions. In addition, they are aimed at increasing driving comfort and dynamics, while allowing for longer maintenance intervals.

Transmission

Through our business division *Transmission*, we provide comprehensive components and systems for the transmission unit. The product range comprises manual and automatic transmissions, such as clutch systems, dual mass flywheels, modules for automatic transmissions, continuously variable automatic transmissions ("**CVTs**") and various bearings used in transmissions. The product portfolio is supplemented by applications for alternative drive concepts, such as the dual clutch technology for hybrid system drives.

Chassis

The product portfolio of our business division *Chassis* covers bearing solutions for various chassis applications. In addition to our bearing solutions, we have particularly focused on complete mechatronic systems, ranging from integrated sensors for data capture to electromechanical actuators for active chassis applications. A mechatronic system unites the principles of mechanics, electronics and computing. Our chassis products are aimed at cost-efficiency and durability as well as at more safety and comfort, while at the same time meeting our customers' expectations with regard to design and fitting. Our product portfolio is supplemented by bearings for accessory units and special applications for commercial vehicles.

Automotive Aftermarket

Our Automotive Aftermarket business represents the brands INA, FAG and LuK in the replacement parts business worldwide.

In addition, the Automotive Aftermarket business offers a wide range of services for repair shops and distributors. These include "RepXpert," an online portal for automotive workshops and dealerships, and "Partslife," a recycling system for the independent automotive aftermarket.

Sales

In the twelve months ended March 31, 2013, our top ten customers represented approximately 60% of automotive revenues, with no single customer representing more than 18%. We operate sales and marketing facilities in approximately 180 locations. Our sales and marketing team plays a crucial role in growing and developing prospects, developing brand awareness, creating a positive market image, coordinating sales and marketing messages and developing a working business intelligence for better decision-making.

Our sales organization has a global footprint and is active in all key countries with local sales facilities. Commercial and technical sales representatives are supported by engineering specialists from our regional headquarters. Marketing tools, such as catalogues, technical software, fairs, symposiums, advertising in branch specific magazines, support our sales initiatives and complement our market approach.

Our sales channels are through (i) OEMs and (ii) our extensive aftermarket network. OEM are mainly served directly. E-commerce solutions are used to streamline business processes with our main customers. Sales conditions are predominantly open deliveries and payments according to agreed contract conditions that can be framework agreements, single-year or multi-year contracts. As we have business locations all over the world, sales channels, sales conditions and terms of sales are different from in each country, depending on the respective economic and financial situation as well as national custom.

Industrial Division

As of March 31, 2013, our Industrial Division offers approximately 90,000 articles under the INA and FAG brands for applications used in many different industrial sectors, providing rolling and plain bearings, guides and direct drives.

The Industrial Division accounted for approximately 30% of revenue and 26% of EBITDA in the twelve months ended March 31, 2013.

Customers

Our Industrial Division's customers include, amongst others, OEMs in the area of power transmissions, production and heavy industries machinery and equipment, and wind power turbines as well as airline manufacturers and aerospace customers. In the Industrial Division, OEMs accounted for 61% of the revenue in the twelve months ended March 31, 2013, with the remaining 39% of revenue representing non-OEM customers in the aftermarket.

Industrial sectors

Industrial OEM

Within the Industrial OEM business division, we focus on the following sectors (based on revenue):

The *Power Transmission* sector develops products for use in industrial gearboxes, fluid and conveying technologies, buildings and structures. Most of our *Power Transmission* products are designed to meet our customers' requirements for a long product life with low maintenance costs.

The *Off-Highway Equipment* sector develops products for use in construction and agricultural machinery. Bearings in modern construction machinery, for example, must be designed for high shock loads and very high acceleration and speeds in the smallest possible design envelope. Dust, moisture and heavy soils place high demands on agricultural machinery.

In the *Production Machinery* sector, we provide solutions for bearings in machine tools and textile, printing, food processing and packaging machinery. The product portfolio includes rotary table bearings, screw drive bearings, linear guidance systems and high-precision bearings for main spindles. Supplemented by the offering of INA Drives & Mechatronics GmbH & Co. oHG, this sector implements integrated drive solutions for all rotary table and linear applications.

The *Renewable Energies* sector provides bearing supports for wind turbines along with condition monitoring systems, lubricants, a fitting service and fitting and maintenance tools. The comprehensive product range for wind turbines offers bearing solutions for rotor shafts, gearboxes, generators and wind tracking and blade adjustment arrangements. This sector also manufactures bearings for small and medium-sized turbines as well as plain bearings and bushings for infrastructure projects, such as movable bridges or movable roofs for large buildings (*e.g.*, stadiums). It serves primarily manufacturers of prime movers, power stations, hydropower plants and civil engineering products. Currently, R&D efforts are focused on new markets for us, such as bearings that are specifically designed for underwater hydropower plants utilizing tidal streams to generate renewable energies.

For the *Aerospace* sector, we develop and manufacture rolling bearing systems with integrated components for aircraft and spacecraft construction. The product range comprises high-precision bearing components for aircraft and helicopter engines. In addition, we provide customers with diagnostics and bearing reconditioning services to help them reduce life-span costs while maintaining a high level of system reliability.

The *Motorcycles* sector provides several motorcycle OEMs with needle bearings, ball bearings and engine systems for both the premium and low-cost motorcycle segment. This sector emphasizes low-cost manufacturing countries as a supply base as well as splitting customized product engineering between premium and affordable market segments. In addition, this sector is particularly characterized by strong key-account management and a close proximity to markets, particularly with regard to Japanese OEMs.

The *Railway* sector provides solutions for bearing applications in rail vehicles. The product portfolio includes wheel set bearings, including housings as well as bearings and components for traction motors and gearboxes, wagon joints and tilting mechanisms for doors and numerous other applications.

The *Heavy Industries* sector supports end customers worldwide in the raw material recovery, preparation and processing, metal, cellulose/paper and power plant industry.

The *Fluids & Pneumatics* sector offers products for hydraulic systems and fluid pumps. The range includes low-friction plain bearings with high load-supporting capacity for hydraulic systems and efficient rolling and plain bearings for a variety of pumps, such as pumps used to supply drinking water or pumps used to supply water for firefighting.

The *Consumer Products* sector produces rolling bearings for use in household appliances, sports equipment, power tools, motorcycles, electric motors and medical engineering. This sector supplies customers with deep groove ball bearings, drawn cup roller clutches, linear bearings and needle roller bearings.

Industrial Aftermarket

The *Industrial Aftermarket* business is responsible for the replacement parts and service business with end customers and distributors in all major industrial sectors.

The *Industrial Aftermarket* business sells industrial products through a network of around 6,000 external partners in over 100 countries worldwide as of March 31, 2013. Our Industrial Aftermarket business supports the sales activities with products, numerous customer service measures, technical consultation and marketing activities. In addition, our international sales and application engineering groups, along with our industrial service company, Schaeffler Service, assist customers with rolling bearing solutions and service concepts for "heavy duty" bearing applications that extend the life-span of machinery and reduce maintenance.

Sales

In the twelve months ended March 31, 2013, our top ten customers represented approximately 16% of our Industrial Division's revenues, with no single customer representing more than 5%.

Our sales organization has a global footprint and is active in key countries with local sales facilities. Commercial and technical sales representatives are supported by engineering specialists from the regional headquarters. Marketing tools, such as catalogues, technical software, fairs, symposiums, advertising in branch specific magazines, support our sales initiatives and complement our market approach.

Our sales channels are through (i) OEMs, (ii) MROs and (iii) our extensive distribution network. OEM and selected MRO customers are mainly served directly. The main part of the MRO business is served through our distribution network. E-commerce solutions are used to streamline business processes with our distribution partners. Sales conditions are predominantly open deliveries and payments according to agreed contract conditions that can be framework agreements, single-year or multi-year contracts. As we have business locations all over the world, sales channels, sales conditions and terms of sales are different from in each country, depending on the respective economic and financial situation as well as national custom.

Our functions

Research and development

We conduct R&D activities on a large scale, focusing on key growth technologies. We have created an R&D management system to develop new products, technologies, processes and methods for market-driven products.

Our R&D expenses amounted to €593 million in 2012, €495 million in 2011 and €467 million in 2010, or approximately 5% of revenue in each fiscal year.

As of March 31, 2013, approximately 6,000 R&D staff were employed at approximately 40 development locations worldwide, including 16 R&D centers. Key locations besides Germany are the United States, China, South Korea, France and Brazil.

The R&D centers work in close cooperation in all key areas of product development with customers of the automotive industry, mechanical engineering and aerospace. We use tools, such as simulation and rapid prototyping, for developing increasingly complex products that involve mechatronics. From individual bearing systems to complete vehicles and machine systems, all necessary tests can be carried out on testing facilities. This increases the operating safety of our products and we gain valuable insights for developing and improving our products further. By using coatings developed in-house, the operating life of engine components and bearings can be increased considerably. In addition, by integrating sensor technology, drives and controls and software programs that are developed in-house, our engineers are able to design and develop complete powertrain systems.

R&D relating to the Automotive Division

Our R&D efforts in relation to the OEM business of the Automotive Division follow major trends: energy efficiency and enhanced safety, comfort, and driving dynamics. Energy efficiency *i.e.* the reduction of fuel consumption and consequently lowering CO_2 emissions is the key trend in the automotive industry today. Inventions in this field range from optimization of classic powertrains with internal combustion engines through hybridization to electric mobility.

We have a strong track record with respect to innovation for the automotive market, such as the electro-hydraulic valve control system, "UniAir/MultiAir," which we have made suitable for large-scale production. In addition, the demand for the dual clutch and new actuation systems with low energy consumption, which also minimize CO_2 emissions, is growing. Other innovative components, such as the wheel bearing with spur gear teeth and the lightweight differential reduce weight and required space while simultaneously improving performance. With the "CO_2ncept-10%," a vehicle based on a Porsche Cayenne S, we achieved a 10% reduction in fuel consumption and CO_2 emissions. In addition, we have presented the Schaeffler Hybrid, a car with elements for hybridization and electric mobility, areas for which we offer a continuously growing variety of products, ranging from wheel hub motors to electric drive axles.

R&D relating to the Industrial Division

In addition to continuously improving our existing products, our R&D program in the Industrial Division is designed to capitalize on the main trends regarding energy efficiency, electric mobility and renewable energies as well as demand for systems engineering and mechatronics solutions.

Rolling bearings are a key element for increasing the efficiency of machines and facilities. Further design enhancements as well as new coatings and materials allow us to continuously improve friction values, thus reducing energy consumption and emissions. In addition, the continued development of the X-life bearing range helps increase performance significantly.

The move towards mechatronic components and systems is becoming increasingly more important for us. Integrated sensors and generators in rolling bearings can be used to transmit data to actuators or higher-level control units. One example are grease sensors for extended 360-degree condition monitoring. With a complete system for magnetic bearings we established a new business area in addition to rolling and plain bearings in this field.

Renewable energies are another strategic growth area where our Industrial Division positioned itself early through, *inter alia*, significant R&D endeavors in the field of components for wind, solar and hydro power. Schaeffler Industrial is driving developments in the field of electric mobility, such as e-bikes, motorcycles and off-highway applications.

Intellectual property

We have obtained many patents and licenses to cover our products, their design and our manufacturing processes and are continuously seeking to secure further patents on our developments.

As of March 31, 2013, we held approximately 19,000 patents and patent applications. More than 1,800 new patents were applied for in 2012, which makes us one of the foremost innovative companies in Germany based on number of applications submitted.

We consider our intellectual property a competitive advantage of our business. Hence, we devote significant resources to the filing and monitoring of our patents and other intellectual property rights, to the prosecution of infringements thereof and to the protection of our proprietary information. For example, we conduct intensive market studies regarding product counterfeits and, consequently, enforce our claims by legal action. In addition, we monitor patent studies with regards to the competitive situation of our developments. For a detailed description of the risks associated with intellectual property rights, please see "*Risk factors—Legal, taxation and environmental risks—We could be unsuccessful in adequately protecting our intellectual property and technical expertise*" and "*Risk factors—Legal, taxation and environmental risks—There is a risk that we infringe intellectual property rights of third parties.*"

Production technologies

We are among the leaders in the fields of cold forming technology, forging, machining, heat treatment, plating technology and assembly. Deep drawing, a process in the field of cold forming, is one of our core technologies. Our expertise in metal forming of precision products enables us to manufacture solutions tailored to our customers in high-volume production at an outstanding cost-performance ratio. All work related to quality, such as grinding (*e.g.*, precision grinding) and honing the inner and outer rings of rolling bearings, is carried out in-house.

Assembly is carried out primarily on linked and automated manufacturing lines, ensuring the high standards of quality for our products. Our in-house special machine and tool manufacturing department develops processing solutions that are specially adapted to the needs of the production process of individual products, enabling us to manufacture our products flexibly and cost-effectively.

Property, plant and equipment

Many of our plants are "mixed plants" in which products are manufactured for both the Automotive and Industrial Divisions. As of March 31, 2013, we operated 70 manufacturing plants in 21 countries worldwide, all of which are owned by us.

Our headquarters are situated in Herzogenaurach, Germany. We fully own the area and the building with a surface area of 352,461 square meters.

The following table provides an overview of our most important plants in order of size of property.

Location	Size of property in square meters	Owned or leased/expiry dated for lease terms
Schweinfurt, Germany	335,773.00	Approximately 4,150 m^2 of which are leased
Herzogenaurach, Germany	352,460.93	Owned
Sorocaba, Brazil	161,321.20	Owned
Brasov, Romania	145,512.76	Owned
Kysucke Nove Mesto, Slovakia	119,131.89	Owned
Taicang, China	110,976.53	Owned
Bühl, Germany	104,946.00	Owned
Skalica, Slovakia	103,071.32	Owned
Wuppertal, Germany	99,577.15	Owned
Fort Mill, United States	30,944.00	Owned

Purchasing of raw materials and energy resources

Steel is the principal raw material used in many of our products. We purchase raw materials from global sources with whom we work closely to assure steel quality. Steel (raw material and steel components) comprised approximately 45% of our total purchasing volume and approximately 36% of our total cost of goods sold in the twelve months ended March 31, 2013. Other important production materials include castings, turned parts and forgings. We obtain raw materials from a variety of sources and in general from more than one supplier. Our top five and top 100 suppliers accounted for approximately 5% and approximately 30%, respectively, of total purchases in the twelve months ended March 31, 2013.

Prices for raw materials and energy resources continue to remain high compared to historical levels. Prices of raw materials and energy resources are subject to curtailment or change due to, among other things, new laws or regulations, changes in demand levels, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels.

We do not actively hedge against the risk of rising prices of raw materials and preliminary products by using derivative financial instruments. Instead, we generally enter into long-term purchasing contracts relating to raw materials and preliminary products on an opportunistic basis. Prices for long products, such as bars, wires, tubes and thereof produced rings are generally fixed with an annual base price, monthly scrap and alloy surcharges. Due to the fact that flat products like hot-rolled and cold-rolled strip have no volatile cost elements in the contracts, prices are fixed on a shorter basis.

For a detailed description of the risks associated with raw materials and energy supply, please see "*Risk factors—Risks related to our business operations—We depend on a limited number of key suppliers for certain products*." and "*Risk factors—Risks related to our business operations—We are exposed to fluctuations in prices of raw materials and energy*."

IT systems

The IT infrastructure employed by us is characterized by a high level of standardization. Our IT systems and application landscapes rely heavily on SAP software. Our applications are unified for our divisions. Non-SAP software is only used for office applications and CAD as specified software.

Our regions

We divide our business operations into five regions: Germany, Europe (excluding Germany), Asia/Pacific, North America and South America. In the twelve months ended March 31, 2013, we generated 26% of our total revenue in Germany, 30% in Europe (excluding Germany), 23% in the Asia/Pacific region, 16% in North America and 5% in South America. Based on our "*in the region, for the region*" strategy, we focus on regional production and relationships with local customers and suppliers. We maintain production and service facilities in close proximity with all our major customers' manufacturing operations.

Germany

As of March 31, 2013, we operate 24 production locations and 13 R&D facilities in Germany, the largest and most important of which are located in Herzogenaurach, Schweinfurt and Bühl. Our headquarters are located in Herzogenaurach. We are currently discussing restructuring measures for our large size bearing production in Wuppertal and our wheel bearing production in Schweinfurt, which may lead to one-time restructuring charges in the second half of 2013.

Europe (excluding Germany)

Our 19 European production plants are closely linked to our plants in Germany, both logistically and operationally. In addition to our large production sites in Western Europe, primarily in France and Spain, we have important manufacturing plants in Eastern Europe. Over the past few years, large plants were built in the Czech Republic, Hungary, Romania and Slovakia. As of March 31, 2013, we operate nine testing facilities and development locations across Europe. In addition, numerous distribution companies ensure full customer support with short response times.

Asia/Pacific

Our Asian operations are managed from our regional headquarters established in Shanghai, China in 2007. With our locations in China, Korea, Japan, Taiwan, the Philippines, Malaysia, Vietnam, Thailand, Singapore, Indonesia, Australia and India, we are present throughout the region. As of March 31, 2013, we operate 13 production sites and 10 R&D facilities, providing local support for our Automotive Division and Industrial Division.

North America

Headquartered in Fort Mill, South Carolina, USA, we have been firmly established in North America for nearly five decades. As of March 31, 2013, we operate twelve production sites and seven R&D facilities in the U.S., Canada and Mexico in close proximity to our most important customers, allowing us to tailor the supply of our products to the North American market. Our R&D center in Troy, Michigan, USA is in close proximity to the main North American OEMs.

South America

We have been present in South America since 1958. With our headquarters and production facility in Sorocaba, Brazil, we are represented in South America's most important automotive region. In addition, we have sales and engineering companies in Argentina, Chile, Colombia and Venezuela.

Employees

The table below shows the headcount as of December 31, 2012, 2011, and 2010 and as of March 31, 2013 and 2012 in our functional areas.

	As of December 31,			As of March 31,	
Number of Employees	**2010**	**2011**	**2012**	**2012**	**2013**
				(unaudited)	
Production	53,050	57,912	59,148	58,611	59,679
Research and Development	5,032	5,799	6,314	5,849	5,941
Selling	5,498	5,935	6,021	5,992	5,953
General Administration	3,929	4,385	4,616	4,496	4,613
Total	**67,509**	**74,031**	**76,099**	**74,948**	**76,186**

Headcount rose by 2% to around 76,000 during the twelve months ended March 31, 2013, which reflected our improved business environment.

The table below shows the headcount as of December 31, 2012, 2011, and 2010 and as of March 31, 2013 and 2012 for each of the regions in which we operate.

	As of December 31,			As of March 31,	
Region	**2010**	**2011**	**2012**	**2012**	**2013**
				(unaudited)	
Germany	27,938	29,443	29,778	29,718	29,793
Europe (excluding Germany)	20,063	22,004	22,069	22,147	22,068
Asia/Pacific	9,258	11,181	12,664	11,420	12,590
North America	5,866	6,781	7,246	6,936	7, 372
South America	4,384	4,622	4,342	4,727	4, 363
Total	**67,509**	**74,031**	**76,099**	**69,517**	**76,186**

Relationships with unions and works councils

Our employees in Germany are represented by unions, along with many of the employees in other countries. Furthermore, our employees in Germany are represented by works councils.

In Germany, we are a member of the metal and electrical industry organization of employers (*Verband der Metall-und Elektronikindustrie*) in all regions and are therefore subject to the various collective bargaining agreements of the association.

According to German law, our German employees established a company works council (*Konzernbetriebsrat*) for all our primary German plants and separate works councils (*Betriebsräte*) for each German plant.

In 2004, we entered into a works agreement (*Betriebsvereinbarung*) with the company works council on the protection of plants (*Standortsicherung*). According to this agreement, the German plants of Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) were kept under a 100% protection until the end of 2008. Other measures to secure employees were also negotiated with this agreement. These measures may be terminated with six-months' notice and without prejudice.

We have a close and constructive relationship with our German worker councils and our German unions, evidenced by the fact that we have not experienced any disruptions from strikes or work stoppages in recent years.

Outside Germany, there are several other countries where our employees are represented by unions.

Pensions

We provide defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of March 31, 2013, our total pension obligations amounted to approximately €2,153 million. As of March 31, 2013, our net pension obligations for defined benefit pension plans (pension obligations less pension plan assets, funded status) amounted to approximately €1,558 million.

Our externally invested pension plan assets are funded through externally managed investment funds. While we prescribe the general investment strategies applied by these funds, we do not determine their individual investment alternatives. The pension plan assets are invested in different asset classes including equity, fixed-income securities, real estate and other investment vehicles.

Investments

Our investment strategy is tailored towards further enhancing our technological capabilities and cost competitiveness and increasing our penetration of high-growth market segments and geographies.

Our material investments in the fiscal years ended December 31, 2010, 2011 and 2012 can mainly be categorized as investments in organic growth (*i.e.*, investments in production facilities, equipment and software).

Capital expenditures in production plants, buildings, equipment and software

Our capital expenditures in production plants, buildings, equipment and IT products in the twelve months ended March 31, 2013 amounted to €695 million, in the fiscal year ended December 31, 2012 amounted to €827 million. In the fiscal year ended December 31, 2011, they amounted to €846 million and, in the fiscal year ended December 31, 2010, such capital expenditures accounted for €386 million.

Our capital expenditures made in connection with the development of new products and services involved the construction of new production facilities, in particular, in low-cost countries, such as China, India and in Eastern Europe (*e.g.*, Romania and Slovakia). In addition, significant capital expenditures were made in connection with the expansion of existing production capacities in various countries and across all divisions, business divisions and business units.

Investments for acquisitions of subsidiaries and management units

In the fiscal years ended December 31, 2010, 2011 and 2012 and in the three months ended March 31, 2013, there were no investments for acquisitions of subsidiaries and management units.

As of March 31, 2013 until the date of this Offering Memorandum, no principal investments were made either in property, plant, equipment and software or in subsidiaries and management units.

Environment, insurance and legal

Environment and pollution

Our operations are subject to a wide range of environmental laws and regulations in various jurisdictions, including those governing the management and disposal of hazardous materials, the clean-up of contaminated sites and occupational health and safety.

Hazardous material, soil and groundwater contamination

Our operations include the use and storage of hazardous materials and can otherwise have an impact on soil and groundwater. Other environmentally sensitive substances required for the operation of sites, such as fuel and heating and lubricating oil, are used and stored at our sites. In addition, many of the sites at which we operate have been used for various industrial purposes for many years. As a result, some of our sites could be affected by soil and groundwater contamination. In some cases, we are obligated to perform further investigation or clean-up operations.

At some of our sites, asbestos was used in the construction of buildings. At present, asbestos used at these sites is usually bound in other materials, such as asbestos-containing cement boards used for heat insulation. The replacement of bound asbestos is usually not required under environmental laws. If a building is refurbished or demolished, however, or if asbestos containing materials are in a condition that could cause asbestos to become airborne, precautions for the protection of employees must be taken and the material must be properly disposed of. At some of our sites, asbestos-containing structures will have to be demolished and such materials disposed of in the future.

For a detailed description of the risks associated with the use of hazardous material and possible soil, water and groundwater contamination, please see "*Risk factors—Legal, taxation and environmental risks—We could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.*"

Compliance issues

All countries in which we operate have adopted complex laws, regulations, technical rules and standards concerning environmental protection. We are required to obtain and maintain permits from governmental authorities for many of our operations. These laws, regulations and permits are subject to change over time and require the ongoing improvement and retrofitting of plants, equipment and operations, which can, at times, require substantial investments. All our plants are validated or are currently seeking validation according to the EMAS system, ISO 14001 and OHSAS 18001.

Insurance coverage

We believe that we have economically reasonable insurance coverage with respect to product and environmental liability, property insurance, business interruption insurance and other insurance (*e.g.*, automobile, credit and freight insurance). Furthermore, we consider the insurance coverage level relating to our directors and officers (D&O insurance) to be economically reasonable.

Litigation and administrative proceedings

Antitrust investigations

On November 8, 2011, the EU Commission initiated investigations against several bearing companies, including us and other large bearing manufacturers. The EU Commission is further investigating the matter; we expect further procedural steps in 2013. The DOJ issued a grand jury subpoena on November 9, 2011 and commenced its own investigation. Starting in May 2012, several class action lawsuits were filed by plaintiffs in the U.S. and Canada against Schaeffler Group companies and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants. These proceedings relate to potential infringements in the bearings industry of European and U.S. antitrust laws. The Japanese Fair Trade Commission sent various requests for information to the Company's Japanese subsidiary. The Korean Fair Trade Commission has started an investigation against Schaeffler Korea Yuhan Hoesa and a search was conducted in the company in July 2012. We have initiated an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors. Pursuant to Schaeffler Group policy, the Company is cooperating fully with the investigating authorities. A successful antitrust law challenge could result in the imposition of significant fines by one or more authorities (in the case of the EU Commission, up to a maximum of 10% of our worldwide annual group revenue). While we anticipate the risk of a fine in the EU, at this stage it is not possible to provide a reliable estimate of the amount of any fine.

In addition, in May 2013, the Spanish Competition Authority opened antitrust proceeding against Schaeffler Iberia concerning possible antitrust law infringements in the railway bearings sector. See "*Risk factors—Legal, taxation and environmental risks—We are subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims.*"

Product liability proceedings

Although we aim to address any product-related risks prospectively through a careful product development procedure and thorough quality management systems, we are frequently subject to product liability lawsuits and other proceedings alleging violations of due care, violation of warranty obligations and claims arising from breaches of contract, recall campaigns or fines imposed by governments. Since 2010, our aggregate settlement costs relating to such claims amounted to less than €50 million on an annual basis. None of these product liability proceedings had material adverse effects on our business, financial condition and results of operations during the fiscal year ended December 31, 2012 and none of the currently pending or threatened product liability proceedings is expected to have such effects in the future.

Furthermore, our group companies are involved in legal or administrative proceedings in Germany and abroad in connection with product liability lawsuits and other proceedings, alleging violations of due care, violations of warranty obligations, treatment errors, breach of contract, recall actions or fines imposed by government or regulatory authorities. Although the outcome of these proceedings is uncertain, we anticipate that an unfavorable outcome of such proceedings would not have material adverse effects on our business, financial condition and results of operations.

Material contracts

Joint procurement cooperation agreement

On March 27, 2009, Continental AG entered into a joint procurement cooperation agreement (the "**Cooperation Agreement**") with Schaeffler KG (today Schaeffler Holding GmbH & Co. KG) to improve purchasing conditions and to create a stronger supplier network for both parties, in particular by creating better access to the steel markets and component suppliers. With effect from February 1, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of our reorganization, been replaced by Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) as a party to the Cooperation Agreement. Pursuant to the Cooperation Agreement, Continental AG and Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) will act as independent entities but try to create synergies through worldwide purchasing cooperation. The goal of the Cooperation Agreement is to strengthen the market and negotiation position of each party by cumulating their purchasing volumes, to jointly negotiate lower purchasing prices and to achieve advantageous conditions for the parties, including a better-quality performance of suppliers, which is intended to lead to a higher level of competitiveness and lower prices of the parties' products. The parties are to determine products which will be mutually sourced from suppliers and are to mutually determine suppliers. However, the actual purchase of the products is conducted by each party on its own behalf and for its own account. The agreements with the suppliers are to entitle, but not obligate, each party and its subsidiaries to purchase at the terms and conditions of such agreements. For the purpose of cooperation, the parties stipulate to exchange information regarding (i) the parties' needs for the products, (ii) lists of selected and qualified suppliers, (iii) current prices and frame contracts, (iv) the evaluation of suppliers and (v) the implementation of purchasing and supplier strategies. It will be renewed automatically for consecutive 12-month periods unless one party gives written notice of its intention not to renew at least 90 days prior to the end of the then-current term.

Investment Agreement

On August 20, 2008, Continental AG entered into an investment agreement (the "**Investment Agreement**") with Schaeffler Holding GmbH & Co. KG (formerly Schaeffler KG), Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler and former German Chancellor Dr. Gerhard Schröder as "Controller." With effect as of June 28, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of our reorganization, been replaced by Schaeffler AG (formerly Schaeffler GmbH) as a party to the Investment Agreement. On May 4, 2011 Schaeffler Verwaltungs GmbH and on September 26, 2011 Schaeffler Beteiligungsholding GmbH & Co. KG acceded the Investment Agreement in the context of certain transfers of shares in Continental AG by Schaeffler GmbH to Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG. Pursuant to the Investment Agreement, Schaeffler AG, Schaeffler Verwaltungs GmbH, Schaeffler Beteiligungsholding GmbH & Co. KG and/or our other members are committed to support the strategy determined by Continental AG's executive board considering Continental AG's current business model and to maintain its existing market and brand appearance. Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obligated not to undertake, cause or support without the consent of the executive board, certain material structural measures (such as changes to Continental AG's form of incorporation, its corporate seat, the location of its headquarters or business divisions, a delisting on any stock exchange, the entering into of enterprise agreements (*Unternehmensverträge*), any divestitures or an increase of Continental AG's debt).

To safeguard the interests of Continental AG's employees, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obliged not to conduct or support without the consent of Continental AG's executive board, any measures directed at changing the shop agreements or collective bargaining agreements or aiming at the abolishment of the employees' co-determination rights. Furthermore, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obligated to respect the rights of the employees, works councils and the labor unions under applicable laws, agreements, regulations and contracts in force at Continental AG. The parties undertook to examine possibilities for strategic cooperation projects between us and Continental AG based on the principals of an alliance of equals between two productive and independent companies without undue delay after completion of the takeover offer. With regard to the composition of the supervisory board (*Aufsichtsrat*), Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG undertook not to propose for election or elect more than four persons who are shareholders, board members or employees of Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG or of their affiliates within the meaning of Section 15 of the German Stock Corporation Act (*Aktiengesetz*). Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG promised not to undertake or support actions that would result in a change of the composition of the executive board, unless there is good cause or if the shareholders' meeting should withdraw its confidence in any particular board member. Furthermore, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG may not, without the consent of the executive board, undertake or support actions to cause a payment of a special dividend or a change of the dividend policy of Continental AG.

Pursuant to the Investment Agreement, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG must compensate Continental AG in the amount of up to a maximum of €522 million for possible adverse effects resulting from a change of control in connection with existing financing agreements of Continental AG and the loss of tax carryforwards resulting from Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler

Beteiligungsholding GmbH & Co. KG's shareholding. This compensation is limited as follows: (i) compensation for the loss of tax carryforwards is limited to an amount of up to €122 million in the event of a shareholding by Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG of at least 30% and (ii) compensation for adverse effects is limited to an amount of up to €400 million in the event of a shareholding by Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG of more than 49.99%.

Failure to comply with the terms of the Investment Agreement regarding (i) the restrictions concerning structural and management measures, (ii) the provisions concerning the rights of employees and their representatives, or (iii) the obligation not to change the composition of the executive board, will result in an obligation on Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG to pay a penalty of €10 million to Continental AG for every instance of non-compliance. Continental AG is obligated not to undertake, initiate or support any action which could hinder or delay the success of Schaeffler KG's (today Schaeffler Holding GmbH & Co. KG) takeover offer with the exception of measures (i) required to fulfill obligations imposed by law on the executive board or supervisory board of Continental AG; or (ii) which a prudent and conscientious manager of a company not affected by a takeover bid would have taken.

Former German Chancellor Dr. Gerhard Schröder, as Controller, is entitled and empowered to protect the interest of Continental AG, its shareholders, its employees and other stakeholders. He is empowered to claim fulfillment of the obligations of Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG at any time during the term of the Investment Agreement by legal action or out of court. In this regard he is entitled to request information from Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG about the company's level of compliance with its obligations under the Investment Agreement. Any amendment of the Investment Agreement or waiver of rights granted under the Investment Agreement is subject to the Controller's consent. Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG and Continental AG share costs for the Controller's expenses and remuneration equally.

On May 13, 2013, notice of our intention to terminate the Investment Agreement was given. As a result, the Investment Agreement will be terminated effective May 2014.

Regulatory framework

We are subject to environmental and regulatory laws governing our business activities in the countries in which we operate. This includes, inter alia, provisions on (i) air emissions, (ii) water protection, (iii) waste treatment, (iv) soil and groundwater contamination, (v) handling, storage and transport of hazardous goods and (vi) chemical substances. Further, we are subject to requirements on product safety, occupational health and safety as well as export control regulations. Application of the various regulations depends on the specific facilities, installations and activities at the business locations and the type and use of the products manufactured by us. For example, the permits and notifications required for a specific facility depend on many individual factors, including the specific purpose of the facility, its capacity and physical structure, the emissions produced by the facility, and the existence of any auxiliary facilities.

Moreover, the products manufactured by us have to comply with various legal requirements.

The provisions under environmental and regulatory law applicable to us and our products are subject to change. They are continuously being adapted, at the national and international levels (especially by the European Union), to the level of technical sophistication, the increased need for safety and recognition of environmental aspects in political decisions.

Since a large number of our subsidiaries and/or production sites are located in member states of the European Union and since we generate a significant portion of our turnover within the European Union, the following description of particularly relevant legal provisions focuses on acts adopted by European institutions. These acts may be complemented by implementing additional (stricter) requirements established by specific member states. In addition, this section comprises summaries of the regulatory framework for our products in the United States and in Japan, two markets outside the EU that are important for us from a sales perspective.

Regulatory framework for our operations

The industrial sites operated by us have to comply with several environmental and regulatory requirements which can be enforced by the authorities, by competitors via the competition laws or by environmental NGOs based on their broader access and action rights. In addition, environmental liabilities can occur due to public or civil environmental laws. In the following, the main legal sources in the European Union for such obligations or liabilities are summarized.

Permits and compliance

For the construction, operation and alteration of industrial facilities, such as production plants, we generally need emission control permits or, alternatively, building permits and permits under water laws. In the application process for such permits, the authority assesses whether the specific facility the permit has been applied for will be in compliance with applicable provisions of environmental and regulatory law, in particular, with regard to emissions, building planning and building regulations law, waste disposal, nature protection, occupational health and safety and, in the case of permits under water law, use and disposal of water are examined. As a general rule, the permits cover most of additional environmental and regulatory requirements that have to be met (e.g., with respect to emissions and occupational health and safety). Some application procedures include public participation, e.g. the application procedure for an emission control permit includes a public participation not limited to specific stakeholders. As a result of the public participation objections may be raised and thereby complicate and delay procedures. Moreover, permits may be subject to legal proceedings initiated by third parties, namely neighbors and environmental non-governmental organizations whose participation rights have been expanded by the EU public participation directive (Directive 2003/35/EC) and its interpretation by the European Court of Justice (recently with a ruling of May 12, 2011 (C-115/09)).

Non-compliance with the requirements set out in specific permits and their ancillary conditions may trigger administrative fines, the responsible individuals may also be subject to criminal prosecution. Furthermore, as a worst case scenario the authority may order a (partial) shutdown of the facility and, under certain circumstances, revoke the permit.

Integrated Pollution Prevention and Control

Directive 2008/1/EC of the European Parliament and of the Council of January 15, 2008, as amended by Directive 2009/31/EC of the European Parliament and of the Council of April 23, 2009, (the "**IPPC Directive**") stipulates that industrial activities with a high pollution potential, including installations for the production and processing of metals, are required to have a permit. This permit can only be issued by the competent authority if certain environmental conditions are met so that the companies themselves bear responsibility for preventing and reducing any pollution they may cause.

The legal requirements for emissions have recently become even stricter in the Member states of the European Union which had to implement the new Directive 2010/75/EU on industrial emissions ("Industrial Emission Directive", "**IED**") by January 7, 2013. The IED includes, inter alia, stricter emission threshold levels and a regular authority review and update of permits in view of new technical standards and enforcement. In addition, activities subject to a permit requirement under the IED have to reach the standard of the "best available techniques" ("**BAT**"). The EU Commission will draw up, review and, where necessary, have updated the BAT standards and issue the binding BAT conclusions for the application of BAT in practice (e.g., specific thresholds, monitoring measures, consumption levels). These binding BAT conclusions are published in best available technique reference documents ("**BREF**"). As an example, the Commission has started drafting a new BREF related to the processing of ferrous metals.

The IED requires a periodical review of the ancillary conditions in existing permits and, if necessary, amendments of these conditions to ensure compliance with the IED. For example, this is a novelty in the German system where permits under the Federal Emission Control Act are as a rule unlimited in time and only subject to subsequent amendments to the extent they are proportionate. The requirement of iterative amendments of existing permits may also apply to the installations operated by us as these installations fall within the scope of the IED.

For specific installations, that were already subject to the Integrated Prevention and Pollution Control ("**IPPC**") Directive No. 61/96/EC, there is a new requirement relating to the status of the soil and (ground) water. For these installations, since January 7, 2013 the operator must prepare and submit a baseline report on soil and groundwater contamination to the authorities in order to establish a reference situation for the case that installations later on are decommissioned and the operator then will be required to restore the environmental status of the baseline report. Also, there will be public access to these reports, enforcement and other environmental information. This is expected to increase perception and costs of operating industrial plants subject to the IED requirements.

Currently, the IED is being implemented in German law by amendments *inter alia* to the Federal Emissions Control Act (*Bundesimmissionsschutzgesetz*), the Federal Water Act (*Wasserhaushaltsgesetz*), the Waste Management Act (*Kreislaufwirtschaftsgesetz*) and several additional regulations. The provisions have recently been implemented into German law through amendments to the Federal Emissions Control Act, the Water Management Act and other environmental laws and ordinances.

Emissions from production processes

Greenhouse gas emissions trading

In the EU, the third trading phase for greenhouse gas emissions, the so-called Europeans Emission Trading Scheme ("**EU ETS**"), started on January 1, 2013 with substantial changes to the system.

Directive 2003/87/EC of the European Parliament and of the Council of October 13, 2003 ("**Emission Trading Directive**") established the EU ETS, which has been in place since January 1,

2005. It aims at reducing greenhouse gases, particularly emissions of carbon dioxide by the industry and power sector. The EU ETS makes use of market-based mechanisms to encourage the reduction of greenhouse gas emissions in a cost-effective and economically-efficient manner, while maintaining the environmental integrity of the system.

The basic principle of the EU ETS includes a reduction of greenhouse gases (mainly carbon dioxide) by the allocation of emission allowances to operators of specific facilities. Each operator receives a decreasing amount of allowances in each year of a specific trading period (e.g., 2013-2020). In each year of a specific trading period, the operator is obliged to surrender an amount of allowances equal the amount of e.g. carbon dioxide emitted by its facilities (e.g., 6,000 allowances for 6,000 tons of emitted carbon dioxide) except for carbon dioxide emitted from the use of biomass as fuel. If the operator fails to surrender the specific amount of allowances completely the operator has to pay a fine (e.g., in Germany, €100 is due for each allowance not surrendered). As the amount of allocated allowances decreases each year, the EU ETS forces the operator to either reduce the greenhouse gas emissions of its facilities or to purchase additional allowances on the allowances market. Allowances are tradable like credits. If an operator has to surrender fewer allowances than received (e.g., due to the use of biomass as fuel or technical measures of emission reduction), it can sell the surplus allowances on the market. An allowance for the emission of e.g. carbon dioxide is valued at a price which is determined by the (trading) market.

The total number of available allowances, however, remains limited. Thus, the additional purchase of allowances is only possible if a reduction of carbon dioxide output has been achieved elsewhere.

In the third trading period, instead of national caps, there is a single EU-wide cap declining annually by the linear factor of 1.74% in relation to the average annual total quantity of allowances issued by member states in 2008-2012 (leading to a 21% emissions reduction in 2020 compared to 2005). The total amount of allowances cannot exceed the cap, limiting total emissions of the relevant overall plant operators to that level. Plant operators that need to increase their emission allowance contingent must buy allowances from those who pollute less, or from other sources. The third trading period is longer (8 years instead of 5 years) and the amount of auctioned allowances is substantially increased starting at 20% auctioning in 2013 for the industrial sector with an increase to 70% by 2020. However, as regards the transition to auctioning, an exception is made for sectors deemed to be exposed to carbon leakage. Installations in these sectors receive 100% of the benchmarked allowances for free.

Volatile organic compound emissions

We operate installations using volatile organic compounds ("**VOC**"). These installations are therefore subject to regulations on VOC in the IED, which enter into force in a staged process, formerly in the Council Directive 1999/13/EC of March 11, 1999, complemented and amended by Directive 2004/42/EC of the European Parliament and of the Council of April 21, 2004 and Directive 2008/112/EC of the European Parliament and of the Council of December 16, 2008 ("**VOC Directive**"). Hence, we are obliged to comply with its requirements as implemented by applicable national regulations. The requirements cover permit or notification duties for installations using VOCs, a phase out for certain VOCs and emissions of organic solvents from stationary commercial and industrial sources, such as coating activities or surface cleaning. For most of the activities concerned, the Directive specifies a consumption threshold. The VOC Directive will be repealed as of January 7, 2014 as VOC emissions will then be regulated by the IED. The IED does not explicitly provide stricter emission limits for VOC. It does, however, strengthen the importance of BAT in the permitting procedure as well as in the course of a permit review. These BAT standards may impose more stringent emission limit values compared to the VOC Directive. The IED may therefore constitute a ratcheting up of the current regulatory framework for VOC emissions. Further, by June 1, 2015 substances or mixtures which, because of their content of volatile organic compounds classified as carcinogens, mutagens or toxic to reproduction, are assigned or need to carry the hazard statements H340, H350,H350i, H360D or H360F, shall be replaced, as far as possible by less harmful substances or mixtures within the shortest possible time.

Waste from production processes

As of December 12, 2010, Directive 2008/98/EC of the European Parliament and of the Council of November 19, 2008 (the "**Waste Framework Directive**") established the framework on waste treatment within the EU, we have to comply with the requirements of the Waste Framework Directive as implemented by the national laws. This relates in particular to the disposal of waste from production processes. The measures provided for in the Waste Framework Directive apply to all substances or objects which the holder discards or intends or is required to discard. They do not apply to gaseous effluents, waste waters and some other types of waste which are subject to specific Community rules.

The Waste Framework Directive introduces a new waste hierarchy, i.e., the members states should take the following measures for the treatment of their waste (listed in order of priority): (i) prevention, (ii) preparing for reuse, (iii) recycling, (iv) other recovery including, notably, energy recovery and (v) disposal. Yet, as regards specific waste streams, member states may depart from the hierarchy where this is justified by life-cycle thinking on the overall impacts of the generation and management of such waste.

Member states must prohibit the abandonment, dumping or uncontrolled disposal of waste. Member states must ensure that any holder of waste has it handled himself (according to the requirements of the Waste Directive on waste handling) or by a (i) private or public waste collector, (ii) broker or (iii) disposal undertaking or establishment. Undertakings or establishments treating, storing or tipping waste on behalf of third parties must obtain a permit from the competent authority relating, in particular, to the types and quantities of waste to be treated, the general technical requirements and the precautions to be taken. The competent authorities may periodically check that the conditions of the permit are complied with. They also monitor undertakings which transport, collect, store, tip or treat their own waste or third parties' waste. Waste treatment facilities and undertakings disposing of their own waste also require a permit. In accordance with the "polluter pays" principle, the cost of waste disposal must be borne by the holder who has waste handled by a waste collector or an undertaking and/or by previous holders or the producer of the product giving rise to the waste.

Further, the Waste Framework Directive strengthens waste prevention through the instruments of producer responsibility and waste prevention programs. It also supports the recovery of waste by stating obligations to separate waste and recycling targets for certain types of waste. Furthermore, it establishes a procedure to define criteria for by-products and the end of waste status for specific production processes and waste streams, which will ensure legal certainty and improve the acceptance of quality recycling products. It also clarifies the distinction between energy recovery and disposal of waste by introducing energy efficiency criteria.

Soil and groundwater contamination

We are liable for soil and groundwater contamination present on currently used sites. At present, we carry out remediation measures related to soil and groundwater contamination on 16 manufacturing sites. We estimate the total costs for such measures at approximately €5.0 million. Moreover, there are at least nine further sites which are suspected for soil and groundwater contamination. We may further be liable for soil and groundwater contamination on former sites as well as adjacent sites. We cannot exclude that remediation measures related to these sites may be required in the future. In addition, we cannot exclude that soil and groundwater contamination may be identified on further currently used sites.

On the European level, liability for contamination of soil and groundwater has not, to date, been subject to specific regulations or a protection policy. Some soil protection aspects can be found scattered in various legal documents, hence different Community policies can contribute to protect soil. This is the case with many provisions in the existing environmental Community legislation in areas such as water, waste, chemicals, industrial pollution prevention, nature protection and pesticides. However, these provisions do not establish a comprehensive soil protection regime including liability for soil and groundwater contamination. The European Commission therefore strives to establish a common framework to protect soil on the basis of the principles of preservation of soil functions, prevention of soil degradation, mitigation of its effects, restoration of degraded soils and integration in other sectoral policies. It has published a proposal for a directive on soil protection (COM (2006) 232 final dated September 22, 2006). This draft directive deals, inter alia, with precautionary measures, an approach to soil sealing, measures to limit the introduction of dangerous substances into the soil and national strategies for remediation of the contaminated sites identified. However, it still remains unclear whether or when a European soil protection regime will enter into force and to which extent it will stipulate provisions concerning soil protection which are stricter than current national requirements. On February 13, 2012, the European Commission has published a report on ongoing activities in the field of soil protection (COM (2012) 46 final) according to which no progress has been made on the implementation of the proposed European directive on soil protection. The Committee of the Regions has published an opinion of November 30, 2012 (OJ C 17, January 19, 2013, p. 37), which recommends to implement a soil framework directive without limit thresholds. Hence, it is rather unlikely that this framework directive, if it comes into force, includes stricter requirements than the current national provisions.

For example, in Germany liability for soil and groundwater contamination is laid down in the Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*) in conjunction with the Federal Soil Protection and Contamination Regulation (*Bundes-Bodenschutz- und Altlastenverordnung*). Both require specific measures if certain thresholds of hazardous substances are exceeded. These measures include that contamination of soil and groundwater must be explored, removed, reduced or, at least, prevented from spreading onto adjacent sites or that its spreading is mitigated in the long term. If there is reasonable suspicion that contamination of soil and groundwater may be present on a site, the authority may order investigation measures to explore the contamination. If the suspicion is confirmed, the authority may order remediation or containment measures.

Under the German Federal Soil Protection Regime, both the present owner and the party currently having control of the premises may be held liable by the authorities to undertake such measures which often imply significant costs. The same applies to the former owner if it transferred ownership after March 1, 1999 and was or must have been aware of the harmful changes to the soil or contamination. Further, if a legal entity is liable for soil and groundwater contamination under the aforementioned provisions it cannot be ruled out that the shareholders in this entity may be held liable (piercing of the corporate veil) in evident cases of circumvention of liability for soil and groundwater contamination. In all cases of liability for soil and groundwater contamination, it may be subject to controversy that actually caused an existing contamination. Although the competent authorities are allowed to address remediation orders against all parties potentially liable for soil and groundwater contamination, they usually aim for the most efficient remediation by addressing such order to the party with the largest financial resources. The "polluter pays principle" is taken into consideration but will be disregarded if approaching the polluter may endanger an efficient and quick execution of the ordered measures. If a party is held liable by the authorities for soil and groundwater contamination it may be indemnified by other liable parties under the Federal Soil Protection Act. Yet, contractual agreements under civil law (e.g., guarantees and indemnities) do not protect against authority action. Such agreements may only provide reimbursement. Further, contractual agreements may protect from compensation claims of other liable persons under the Federal Soil Protection Act.

Water use and protection

We are subject to the regulations on water use and protection (implemented by the applicable national laws) as we extract water (e.g., from groundwater wells), use and dispose of it in the course of our production processes.

Directive 2000/60/EC of the European Parliament and of the Council of October 23, 2000, as last amended by Directive 2009/31/EC of the European Parliament and of the Council of April 23, 2009 (the "**Water Framework Directive**"), includes a comprehensive approach to water protection. By means of this Directive, the EU provides for the management of inland surface waters, groundwater, transitional waters and coastal waters in order to prevent and reduce pollution, promote sustainable water use, protect the aquatic environment, improve the status of aquatic ecosystems and mitigate the effects of floods and droughts. Member states must ensure that water pricing policies provide adequate incentives for users to use water resources efficiently and that the various economic sectors contribute to the recovery of the costs of water services, including those relating to the environment and resources. Moreover, member states must introduce arrangements to ensure that effective, proportionate and dissuasive penalties are imposed in the event of breaches of the provisions of this Water Framework Directive. A list of priority substances selected from among the ones which present a significant risk to or via the aquatic environment has been drawn up using a combined monitoring-based and modeling-based procedure.

The list of 33 priority substances in the field of water policy is laid down in Annex II of Directive 2008/105/EC of the European Parliament and the Council on environmental quality standards (EQSD) of December 16, 2008. Twenty of the identified priority substances were classified as priority hazardous substances and the member states are obliged to implement measures with the aim of cessation or phasing out of emissions, discharges and losses of the relevant substances.

Groundwater is protected by both Council Directive 80/68/EEC of December 17, 1979 ("**Groundwater Directive**"), which will be repealed by the Water Framework Directive as of December 22, 2013, and the Directive 2006/118/EC of the European Parliament and of the Council of December 12, 2006 ("**Groundwater Daughter Directive**") which is a daughter directive to the Water Framework Directive. In particular, the Groundwater Daughter Directive lays down detailed quality criteria for the assessment of the groundwater's chemical status including standards set on Community level and requirements for threshold values to be set at the member state level. Further, it contains criteria for the identification and reversal of pollution trends and requires member states to establish measures to prevent the input of hazardous substances into the groundwater and limit the introduction of other pollutants. Until the Groundwater Directive is repealed, authorization procedures required under such Directive have to take the requirements of the Groundwater Daughter Directive into account.

Chemicals and hazardous substances

REACH

"**REACH**" is the Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (Regulation (EC) No 1907/2006 of the European Parliament and of the Council of December 18, 2006, as last amended by Commission Regulation (EU) No 517/2013 of May 13, 2013). As we use several chemical substances and mixtures in the course of our production processes, we are subject to REACH as importer or downstream user. REACH entered into force in stages, firstly on June 1, 2007 to streamline and improve the former legislative framework on chemicals of the EU. Its main objectives include improving the protection of human health and the environment from the risks that can be posed by chemicals and ensuring the free circulation of substances on the internal market of the EU.

REACH places greater responsibility on the industry to manage the risks that chemicals may pose to the health and the environment. Other legislation regulating chemicals (for example, on cosmetics, detergents) or related legislation (e.g., on health and safety of workers handling chemicals, product safety, construction products) not replaced by REACH will continue to apply.

REACH applies to all chemical substances, however, under certain conditions substances are exempted from all or a part of the obligations under REACH. In principle, all manufacturers and importers of chemicals must identify and manage risks linked to the substances they manufacture and market. For substances produced or imported in quantities of one ton or more per year per company, manufacturers and importers need to demonstrate that they have appropriately done so by means of a registration dossier, which shall be submitted to the European Chemicals Agency ("**ECHA**"). ECHA may then check that the dossier is compliant with the Regulation and will evaluate testing proposals to ensure that the assessment of the chemical substances will not result in unnecessary testing, especially on animals. Where appropriate, authorities may also select substances for a broader substance evaluation to further investigate substances of concern.

REACH also provides for an authorization system aiming to ensure that substances of very high concern are adequately controlled, and progressively substituted by safer substances or technologies or only used where society benefits overall from using the substance. These substances will be prioritized and gradually included in Annex XIV to REACH. Once they are included, the industry will have to submit applications to ECHA on authorization for continued use of these substances which are otherwise prohibited. In addition, EU authorities may impose restrictions on the manufacture, use or placing on the market of substances causing an unacceptable risk to human health or the environment.

Manufacturers and importers must provide their downstream users with the risk information they need to be able to use the substance safely. This will be done via the classification and labeling system and Safety Data Sheets (SDS), where needed.

Handling and transport of hazardous goods

We are involved in the carriage of hazardous goods e.g. as loader and unloader of such goods and are therefore subject to specific requirements related to such carriage. For example, at the international level the European Agreement concerning the International Carriage of Dangerous Goods by Road as of September 30, 1957 (*Accord européen relatif au transport international des marchandises Dangereuses par Route*, "**ADR**") as amended on January 1, 2013 includes provisions applicable to the carriage of dangerous goods on roads. Pursuant to ADR, dangerous goods, as a general rule, may be carried internationally in road vehicles subject to compliance with a number of conditions, such as packaging and labeling requirements. Specific dangerous goods (e.g. goods which are poisonous and explosive at the same time) are excluded from carriage on the road. The ADR has been implemented and supplemented by many member states (such as Germany).

Employee health and safety

According to national and international provisions we are in most jurisdictions obliged to take measures related to health and safety at work. In general, compliance with employment safety regulations is subject to regulatory supervision.

Laws on state aid

State aid may be granted by the EU, the EU member states or state authorities in various forms, including subsidies, loans or guarantees at favorable conditions, or infrastructure measures realized specifically for one company. Pursuant to Article 107 of the Treaty on the Functioning of the European Union, ("**TFEU**"), state aid or aid granted through state resources, in any form whatsoever, that distorts or threatens to distort competition by favoring certain businesses or manufacturing sectors, is incompatible with the Common Market of the European Community insofar as it affects trade between member states.

The European Commission verifies on an ongoing basis whether member states are in compliance with the existing rules on state aid. If the European Commission classifies a state aid scheme or single subsidies as prohibited aid, it may order that various measures be taken by the relevant EU member state. In particular, the European Commission could require the aid to be clawed back. In this case, the aid beneficiary will be obliged to return or refund any payments received to the institution that granted the aid. If the prohibited aid was granted under ongoing contracts, the beneficiary will have to repay the subsidy equivalent (i.e., the difference between the fair market price of the performance and the aid granted) or, in certain circumstances, the respective contracts will have to be rescinded. Rescission could entail the premature termination of important contracts.

A part of our investment requirements for developing and expanding our production capacity is covered by state aid, such as subsidies, loans at favorable conditions or tax reductions or exemptions. The respective decisions on granting public aid received by us contain various conditions, e.g., regarding the creation of jobs or specific R&D activities.

Road safety and technical standards

Our products for the automotive sector have to comply with road safety and technical standards and requirements.

For the purpose of (passenger) safety and to ensure the proper functioning of the internal market of the EU, vehicle components and technical units have to comply with various requirements stipulated in a large number of European legal acts. For instance, Directive 2007/46/EC of the European Parliament and of the Council of September 5, 2007 (last amended by Commission Regulation (EU) No 195/2013 of March 7, 2013) established a framework for the approval of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles which member states were required to transpose into national law. In Annex 4 (last amended by Commission Regulation (EU) No 1229/2012 of December 10, 2012), the Directive lists 70 separate regulatory requirements for the purpose of EC type-approval of various models of vehicles. Further, the recently adopted Commission Regulations (EU) No 143/2013 of February 19, 2013 (applicable, as a rule, from January 1, 2014) and (EU) No 195/2013 of March 7, 2013 set forth additional requirements for the EC type approval procedure, aiming at an efficient monitoring of carbon dioxide emissions of vehicles.

A further example is Regulation (EC) No 661/2009 of the European Parliament and of the Council of July 13, 2009 (last amended by Commission Regulation (EU) No 523/2012 of June 20, 2012), which establishes requirements for the type-approval of motor vehicles and their trailers including systems, components and separate technical units intended therefor with regard to their safety. It includes, inter alia, requirements related to steering, braking and electronic stability and, with respect to fuel efficiency and CO_2 emissions, for gear shift indicators. As a general rule, this Regulation has come into effect on November 1, 2011.

As part of its "Roadmap on Regulations and Standards for the Electrification of Cars" of December 15, 2010, the European Commission plans to propose electric safety requirements for vehicle-type approval. This standardization process is still ongoing.

Emissions from vehicles

Regulatory requirements related to emissions from vehicles as set out below do not apply to us or our products directly, but to our customers in the automotive industry. We assist these customers to fulfill the regulatory requirements relating to both noise and pollutants emissions by continuously developing our products according to the needs of our customers.

Noise emissions

Noise emissions are regulated by Council Directive 70/157/EEC of February 6, 1970, as last amended by Commission Directive 2007/34/EC of June 14, 2007. The Directive lays down limits for the noise level of the mechanical parts and exhaust systems of the vehicles concerned. The limits range from 74 dB(A) for motor cars to 82 dB(A) for high-powered goods vehicles. On December 9, 2011, the European Commission has published a proposal to replace Directive 70/157/EEC by a regulation on the sound level motor vehicles (COM (2011) 856 final) according to which the limits for the noise level will be decreased in three phases, starting two, five and seven years after publication of the regulation. In the final phase, the proposed limits range from 68 dB(A) for light motor cars to 80 dB(A) for high-powered goods vehicles with off-road capabilities. On February 6, 2013, the European Parliament adopted substantial amendments to the Commission's proposal, introducing inter alia a two-phase-system instead of the three-phase-system. The legislative process is still pending and the outcome cannot yet be predicted.

Pollutant emissions

With regard to carbon dioxide emissions of new passenger cars, Regulation (EC) No 443/2009 of the European Parliament and of the Council of April 23, 2009 (last amended by Commission Regulation (EU) No 397/2013 of April 30, 2013 ("**Regulation 443/2009**") limits the average carbon dioxide emissions of the new car fleet in the EU from 2012 at 130g of carbon dioxide per km by means of improvement in vehicle engine technology. From 2020 onwards, this Regulation sets a target of 95g of carbon dioxide per km for the new car fleet in the European Union. The emissions limit set by Regulation 443/2009 applies to new passenger cars registered in the EU (produced by manufacturers inside or outside the EU) and is calculated as a function of their mass. Manufacturers may form a pool in order to meet their targets. Where two or more manufacturers form a pool, the pool will be treated as if it were one manufacturer for the purposes of determining its compliance with the targets. From 2012 onwards, manufacturers who do not meet their targets must pay an excess emissions premium. Amendments to Regulation 443/2009 are currently subject to the legislative process (cf. proposal of the European Commission COM(2012) 393 final of July 11, 2012), but have not yet been adopted.

With regard to carbon dioxide emissions of light commercial vehicles (class N1), Regulation (EU) 510/2011 of the European Parliament and of the Council of May 11, 2011 (last amended by Commission Delegated Regulation (EU) No 205/2012 of January 6, 2012) limits the average emissions of the fleet of new vehicles in the EU at 175g of carbon dioxide per km. From 2020 onwards, a target of 147g of carbon dioxide per km for new light commercial vehicles applies subject to confirmation of its feasibility. Corresponding to Regulation 443/2009, each manufacturer (inside or outside the EU) has to fulfill an individual emissions target calculated on the basis of the individual manufacturer's fleet. Further, from 2014 onwards, manufacturers exceeding their individual target have to pay an excess emissions premium.

Other pollutant emissions (in particular nitrogen oxides and particulate matter) are regulated separately for (i) cars and light vans (Regulation (EC) No 715/2007 of the European Parliament and of the Council of June 20, 2007 (last amended by Commission Regulation (EU) No 459/2012 of May 29, 2012)) and (ii) trucks and buses (Regulation (EC) No 595/2009 of the European Parliament and of the Council of June 18, 2009 (last amended by Commission Regulation (EU) No 582/2011 of May 25, 2011)). Under these regulations, both categories of vehicles must comply with specific emissions thresholds. Further, Regulation (EU) No 168/2013 of the European Parliament and of the Council of January 15, 2013 includes specific emission thresholds for two- and three-wheelers and quadricycles. In case of powered cycles, mopeds and light quadricycles, these thresholds apply as of January 1, 2017 for new vehicles and of January 1, 2018 for existing vehicles. In case of motorcycles, tricycles and heavy quadricycles, these thresholds apply as of January 1, 2016 for new vehicles and of January 1, 2017 for existing vehicles.

Moreover, the European Union aims to promote the use of biofuels as a replacement for diesel or gas in order to reduce greenhouse gas emissions. Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009, requires the member states to ensure that, as from 2020, the share of energy from renewable sources (e.g., biofuels which includes liquid or gaseous fuels used for transport and produced from biomass, i.e., biodegradable waste and residue from, for example, agriculture and forestry) in all forms of transport is at least 10% of the final consumption of energy in transport in that member state. These legal requirements necessitate the use of modern components. Currently, amendments to Directive 2009/28/EC are subject to the legislative process (cf. proposal of the European Commission COM(2012) 595 final of October 17, 2012), inter alia limiting the contribution of biofuels and bioliquids produced from food crops and increasing the minimum greenhouse gas saving threshold for biofuels and bioliquids produced in new installations. The amendments have not yet been adopted.

As part of its "European strategy on clean and energy efficient vehicles" issued in December 2011 (SEC/2011/1617 final), the European Commission aims to promote electric vehicles. For this purpose the Commission will, inter alia, elaborate or review relevant regulatory provisions. For example it plans to propose electric safety requirements (see above) and to review crash safety requirements and potential risks due to the quietness of electric vehicles. Moreover, the European Commission will consider changes to existing legislation on the recycling of batteries to adjust to new market circumstances.

Disposal, reuse, recycling and recovery of motor vehicles

Regulatory requirements related to disposal, reuse, recycling and recovery of motor vehicles as set out below apply to our customers in the automotive industry. Further, we are legally obliged to support our customers in fulfilling such requirements. We therefore assist our customers by continuously developing our products according to the needs of our customers.

Directive 2000/53/EC of the European Parliament and of the Council of September 18, 2000, last amended by Commission Directive 2011/37/EU of March 30, 2011, stipulates measures to prevent waste arising from end-of-life vehicles and to promote the collection, re-use and recycling of vehicle components. Waste prevention is the priority objective of the Directive. To this end, it stipulates that vehicle manufacturers supported by material and equipment manufacturers like us must (i) endeavor to reduce the use of hazardous substances when designing vehicles; (ii) design and produce vehicles which facilitate the dismantling, re-use, recovery and recycling of end-of-life vehicles; (iii) increase the use of recycled materials in vehicle manufacture; and (iv) ensure that components of vehicles placed on the market after July 1, 2003 do not contain mercury, hexavalent chromium, cadmium or lead, except in a limited number of applications.

Product safety and liability

Product safety

We have to comply with requirements on product safety unless specific provisions apply (e.g., as regards automotive products).

Directive 2001/95/EC of the European Parliament and the Council of December 3, 2001, as last amended by Regulation (EC) No 596/2009 of the European Parliament and of the Council of June 18, 2009, on general product safety applies in the absence of specific provisions among the Community regulations governing the safety of products concerned, or if sectoral legislation is insufficient. Under this Directive, manufacturers must put on the market only products which comply with the general safety requirement. A safe product is one which poses no threat or only a reduced threat in accordance with the nature of its use and which is acceptable in view of maintaining a high level of protection for the health and safety of persons. In addition to compliance with the safety requirement, manufacturers must provide consumers with the necessary information in order to assess a product's inherent threat, particularly when this is not directly obvious, and take the necessary measures to avoid such threats (for example, withdraw products from the market, inform consumers, recall products which have already been supplied to consumers, etc.). Distributors are also obliged to supply products that comply with the general safety requirement, to monitor the safety of products on the market and to provide the necessary documents ensuring that the products can be traced. If the manufacturers or the distributors discover that a product is dangerous, they must notify the competent authorities and, if necessary, cooperate with them. Unsafe products may be listed in an EU-wide publicly accessible database.

Product liability

We are subject to provisions on product liability and may therefore be held liable in cases of damage caused by a defective product manufactured by us.

Council Directive 85/374/EEC of July 25, 1985, as amended by Directive 1999/34/EC of the European Parliament and of the Council of May 10, 1999, (the "**Product Liability Directive**") applies to movables which have been industrially produced, whether or not incorporated into another movable or into an immovable. It establishes the principle of objective liability, i.e., liability without fault of the producer, in cases of damage caused by a defective product. "Producer" means any participant in the production process, the importer of the defective product, any person putting the name, trade mark or other distinguishing feature on the product, and any person supplying a product the actual producer of which cannot be identified. "Defectiveness" means lack of the safety which the general public is entitled to expect given, *inter alia*, the presentation of the product and the use to which it could reasonably be put. The Product Liability Directive applies to damage caused by death or by personal injuries and damage to an item of property intended for private use or consumption other than the defective product, with a lower threshold of €500 caused by defective products. The Product Liability Directive does not in any way restrict compensation for non-material damage under national legislation.

Export control regulations

We manufacture products (e.g., bearings and power transmissions) which can be used for both civil and military purposes. Such products are defined as dual use goods under Council Regulation (EC) No. 428/2009 of May 5, 2009, as last amended by Regulation (EU) No 388/2012 of the European Parliament and Council of April 19, 2012, ("**Dual-Use-Regulation**") which sets forth an EU wide regime for the control of exports, transfer, brokering and transit of dual-use items. Annex I of the Dual-Use-Regulation includes a comprehensive list of dual-use goods which contains, e.g., specific bearings and power transmissions. The export of such goods to destinations outside the EU requires a permit. The competent national authority may exercise a certain degree of discretion as regards the granting of such permit.

Further, we also manufacture products for military purposes such as bearings for helicopters. We therefore have to observe export control regulations relating to military products on national as well as on EU level. Such export control regulations may require notifications of or permits for exports, but also limit or prohibit the export of our products if specific countries, entities or individuals are the destination of such exports. On EU level, such restrictions are set out in specific regulations on sanctioned countries or individuals.

In addition, export control regulations of specific countries may have an impact on our customer or supply relationships even if these relationships do not relate directly to such countries. As an example, under the U.S. Comprehensive Iran Sanctions, Accountability and Divestment Act ("**CISADA**") we may face sanctions in the U.S. if we deliver specific goods to Iran even if no U.S. person or entity are engaged in such delivery and the delivery does not touch U.S. territory.

Regulations on aeronautical products, parts and appliances

As we manufacture aeronautical products, parts and appliances we have to comply with the following regulatory requirements:

The design, production and maintenance of aeronautical products, parts and appliances is regulated by Regulation (EC) No 216/2008 of the European Parliament and of the Council of February 20, 2008, as last amended by Commission Regulation (EU) No 6/2013 of January 8, 2013 ("**Regulation 216/2008**") as a basic regulation. Detailed requirements for the design and production of aeronautical products are provided by Commission Regulation (EU) No 748/2012 of August 3, 2012, as last amended by Commission Regulation (EU) No 7/2013 of January 8, 2013 ("**Regulation 748/2012**"). Further, detailed requirements for the maintenance of aeronautical products are included in the Commission Regulation (EC) No 2042/2003 of November 20, 2003, as last amended by Commission Regulation (EU) No 593/2012 of July 5, 2012 ("**Regulation 2042/2003**").

Under Regulation 748/2012, an organization responsible for the design of products, parts and appliances related to aircraft requires a design organization approval ("**DOA**") according to Annex I to Regulation 748/2012 (so-called "**Part 21**"), Subpart J. The holder of DOA is entitled to perform design activities under Part 21 within the scope approved in DOA. Further, the European Aviation Safety Agency will accept specific compliance documents submitted by the holder of the DOA without further verification.

The production of several products, parts and appliances related to aircraft requires a production organization approval ("**POA**") according to Part 21, Subpart. G. The POA demonstrates conformity of the manufactured products, parts and appliances with their applicable design data.

In addition, organizations involved in the maintenance of large aircrafts and related components require a maintenance organization approval ("**MOA**") according to Annex II to Regulation 2042/2003 (so-called "**Part-145**"). The holder of a MOA is entitled to, for example, maintain any aircraft or component at the sites for which the holder is approved according to the MOA and the maintenance organization exposition relating to the MOA.

Regulations on products for rail vehicles

As we manufacture products for rail vehicles we have to comply with the following regulatory requirements:

Products for rail vehicles are subject to several regulations on EU level. Directive 2008/57/EC of the European Parliament and of the Council of June 17, 2008, as last amended by Commission Directive 2013/9/EU of March 11, 2013, sets out requirements which have to be fulfilled by railway systems in order to achieve interoperability on specific railway lines within the trans-European transport network included in Decision No 661/2010/EU of the European Parliament and of the Council of July 7, 2010 ("**TEN-T**"). These requirements concern the design, construction, placing in service, upgrading, renewal, operation and maintenance of the parts of this system and are further specified by technical specifications for interoperability ("**TSI**"). The TSI are drafted for both the high speed as well as the conventional railway system.

As regards the high-speed railway system, TSI for the rolling stock subsystem ("**RST**") were published on May 30, 2002 and revised by Commission Decision 2008/232/EC of February 21, 2008 as last amended by Commission Decision 2012/464/EU of July 23, 2012. Further, applicable technical standards for RST have been published by the European Railway Agency ("**ERA**") on November 13, 2008.

Concerning the conventional railway system, TSI relating to locomotives and passenger rolling stock were published by Commission Decision 2011/291/EU on May 26, 2011 as last amended by Commission Decision 2012/464/EU of July 23, 2012. In addition, TSI on freight wagons were published on July 28, 2006 in Commission Decision 2006/861/EC, last amended by Commission Decision 2012/464/EU of July 23, 2012. Applicable technical standards for these TSI have been published by ERA on December 8, 2008

Products for rail vehicles which are not designated for operation within TEN-T are subject to national regulations.

Regulations on medical devices

We manufacture accessories for medical devices (e.g. bearing support systems for computer tomography) and are therefore obliged to comply with the requirements of Council Directive 93/42/EEC of June 14, 1993 last amended by Directive 2007/47/EC of the European Parliament and of the Council of September 5, 2007, (the "**Medical Devices Directive**"). Under the Medical

Devices Directive, accessories for medical devices are treated as medical devices in their own right. Hence, our products have to fulfill specific requirements set out in Annex I of the Medical Devices Directive, in particular as regards product safety and reliability. Further, our products must be CE-marked and are therefore required to pass a conformity assessment the conditions of which are specified in the Medical Devices Directive.

In September 2012, the European Commission published a legislative proposal for a regulation on medical devices (COM(2012) 542 final), providing for the repeal of Directive 93/42/EEC. The proposal, which is currently awaiting its first reading in the European Parliament, provides for example for more transparency and a stricter surveillance and vigilance system

Regulatory framework for our products in the United States of America

There are numerous regulations that govern the automotive, aviation and railway sectors in the United States. Vehicles, aircraft, rail cars and their components have to comply with numerous standards that were enacted for safety and environmental reasons. Many of our products must conform to these standards and regulations. Changes in regulations and standards could result in increased costs for our business.

Road safety and technical standards

The National Highway Traffic Safety Administration ("**NHTSA**") issues Federal Motor Vehicle Safety Standards ("**FMVSS**") to which manufacturers of vehicle equipment must conform. The first standard became effective on March 1, 1967, and NHTSA has issued new standards on a regular basis.

The NHTSA regulations relate primarily to crash avoidance and crashworthiness and cover a wide variety of automotive products and systems, including windshield wipers, brakes, hydraulic systems, tires, mirrors, seat belts, head restraints and fuel systems. In general, the regulations are written in terms of minimum safety performance requirements for motor vehicles or items of motor vehicle equipment. These requirements are specified in such a manner that the public is protected against unreasonable risk of crashes occurring as a result of the design, construction, or performance of motor vehicles and is also protected against unreasonable risk of death or injury in the event crashes do occur.

NHTSA also regularly revises existing standards for the purpose of accelerating the introduction of new automotive technologies. In 2007, a final rule established FMVSS No. 126, which required the installation of electronic stability control ("**ESC**") systems on passenger cars, multipurpose passenger vehicles, trucks and buses with a gross vehicle weight rating of 10,000 pounds or less. According to NHTSA, ESC systems use automatic computer-controlled braking of individual wheels to assist the driver in maintaining control in critical driving situations in which the vehicle is beginning to lose directional stability at the rear wheels (spin out) or directional control at the front wheels (plow out). With certain exceptions, 100% of model year 2012 vehicles covered by the standard must have an ESC system. In May 2012, NHTSA proposed FMVSS No. 136, a rule requiring ESC systems on large commercial trucks, motorcoaches and other large buses as well.

In 2009, NHTSA released a new braking standard for truck tractors. The standard requires that a tractor-trailer travelling at 60 miles per hour come to a complete stop in 250 feet. The old standard required a complete stop within 355 feet. This revised standard requires manufacturers to incorporate advanced brake technology into new truck tractors equipped with air brakes.

NHTSA also responds to legislative mandates. In 2000, the U.S. Congress passed the Transportation Recall Enhancement, Accountability, and Documentation Act ("**TREAD Act**") that directed NHTSA to adopt a new regulation requiring vehicle and tire manufacturers to provide quarterly reports to NHTSA of death and injury claims and notices and the numbers of warranty claims, consumer complaints, property damage claims and field reports received by those manufacturers about all motor vehicles and tires sold by them in the ten years prior to the report. These rules were adopted in 2002.

The TREAD Act also required NHTSA to adopt new standards improving the safety performance of passenger vehicle tires in several critical areas. As a result of this latter mandate, in 2003, NHTSA issued a final rule to improve tire safety, concentrating particularly on tire endurance and speed performance to reduce failure. The TREAD Act also required NHTSA to adopt new standards related to tire pressure monitoring systems, which has been accomplished. All new light duty vehicles sold in the United States must be equipped with tire pressure monitoring systems that comply with the new NHTSA standard.

In 2010, following a series of high-profile recalls by Toyota relating to an unintended acceleration defect, the House of Representatives and the Senate each introduced slightly different versions of a bill to require motor vehicle safety standards relating to vehicle electronics. The draft "Motor Vehicle Safety Act 2010" would have required NHTSA to initiate rule-making proceedings aiming at the adoption of additional new motor vehicle safety standards, including braking systems capable of overriding the accelerator, minimum floor pedal distances and electronic systems performance requirements, as well as enhanced NHTSA hazard response authority and consumer notice provisions. Although this legislation has not moved forward in the Congress, the NHTSA has announced its intention to pursue key elements of the proposals, including considering rule-making on topics such as brake override systems, keyless ignition systems, pedal placement, and crash event data recorders.

In January 2013, NHTSA proposed FMVSS No. 141, which would require hybrid and electric vehicles to meet minimum sound standards to make pedestrians more aware of approaching vehicles.

Among NHTSA's other stated vehicle safety objectives for the near future are research and potential rule-making on advanced technologies for collision avoidance, automatic braking, vehicle communications, lane departure prevention, blind spot and pedestrian detection, as well as additional occupant protection measures.

There are also state laws dealing with product safety and liability that apply to vehicles and vehicle parts. The exact standards can differ across state jurisdictions.

Emissions from Vehicles

NHTSA regulates fuel economy through the Corporate Average Fuel Economy ("**CAFE**") standards that apply to passenger vehicles and light trucks. The CAFE regulations were enacted in 1975 and were first used to set fuel economy standards in 1978. The CAFE fuel economy standards, which take into account technological feasibility, economic practicality, the effect of other standards on fuel economy, and the need of the nation to conserve energy, are set years in advance of production to allow manufacturers time to comply with the standards. The standards apply to the average of a manufacturer's fleet of vehicles, rather than to each individual vehicle.

Fuel economy standards were dramatically impacted by the Energy Independence and Security Act of 2007 ("**EISA**"). The Act set a goal for national fuel economy of 35 miles per gallon for both cars and light trucks by 2020. Thus, NHTSA must periodically raise CAFE standards to meet this goal, and recent developments indicate that more ambitious goals may still be evolving within government and the industry.

On April 1, 2010, NHTSA and the U.S. Environmental Protection Agency ("**EPA**") finalized a joint final rule entitled "Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards." The joint final rule sets CAFE standards for passenger cars, light-duty trucks and medium-duty passenger vehicles with model years 2012-2016. They require these vehicles to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, or 35.5 miles per gallon, if the automakers were to meet this carbon dioxide level solely through fuel economy improvements.

Furthermore, on August 9, 2011, the NHTSA and the EPA established similar fuel efficiency and greenhouse gas emissions rules for medium and heavy duty trucks with model years 2014 through 2018. They also plan to soon propose CAFE and greenhouse gas emissions standards for light duty vehicles with model years 2017 through 2025, and President Obama recently announced a fuel standards agreement with thirteen major automakers to pursue increasing fuel economy to 54.5 miles per gallon for cars and light duty trucks by model year 2025.

Aviation equipment standards

The Federal Aviation Administration ("**FAA**") issues and enforces regulations and minimum standards covering manufacturing, operating and maintaining aircraft. Among other key roles with respect to regulating civil, commercial and military aviation, the FAA is charged with ensuring the safety and environmental acceptability of U.S.-registered civil aircraft operating in air commerce as well as airworthiness certification or acceptance of civil aeronautical products imported into the United States.

The FAA prescribes and periodically revises minimum standards of safety for appliances and for the design, material, construction, quality of work, and performance of aircraft, aircraft engines and propellers.

We currently maintain an Air Agency Certificate issued by the FAA for operation of an approved repair station in Germany, pursuant to Part 145 of Title 14 of the Code of Federal Regulations and a Bilateral Aviation Safety Agreement between the United States and the European Community on Cooperation in the Regulation of Civil Aviation Safety.

Regulatory framework for our products in Japan

In Japan, vehicles need a "type approval," i.e., new models have to be registered with the competent authority, before they may be operated on public roads. The Road Trucking Vehicle Act (Act No. 185 of 1951, as amended; the "**RTVA**") provides for detailed safety requirements which a new vehicle model has to meet for its approval. The safety requirements under the RTVA cover a broad range of items, such as standards for tires, brakes, locks, wheels, petrol tanks, body structure, seat belts, air-bags, lights, etc. The Ministry of Land, Infrastructure, Transport and Tourism (the "**MLIT**") publishes notices which provide for more detailed technical specifications.

The levels of carbon dioxide emissions of vehicles are regulated in connection with the levels of fuel efficiency. The MLIT publishes a list of target levels of fuel efficiency classifying these levels by vehicle type and weight in accordance with the relevant guidelines. These guidelines are based on the Act on the Rational Use of Energy (Act No. 49 of 1979, as amended), which is under the jurisdiction of the Ministry of Economics, Trade and Industry (the "**METI**"). The MLIT and the METI have been tightening the target levels of fuel efficiency according to the so-called "Top Runner Method." Under this method, the levels of fuel efficiency are determined on the basis of the expected future technology level considering the most efficient vehicle in the respective category of currently commercialized vehicles. The MLIT and the METI published new "Top Runner" efficiency standards regarding (i) heavy vehicles (trucks and buses) in November 2005, with the target to achieve the respective standards by 2015 and (ii) passenger vehicles, small buses and small cargo vehicles in December 2011, with the target to achieve the respective standards by 2020. For example, the actual target for passenger cars is to increase fuel efficiency by 2020 by 24.1% compared to the level of fuel efficiency as of 2009. This is equivalent to an increased average level of fuel efficiency from 16.3 km/liter to 20.3 km/liter. Manufacturers or importers of automobiles have to improve the energy efficiency of vehicles accordingly. If levels provided in the above-mentioned list are not met by a manufacturer or importer, the METI may recommend such manufacturer or importer to improve the efficiency of their vehicles. If the manufacturer or importer does not properly react to the recommendation of the METI, the METI may disclose its name to the public, e.g., through a publication on METI's website and/or give an order to react in accordance with the recommendation. If the manufacturer or importer does not comply with the order, they would be fined up to JPY1 million. However, so far there are no precedents of such disclosures or any further measures taken by the METI and the MLIT to react to a manufacturer's or importer's non-compliance with METI's recommendations.

In addition, the RTVA and various regulations issued by municipal governments regulate the emission of other toxic gases, such as smoke, nitrogen oxide and carbon monoxide, etc.

Under the Civil Aeronautics Act of Japan (Act No. 231 of 1952, as amended), no person, in principle, may operate an aircraft which does not have a valid airworthiness certificate. To issue such certificate, the authorities shall inspect the design, manufacturing process and current conditions of an aircraft to check whether the aircraft complies with certain standards (e.g., standards with regard to strength, structure and performance to ensure the safety of an aircraft, noise standards, standards with regard to emissions from engines). Certain inspections can be omitted in relation to an aircraft in a type which has a valid type certificate, an aircraft which previously had a valid airworthiness certificate, etc.

Management

The Company's governing entities are the board of managing directors (*Vorstand*), the supervisory board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The powers vested in these bodies are governed by the German Stock Corporation Act (*AktG*) and the Articles of Association (*Satzung*). For information on the Parent Guarantor's management, see "*General information on the Parent Guarantor—Administrative, management and supervisory bodies*."

Schaeffler Group is managed by its board of managing directors and its executive board.

Board of managing directors

The board of managing directors is responsible for managing the Company in accordance with applicable laws, and the provisions of the Articles of Association, taking into account the resolutions adopted by the general shareholders' meeting. The board of managing directors represents the Company in its dealings with third parties. The board of managing directors is required to ensure the establishment and operation by the Company of an appropriate risk management and internal monitoring system facilitating the timely identification of developments that might jeopardize the continued existence of the Company. The board of managing directors is obligated to report to the supervisory board. In particular, the board of managing directors is obligated to inform the supervisory board on a regular, timely and comprehensive basis about all issues of relevance to the Company with respect to planning, the course of business, risks, risk management, and strategic measures. In this regard, the board of managing directors is also required to describe and explain any deviations in the course of business from plans and targets that have been set. In addition, the chairman of the supervisory board is to be advised of any other important developments. Furthermore, the supervisory board may at any time request a report concerning the affairs of the Company.

Members of the board of managing directors are appointed by the supervisory board and can be dismissed for good cause. The supervisory board is required to supervise and advise the board of managing directors in its management of the Company. Generally, a member of the Company's supervisory board cannot simultaneously serve as a member of its board of managing directors. For a limited period of time set in advance and not exceeding one year, the supervisory board can appoint members of the supervisory board to act in place of members of the board of managing directors who are absent or incapacitated. While serving in lieu of board of managing directors members, a supervisory board member is not permitted to perform any function as a supervisory board member. Under German stock corporation law, management tasks may not be assigned to the supervisory board.

The members of the board of managing directors and the supervisory board have a duty of care and loyalty to the Company. A broad spectrum of interests, especially those of the Company, its shareholders, employees, creditors, and the general public must be taken into account when discharging these duties. The board of managing directors must take particular account of the rights of shareholders to equal treatment and equal information.

The following table sets forth certain information concerning the members of the board of managing directors *(Vorstand).*

Name	Age	Position	Appointed Until
Dr. Jürgen M. Geißinger . . .	53	Chairman, CEO	12/31/2014
Wolfgang Dangel	49	Head of the Automotive Division	09/30/2015
Prof. Dr. Peter Gutzmer . . .	59	Head of Research and Development	12/31/2014
Kurt Mirlach	56	Head of Human Resources	12/31/2015
Klaus Rosenfeld	47	CFO	09/30/2016
Robert Schullan	55	Head of the Industrial Division	12/31/2015

The members of the board of managing directors can be contacted at the Company's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

The above members of the board of managing directors do not have potential conflicts of interest between any duties to the Company and their private interests or other duties.

Dr. Jürgen M. Geißinger is our CEO. He studied mechanical engineering at the University of Stuttgart where he also received his doctorate in engineering in 1989. He previously worked at Heidelberger Druckmaschinen AG and held various positions as officer and managing director at ITT Automotive, ITT Industries Europe and ITT Industries, Inc., USA. Since 1998, Dr. Geißinger has been president and CEO of INA-Holding Schaeffler KG and, since 2001, additionally president and CEO of FAG Kugelfischer Georg Schäfer AG in Schweinfurt. In 2004, he became chairman of the FAG's board of directors. He is also the vice president of the VDA (*Verband der Automobilindustrie*, German Association of the Automotive Industry) and a member of the supervisory board of MTU Aero Engines, Munich. Since 2012, Dr. Geißinger is also a member of the board of directors of Sandvik AB, Stockholm.

Wolfgang Dangel is our Head of the Automotive Division and president of the Business Division Chassis Systems. He studied business administration and finance at the University of Munich as well as economics at the University of Applied Sciences in Rosenheim. He has held various positions at Mannesmann and Bosch Rexroth and previously served as president and CEO of Bosch Rexroth Corporation. Since 2007, he has been president of Schaeffler Group Asia/Pacific.

Prof. Dr. Peter Gutzmer is our Head of Research and Development. He studied mechanical engineering at the University of Stuttgart. He held various positions at Porsche Automobil SE. From 2009 to 2010, he was executive vice president of Continental powertrain and president of Continental AG's business unit engine systems. Since 2001, he has served as a board member of Schaeffler Group and also as Chief Technology Officer.

Kurt Mirlach is our Head of Human Resources. He studied economics at the University of Augsburg. He was previously human resources director at Digital Equipment GmbH, Porsche Weissach and Audi Neckarsulm. Since 1999, he has been head of human resources of INA Group, and since 2003, he has served as board member for human resources of Schaeffler Group.

Klaus Rosenfeld is our CFO. He studied business administration and economics at the University of Münster after a trainee program at Dresdner Bank. He rejoined Dresdner Bank where he held, amongst others, various positions in the Investment Banking division and the Finance and Controlling department. From 2002 to 2009, he was a member of the board of managing directors of Dresdner Bank AG and CFO of Dresdner Bank Group.

Robert Schullan is our Head of the Industrial Division. He studied mechanical engineering at Munich University of Applied Sciences. He joined the Schaeffler Group in 1985, where he held various positions. In 1998, he was appointed executive vice president of the Schaeffler Group. In 2004, he also became CEO at FAG Kugelfischer Georg Schäfer AG. He further is chairman of VDMA's (*Verband Deutscher Maschinen- und Anlagenbau*, German Engineering Federation) professional association of power transmission.

The aggregate compensation of the executive board (in its then current composition) for the fiscal year ended December 31, 2012 was €20.9 million (2011: €18.9 million; 2010: €16.9 million) and comprised for the fiscal year ended December 31, 2012 short-term employee benefits of €20.9 million (2011: €17.2 million). There were no post-employment benefits expenses in 2012 (2011: €1.7 million).

Our main operating entity Schaeffler Technologies AG & Co. KG is managed by an executive board comprising the six members of Schaeffler AG's board of managing directors as well as the four managing directors of INA Beteiligungsgesellschaft mit beschränkter Haftung. The four managing directors of INA Beteiligungsgesellschaft mit beschränkter Haftung are:

Name	Age	Position
Norbert Indlekofer	55	Head of Transmission Systems
Oliver Jung	51	Head of Development of Production Methods
Prof. Dr. Peter Pleus	58	Head of Engine Systems
Dr. Gerhard Schuff	60	Head of Purchasing

Norbert Indlekofer is our Head of transmission systems within the Automotive Division. He studied control technology of machine tools and automobiles at the University of Stuttgart. He held various positions at ZF Friedrichshafen and LuK. In 2004, he became president of the Transmission and Chassis-Systems business divisions and was appointed president and CEO of the LuK Group in 2006. From 2009 until the end of 2011, Mr. Indlekofer, together with Dr. Peter Pleus, have been jointly responsible for the Automotive Division of the entire Schaeffler Group. At the end of 2011, Mr. Indlekofer was appointed as a member of the executive board and president of the Transmission Systems Business Division.

Oliver Jung is our Head of development of production methods. He studied mechanical engineering at Karlsruhe University. He held various positions at Robert Bosch GmbH until he became a member of Schmitz Cargobull AG's management board, where he was responsible for production and quality management.

Prof. Dr. Peter Pleus is our Head of engine systems within the Automotive Division. He studied mechanical engineering at the Swiss Federal Institute of Technology, where he received his doctorate in technical science. He has held various positions at Pleuco GmbH and Mahle Ventiltrieb GmbH. He joined the Schaeffler Group in 2001 as a member of the management board for the Automotive Division. In 2005, he became president of the engine systems business division. From 2009 until the end of 2011, Prof. Dr. Pleus, together with Norbert Indlekofer, have been jointly responsible for the Automotive Division of the entire Schaeffler Group. At the end of 2011, Prof. Dr. Pleus was appointed a member of the executive board and president of Engine Systems Business Division.

Dr. Gerhard Schuff is our Head of purchasing. He studied business administration at Freie Universität Berlin and engineering at Technische Universität Berlin. For 20 years, he worked at BMW AG and BMW Group in various positions, including head of the purchasing division and head of the powertrain department. Prior to joining Schaeffler Group, his most recent position at BMW Group was head of accessories and aftermarket business. Mr. Schuff is also a member of the supervisory board of SupplyON AG.

The executive board meets from time to time with the three regional heads of Asia/Pacific, North America and South America. The executive board and the three regional heads form the extended executive board. The members of the executive board can be contacted at the Company's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

Supervisory board

In accordance with Section 10(1) of the Company's Articles of Association and the German Codetermination Act (*Mitbestimmungsgesetz*), the supervisory board comprises 20 members. Ten members are elected by the shareholders and ten members are elected by the employees according to the Codetermination Act.

The supervisory board elects a chairman and one or more deputy chairmen from among its members for the duration of their term of office on the supervisory board. If the chairman or a deputy chairman resigns during his term of office, the supervisory board will elect a successor without delay.

Pursuant to Section 13(1) of the Company's Articles of Association, the supervisory board reaches a quorum if not fewer than half its members participate in the voting. If a member of the supervisory board is unable to attend the meeting, he/she may authorize another member of the supervisory board to pass on his/her vote prepared by him/her in writing.

Meetings of the supervisory board shall be presided over by the chairman of the supervisory board or, in the event of his being unable to attend, his deputy. The chairman of the meeting shall decide on the manner of voting. Resolutions of the supervisory board shall be taken by a majority of the votes cast, save as otherwise provided for by law. Where voting results in a tie, a further vote shall be carried out on a motion by the chairman of the supervisory board or another member of the supervisory board, to the extent permitted by law. If this second voting also results in a tie, the chairman of the supervisory board shall have the casting vote in accordance with Section 29(2) of the German Codetermination Act. If the chairman so stipulates, and provided no member of the supervisory board objects to such stipulation within a reasonable time period set by the chairman and not exceeding one week, resolutions can be adopted, without a meeting being called, by writing, telex or telephone voting as well as by voting with the help of other means of telecommunication.

The by-laws of the supervisory board contain further rules governing the confidentiality of the supervisory board members and the avoidance of conflicts of interest.

The following table sets forth certain information concerning the members(*) of the supervisory board.

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	48	Shareholder of the INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler (Deputy Chairperson)	71	Shareholder of the INA-Holding Schaeffler GmbH & Co. KG
Jürgen Wechsler (Deputy Chairperson)	57	Regional Director of IG Metall Bavaria
Jürgen Bänsch	48	Regional Director of IG Metall Bavaria
Prof. Dr. Hans-Jörg Bullinger	69	Senator of the Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V.
Dr. Eckhard Cordes	62	Chairman of the Committee on Eastern European Relations
Dr. Hubertus Erlen	70	Member of various supervisory and advisory boards
Prof. Dr. Bernd Gottschalk	70	Managing Partner of the AutoValue GmbH
Jochen Homburg	47	Attorney and Head of Department, IG Metall
Franz-Josef Kortüm	62	Chairman of the Webasto Roof & Components SE supervisory board
Norbert Lenhard	56	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the local works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG
Dr. Siegfried Luther	68	Managing Director of Reinhard Mohn Verwaltungs GmbH
Thomas Mölkner	51	Chairman of the European works council, Schaeffler Group and Chairman of the local works council, Herzogenaurach plant, Schaeffler Technologies AG & Co. KG

Name	Age	Position
Tobias Rienth	48	Chairman of the works council, Bühl
Stefanie Schmidt	39	Chairwoman of the local works council, Wuppertal plant, Schaeffler Technologies AG & Co. KG
Dirk Spindler	49	Chairman of the corporate spokesmen committee of the executive staff, Schaeffler Technologies AG & Co. KG and Senior Vice President Corporate Development, Schaeffler Technologies AG & Co. KG
Robin Stalker	55	CFO of adidas AG
Salvatore Vicari	46	Chairman of the local works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG
Dr. Otto Wiesheu	68	President of the Economic Advisory Board of Union e.V.
Jürgen Worrich	58	Chairman of the central German works council, Schaeffler Group

(*) On May 3, 2013, Wolfgang Müller resigned as member of the supervisory board with effective date June 30, 2013. On or about the Issue Date, a new member will be appointed.

The members of the supervisory board can be contacted at the Company's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

The above members of the supervisory board do not have potential conflicts of interest between any duties to the Company and their private interest or other duties.

Georg F. W. Schaeffler is the owner of the Schaeffler Group. He studied business administration at the University of St. Gallen in Switzerland and holds a law degree from Duke University in the United States. He has held various positions at Schaeffler Group and previously worked as a business lawyer in the United States. He is also a member of the supervisory board of Continental AG and a member of its executive and audit committees.

Maria-Elisabeth Schaeffler is the owner of the Schaeffler Group. She studied medicine at Vienna University. She is a supervisory board member of Continental AG, of Nürnberger Lebensversicherung AG and of Österreichische Industrieholding AG. She has been a member of the board of directors of the German Chamber of Commerce in Austria since 2003 and has been the vice president of the German Chamber of Commerce in Austria since December 2007.

Jürgen Wechsler is the regional director of IG Metall Bavaria. He completed his trainee program as an engineer at Siemens in 1974. Since 1972, he has been a member of IG Metall. From 1974 to 1989, he worked for Siemens Trafo Union. Since 1989, he has held various positions at IG Metall.

Jürgen Bänsch regional director of IG Metall Bavaria. He is also member of the supervisory board of manroland Druckmaschinen AG.

Prof. Dr. Hans-Jörg Bullinger is Senator of the Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V. He studied mechanical engineering at the University of Stuttgart after completing his trainee program at Daimler-Benz AG. From 2002 to 2012, he was president of Fraunhofer Gesellschaft. He is head of the committee defining the high tech strategy for Germany of the German government.

Dr. Eckhard Cordes is the Chairman of the Committee on Eastern European Relations *(Ost-Ausschuss der Deutschen Wirtschaft)* and former CEO and chairman of the management board of METRO AG (until December 31, 2011). He studied business administration at the University of Hamburg. He held various positions at Daimler-Benz AG before joining the board of management of Daimler-Benz AG in 1996. In 2006, he became chairman of the management board at Franz Haniel & Cie. GmbH.

Dr. Hubertus Erlen is a member of various supervisory and advisory boards. He studied process engineering and business administration at Technische Universität Berlin. He held various positions at Schering AG and was appointed to its board of executive directors in 1985. In 2001, he became chairman of the board of executive directors of Schering AG and held this position until 2006. From 2006 to 2011, he served as deputy chairman of the supervisory board of Bayer-Schering Pharma AG.

Prof. Dr. Bernd Gottschalk is the managing partner of AutoValue GmbH. He studied economics at the Universities of Hamburg and Saarbrücken and Stanford University (USA). He held various positions at Daimler-Benz AG. In 1992, he joined the board of directors of Daimler-Benz AG. From 1996 to 2007, he was president of the VDA (*Verband der Automobilindustrie*, German Association of the Automotive Industry). Since 2001, Prof. Dr. Gottschalk has also been the vice-president of the Federation of German Industry (*Bundesverbandes der Deutschen Industrie e.V.*, BDI) and, since 2007, the CEO of GCG Gottschalk Consult GmbH & Co. KG.

Jochen Homburg is the head of department at IG Metall. He studied law, with a concentration in employment law, at Johann-Wolfgang-Goethe University, Frankfurt. He has held various positions at IG Metall since 2004, and most recently, has been responsible for management policy. He is a member of the IG Metall board and serves on several supervisory boards at various multinational corporations.

Franz-Josef Kortüm is the chairman of the Webasto Roof & Components SE and of the Webasto Thermo & Comfort SE supervisory board. He studied business administration at the Universities of Münster and Regensburg. He has held various positions at Daimler-Benz AG. In 1992, he became a member and, in 1993, chairman of the Audi AG board of directors. In 1994, he became a member of the board of directors of Webasto SE. From 1998 until 2012, he served as CEO of Webasto SE.

Norbert Lenhard is the chairman of Schaeffler Technologies AG & Co. KG's central works council and the local works council (Schweinfurt plant). He completed his trainee program as an engine fitter at FAG in 1979. He has held various positions at the Youth and Trainees Council (*Jugend- und Auszubildendenvertretung* – JAV). From 2002 to 2004, he was chairman of central works council FAG Kugelfischer Georg Schäfer AG as well as chairman of the FAG European works council.

Dr. Siegfried Luther is the managing director of Reinhard Mohn Verwaltungs GmbH. He holds degrees in law as well as a doctorate of law from the University of Münster. Since 1974, he worked in several finance-related departments of Bertelsmann AG and from 1990 to 2005, he was a member (2002-2005 vice chairman) of the management board, chief financial officer and head of the corporate center of Bertelsmann AG. Since 2005, he serves as a member of the Auditors Oversight Commission in Germany.

Thomas Mölkner is the chairman of the European works council of the Schaeffler Group and chairman of the local works council (Herzogenaurach plant). He received his bachelor professional in metal production technology and operations in 2000 before completing a trainee program as lathe operator at Schaeffler Group.

Tobias Rienth is the chairman of the works council, Bühl. He completed his trainee program as an instrument mechanic. After joining the LuK group in 1990, he has held various positions.

Stefanie Schmidt is the chairwoman of the local works council Wuppertal plant. She completed her trainee program as a technical drawer in 1996 and as mechanical engineering technician in 2001. Ms. Schmidt joined in 1993 and has held various positions within the Schaeffler group since then.

Dirk Spindler is the chairman of Schaeffler Group's corporate spokesmen committee of the executive staff. He studied mechanical engineering at the University of Kaiserslautern. He has held various positions at Schaeffler Group and has been head of central development since 2010.

Robin Stalker is the CFO of adidas AG. He studied business administration at Massey University, New Zealand. Before joining adidas AG in 1996, he worked at several other companies, such as Ernst & Young and Warner Bros. International. Since 2001, Mr. Stalker has also been a member of the adidas AG executive board.

Salvatore Vicari is the chairman of the local works council (Homburg/Saar plant). He completed his trainee program at Großklos in 1984. He has worked at various companies as a mechanic and an engine driver. Mr. Vicari joined the Schaeffler Group in 1990.

Dr. Otto Wiesheu is the president of the Economic Advisory Board of Union e.V. He studied law at the University of Munich. From 1984 to 1990, he was managing director of Hanns-Seidel-Stiftung. Between June 1993 and November 2005, Mr. Wiesheu was the Bavarian state minister for Economic Affairs, Transport and Technology. From 2006 until 2009, he was a member of the management board of Deutsche Bahn AG.

Jürgen Worrich is the chairman of the central German works council of the Schaeffler Group. He studied mechanical engineering at Technische Universität Carolo-Wilhelmina, Braunschweig. He has held various positions within the Schaeffler Group, including head of CAD.

Remuneration of the Supervisory Board

The aggregate compensation of the supervisory board for the fiscal year ended December 31, 2011 and December 31, 2012 was approximately €1,000,000 per year, respectively.

Supervisory board committees

The supervisory board may form committees from among its members and charge them with the performance of specific tasks. The committees' tasks, authorizations and processes are determined by the supervisory board. Where permissible by law, important powers of the supervisory board may also be transferred to the committees. The supervisory board has established and currently maintains a general committee and an audit committee.

General Committee (Präsidialausschuss)

The general committee is responsible for preparing the supervisory board meetings and decisions of the supervisory board regarding matters relating to the board of managing directors. The general committee gives recommendations for the appointment and dismissal of members of the board of managing directors. Furthermore, its approval is required for the conclusion, amendment or termination of the employment contracts of members of the executive board.

The following table sets forth the current members of the general committee:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	48	Shareholder of the INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler	71	Shareholder of the INA-Holding Schaeffler GmbH & Co. KG
Dr. Hubertus Erlen	70	Member of various supervisory and advisory boards
Jochen Homburg	47	Attorney and Head of Department, IG Metall
Jürgen Wechsler (Deputy Chairperson)	57	Regional Director of IG Metall Bavaria
Norbert Lenhard	56	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the local works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG

Audit Committee (Prüfungsausschuss)

The audit committee's tasks relate to the Company's accounting, the audit of the financial statements, and compliance. In particular, the committee performs a preliminary examination of our annual financial statements as well as the risk management system, and makes its recommendation to the plenary session of the supervisory board, which then passes resolutions pursuant to Section 171(1) of the German Stock Corporation Act (*AktG*). Furthermore, the committee discusses the Company's draft interim financial reports and is responsible for assuring the necessary independence of auditors, for engaging the auditors, for determining the focus of the audit as required, and for negotiating the fee.

The following table sets forth the current members of the audit committee:

Name	Age	Position
Dr. Siegfried Luther (Chairman)	68	Managing Director of Reinhard Mohn Verwaltungs GmbH
Georg F. W. Schaeffler	48	Shareholder of the INA-Holding Schaeffler GmbH & Co. KG
Robin Stalker	55	CFO of adidas AG
Salvatore Vicari	46	Chairman of the local works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG
Jürgen Worrich	58	Chairman of the central German works council, Schaeffler Group

Share capital of the Company

The authorized share capital of the Company amounts to €500,025,000, divided into 500,025,000 no-par-value registered shares with a nominal value of €1.00 each. The issued capital of the Company amounts to €500,025,000 divided into 500,025,000 no-par-value registered shares with a nominal value of €1.00 each, all of which are fully paid up.

Our shareholders

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler (20%) and Georg F. W. Schaeffler (80%). The immediate parent company is Schaeffler Verwaltungs GmbH and the ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG.

Related parties transactions and major shareholders of the Parent Guarantor

Joint procurement cooperation agreement

On March 27, 2009, Continental AG entered into the Cooperation Agreement with Schaeffler Holding GmbH & Co. KG. With effect from February 1, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of our reorganization, been replaced by Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) as a party to the Cooperation Agreement. Pursuant to the Cooperation Agreement, Continental AG and Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) will act as independent entities but try to create synergies through worldwide purchasing cooperation. For a description of the provisions of the Cooperation Agreement, please refer to "*Business—Environment, insurance and legal—Material contracts—Joint procurement cooperation agreement.*"

Investment Agreement

On August 20, 2008, Continental AG entered into the Investment Agreement with Schaeffler Holding GmbH & Co. KG (formerly Schaeffler KG), Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler and former German Chancellor Dr. Gerhard Schröder as Controller. With effect as of June 28, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of our reorganization, been replaced by Schaeffler GmbH (now Schaeffler AG) as a party to the Investment Agreement. On May 4, 2011, Schaeffler Verwaltungs GmbH and on September 26, 2011, Schaeffler Beteiligungsholding GmbH & Co. KG acceded the Investment Agreement.

On May 13, 2013, notice of our intention to terminate the Investment Agreement was given. As a result, the Investment Agreement will be terminated effective May 2014. For a description of the provisions of the Investment Agreement, please refer to "*Business—Environment, insurance and legal—Material contracts—Investment Agreement.*"

IBV Loan

Schaeffler Holding GmbH & Co. KG as lender and INA Beteiligungsverwaltungs GmbH as borrower entered into a German law governed deposit master agreement dated June 23, 2010 (the "**IBV Loan**"). Under the IBV Loan, the lender may place deposits to the borrower with a term of up to one year in an amount not exceeding €65 million. For further details, please also see "*Description of other indebtedness—IBV Loan*."

Loan and deposit master agreement

Under a German law governed loan and deposit master agreement dated June 29, 2010 between the Parent Guarantor and Schaeffler Holding GmbH & Co. KG, the Parent Guarantor may borrow money from or deposit money with Schaeffler Holding GmbH & Co. KG from time to time. As of March 31, 2013, the net borrowings of the Parent Guarantor in connection with this loan and deposit master agreement amounted to €7.4 million.

Cash pooling agreement

Schaeffler Holding GmbH & Co. KG as cash pool leader and Schaeffler Vermögensverwaltungs GmbH as participant concluded a cash pooling agreement on December 21, 2007 (as amended by way of an amendment agreement on April 30, 2009). In the case of credit balances on the accounts operated by Schaeffler Vermögensverwaltungs GmbH, the value dated balances are swept automatically on a daily basis through the target account operated by Schaeffler Holding GmbH & Co. KG. In case of debit balances, the value dated balances are funded on a daily basis through Schaeffler Holding GmbH & Co. KG. As of March 31, 2013, the receivable of Schaeffler Vermögensverwaltungs GmbH in connection with this cash pooling agreement amounted to €68.2 million.

General information on the Parent Guarantor

Formation, incorporation, trade name and registered office

Schaeffler Verwaltungs GmbH (formerly Schaeffler Verwaltung Eins GmbH), a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany, was formed on September 25, 2009 and is registered in the Commercial Register of the Fürth Local Court (*Amtsgericht*) under HRB 12113. The Parent Guarantor's registered office is Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

Administrative, management and supervisory bodies

Schaeffler Verwaltungs GmbH is managed by a management board, which is comprised of four members: Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, who are each authorized to individually represent the Parent Guarantor, and Klaus Rosenfeld and Dr. Jürgen M. Geißinger. See "*Management*" for more information on the members of the management board.

The members of the Parent Guarantor's management board may be contacted at Industriestraße 1-3, 91074 Herzogenaurach, Germany.

Share capital

The issued capital of the Parent Guarantor amounts to €500,025,000 divided into 500,025,000 shares with a nominal value of €1.00 each, all of which are fully paid up.

Corporate purpose and main activity

Pursuant to Section 2 of the Parent Guarantor's Articles of Association, the main corporate purpose of the Parent Guarantor is the acquisition and management of participations in companies and the provision of services within this context.

The Parent Guarantor is a holding company and does not hold any assets other than its 13.76% share interest in Continental AG and the shares of the Company and Schaeffler Vermögensverwaltungs GmbH which has entered into two intra-group loans with the Parent Guarantor in the amount of approximately €560 million and €227 million.

Financial statements

The Parent Guarantor prepares unconsolidated stand-alone audited financial statements for each fiscal year. The Parent Guarantor does not produce any interim financial statements.

Fiscal year and term of the Parent Guarantor

The duration of the Parent Guarantor is perpetual (Section 3 of the Parent Guarantor's Articles of Association). Pursuant to Section 4 of the Parent Guarantor's Articles of Association, the fiscal year of the Parent Guarantor is the calendar year.

Trend information

There has been no material adverse change in the prospects of the Parent Guarantor since December 31, 2012.

Description of the Issuer

General information about Schaeffler Holding Finance B.V.

History and development

The legal and commercial name of the Issuer is Schaeffler Holding Finance B.V.

Schaeffler Holding Finance B.V. was incorporated on July 1, 2013 for an indefinite period of time under the laws of the Netherlands. It is registered at the Dutch Commercial Register. Schaeffler Holding Finance B.V.'s registration number is 58264728.

Schaeffler Holding Finance B.V.'s registered office is located at Gildeweg 31, 3771 NB Barneveld, The Netherlands. Its phone number is +31 (0)342—403288.

Schaeffler Holding Finance B.V. is incorporated as a private limited liability company under the laws of the Netherlands.

Articles of association

Pursuant to Article 3 of the Articles of Association of Schaeffler Holding Finance B.V. dated July 1, 2013, it is the objective of Schaeffler Holding Finance B.V. to (i) incorporate, participate in any way whatsoever in, manage, supervise businesses and companies; (ii) finance businesses and companies; (iii) borrow, lend and raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as enter into agreements in connection with aforementioned activities; (iv) render advice and services to businesses and companies with which the Company forms a group and to third parties; (v) grant guarantees, bind the Company and pledge its assets for obligations of businesses and companies with which it forms a group and on behalf of third parties; (vi) trade in currencies, securities and items of property in general; (vii) perform any and all activities of an industrial, financial or commercial nature; and (viii) do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense.

Organizational structure

Schaeffler Holding Finance B.V. is a wholly-owned subsidiary of Schaeffler Verwaltungs GmbH and belongs to the IHO Group. The Issuer is a special purpose vehicle and does not have any subsidiaries.

Business activity

The Issuer has been established as a special purpose vehicle for the purpose of financing transactions, such as the issuance of the Notes.

Trend information

There has been no material adverse change in the prospects of Schaeffler Holding Finance B.V. since its date of incorporation.

Administrative, management and supervisory bodies

Schaeffler Holding Finance B.V. is managed by a management board, which is comprised of two members: Cornelis Bol (57) and Dietmar Heinrich (49).

Cornelis Bol is also managing director of Schaeffler Finance B.V., CFO of Schaeffler Nederland Holding B.V., Schaeffler Nederland B.V. and Radine B.V.

Dietmar Heinrich is also managing director of Schaeffler Finance B.V., CFO of the Schaeffler Group Europe (employed by Schaeffler Technologies AG & Co. KG). He is also a member of the supervisory boards of FAG Magyarorszag Ipary KFT, Schaeffler Austria GmbH and a member of the board of and Schaeffler Portugal S.A. Besides these activities, there are no principal activities performed by the managing directors outside of Schaeffler Holding Finance B.V.

Schaeffler Holding Finance B.V. is represented by its management board. If the management board consists of two or more managing directors, any two managing directors acting jointly shall also be authorized to represent the Issuer.

The members of the Issuer's managing board may be contacted at Schaeffler Holding Finance B.V., Gildeweg 31, 3771 NB Barneveld, The Netherlands.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler Holding Finance B.V. and their private interests and/or other duties.

Board practices

Schaeffler Holding Finance B.V. is not an exchange-listed company, therefore, the Dutch corporate governance code, as amended from time to time, is not applicable. Accordingly, Schaeffler Holding Finance B.V. is not required to make and has not made a declaration of conformity pursuant to Article 2:391, paragraph 5, of the Netherlands Civil Code.

Share capital

The issued capital of Schaeffler Holding Finance B.V. as of its date of incorporation amounts to €18,000, divided into 18,000 shares with a nominal value of €1.00 each, all of which are fully paid up. All shares are registered.

Financial statements

The financial year of the Issuer shall begin on January 1 and shall terminate on December 31 of the same year.

The Issuer has not yet produced any annual financial statements and the first audited financial statements will be produced in relation to the financial year ended December 31, 2013. The Issuer will not produce any interim reports.

Auditor

The independent auditors of the Issuer are KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

Legal and arbitration proceedings

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the twelve months preceding the date of this Offering Memorandum which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

Significant change in the financial or trading position of the Issuer

There has been no significant change in the financial or trading position of the Issuer since its date of its incorporation.

Description of other indebtedness

The following is a description of certain outstanding debt instruments of the Schaeffler Group's direct and indirect parent companies.

S-Verwaltungs Group Facilities Agreement

The Parent Guarantor as borrower is party to a term loan and revolving credit facilities agreement dated July 16, 2013 (the "**S-Verwaltungs Group Senior Facilities Agreement**") providing for credit facilities in the aggregate amount of €3,875,000,000 with, among others, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, HSBC Bank plc., J.P. Morgan Limited and UniCredit Bank AG as mandated lead arrangers and Commerzbank Aktiengesellschaft, Luxembourg branch as facility agent and as security trustee and certain banks and financial institutions named therein as original lenders.

Pursuant to the terms and conditions of the S-Verwaltungs Group Facilities Agreement, the lenders have made or, as the case may be, will make available to the Parent Guarantor the following credit facilities:

- a €1,500 million term loan facility ("**S-Verwaltungs Group Facility A**"), which will remain undrawn and outstanding commitments under which will be canceled;
- a €1,200 million term loan facility ("**S-Verwaltungs Group Facility B1**"), which matures on June 30, 2017;
- a €450 million term loan facility ("**S-Verwaltungs Group Facility B2**"), which matures on June 30, 2017;
- a €525 million term loan facility ("**S-Verwaltungs Group Facility B3**", and together with S-Verwaltungs Group Facility A, S-Verwaltungs Group Facility B1 and S-Verwaltungs Group Facility B2, the " **S-Verwaltungs Group Term Loan Facilities**"), which matures on June 30, 2017; and
- a €200 million revolving credit facility ("**S-Verwaltungs Group Revolving Facility**", and together with the S-Verwaltungs Group Term Loan Facilities, the "**S-Verwaltungs Group Facilities**"), which matures on June 30, 2017. The Revolving Facility will be available for drawings until one month prior to the final maturity date and may be utilized by way of drawings in cash.

Interest

The S-Verwaltungs Group Facility A, the S-Verwaltungs Group Facility B1, the S-Verwaltungs Group Facility B3 and the S-Verwaltungs Group Revolving Facility bear interest at a rate of EURIBOR, plus the applicable margin, plus mandatory cost, if any, and, in the case of the S-Verwaltungs Group Facility B3, plus PIK premium. The S-Verwaltungs Group Facility B2 bears interest at a rate of PIK premium plus mandatory cost, if any. The margin in relation to S-Verwaltungs Group Facility A is 5.75% per annum. The PIK premium in relation to the S-Verwaltungs Group Facility B2 is 8.50% per annum (provided that, in the case the Parent Guarantor elects payment of any amount of PIK Premium in cash, PIK premium is 8.00% per annum). The margin in relation to the S-Verwaltungs Group Facility B3 is 1.25% per annum and PIK premium amounts to 5.25% per annum (provided that, in the case the Parent Guarantor elects payment of any amount of PIK Premium in cash, the aggregate amount of margin and PIK premium is initially 5.75% per annum and following the delivery of the first compliance certificate relating to the first covenant testing date following the original date of the S-Verwaltungs Group Facilities Agreement, adjusted, in accordance with the leverage ratchet applicable to the S-Verwaltungs Group Facility B1, within a range from 5.75% per annum to 4.25% per annum). The Parent Guarantor is not entitled to pay any amount of PIK premium accrued on any loan made available under the S-Verwaltungs Group Facility B2 and the S-Verwaltungs Group Facility B3 in cash if the Issuer elects payment of PIK Interest in relation to the Notes or, in relation to the S-Verwaltungs Group Facility B2 only, if the total debt of the S-Verwaltungs Group is equal or greater than €2,250 million. The initial applicable margin in relation to S-Verwaltungs Group Facility B1 and the S-Verwaltungs Group Revolving Facility is 5.75% per annum, in each case, until the delivery of the first compliance certificate relating to the first covenant testing date following the original date of the S-Verwaltungs Group Facilities Agreement. Thereafter, the applicable margin in relation to S-Verwaltungs Group Facility B1 and the S-Verwaltungs Group Revolving Facility is or, as the case may be, will be, in each case, a percentage per annum determined in accordance with a leverage ratchet in a range between 5.75% per annum and 4.25% for the S-Verwaltungs Group Facility B1 and for the S-Verwaltungs Group Revolving Facility.

The term loans outstanding under the S-Verwaltungs Group Term Facilities may be used to refinance the IHO Debt Instruments in full and are due to repayment in one amount on June 30, 2017. The S-Verwaltungs Group Revolving Facility may be used (i) towards payment of taxes incurred by a member of the S-Verwaltungs Group and any direct or indirect shareholder of the Parent Guarantor and (ii) subject to a sublimit of €50 million for such purposes, towards payment of interest incurred and payable by any member of the S-Verwaltungs Group and administrative costs or expenses of the S-Verwaltungs Group and any direct or indirect shareholder of the Parent Guarantor. Any loan made available under the S-Verwaltungs Group Revolving Facility shall be repaid on the last day of its interest period and all amounts outstanding under the S-Verwaltungs Group Revolving Facility shall be repaid on June 30, 2017. Subject to certain conditions, the Parent Guarantor may voluntarily prepay its utilizations and/or permanently cancel all or part of the available commitments under the S-Verwaltungs Group Facilities. In addition to voluntary prepayments, the S-Verwaltungs Group Facilities Agreement requires mandatory prepayment of the term loans made available under the S-Verwaltungs Group Term Facilities in full or in part (and, following the repayment or prepayment of all loans under the S-Verwaltungs Group Term Facilities, mandatory cancellation of the commitments and, as the case may be, prepayment of loans, under the S-Verwaltungs Group Revolving Facility) in certain circumstances, including (i) with respect to any lender, in full if it becomes unlawful in any applicable jurisdiction for such lender to perform any of its obligations under the S-Verwaltungs Group Facilities Agreement or to fund or maintain its participation in any loans, (ii) with respect to any lender who so requires, in full following a specified negotiation period after the occurrence of a change of control (although such lender will, at the request of the Parent Guarantor, assign at par its commitment and participation in any facility to another lender willing to accept such assignment, subject to certain conditions) and (iii) in each case subject to certain criteria, from net proceeds received from (A) asset disposals (including any disposal by a direct or indirect shareholder of the Parent Guarantor of any interests or shares held directly or indirectly in any member of the S-Verwaltungs Group), (B) the sale of certain shares in Continental AG (including shares sold by a member of the Schaeffler Group if (1) the respective proceeds are eligible to be made available to a member of the S-Verwaltungs Group pursuant to the S-Group Facilities Agreement and (2) are not reinvested within twelve months or applied towards prepayment of the facilities under the S-Group Senior Facilities Agreement or redemption of the Existing Notes, (C) any debt capital issue, loan or other financing, (E) any increase in the share capital (1) of any member of the S-Verwaltungs Group, (2) any entity through which any Family Shareholder – as defined under *"Description of the Notes"* – holds a participation in the Parent Guarantor or (3) any member of the Schaeffler Group made by a person other than the Parent Guarantor or any of its subsidiaries if and to the extent such proceeds (x) are not to be applied towards mandatory prepayment of the S-Group Senior Facilities Agreement, the Existing Notes or any other financing instrument through which the S-Group Senior Facilities Agreement or any of the Existing Notes has been refinanced or replaced (in whole or in part) and (y) are eligible to be made available to a member of the S-Verwaltungs Group pursuant to the S-Group Facilities Agreement. Furthermore, the S-Verwaltungs Group Facilities Agreement requires mandatory prepayment of the loans made available under the S-Verwaltungs Group Revolving Facility in full or in part from dividends received by the Parent Guarantor in respect of its shares in Continental AG which are not required to replenish a minimum reserve amount standing to the credit of the account of the Parent Guarantor for the purpose for certain interest payments (the "**Interest Reserve Account**").

The S-Verwaltungs Group Facilities Agreement provides for a conversion mechanism according to which, in the case of any repayment or prepayment of any loans made available under the S-Verwaltungs Group Facility B1, an amount equivalent to an amount of loans made available under the S-Verwaltungs Group Facility B3 will be converted in loans under a term loan facility which is subject to the same terms and conditions (including with regard to maturity and interests) as the S-Verwaltungs Group Facility B1.

Security

The S-Verwaltungs Group Term Facilities are, or as the case may be, will be secured by security over (i) all shares held by the Parent Guarantor in the Company, Continental AG, the Issuer and Schaeffler Vermögensverwaltungs GmbH, (ii) certain bank accounts of the Parent Guarantor and Schaeffler Vermögensverwaltungs GmbH and (iii) all claims of the Parent Guarantor and Schaeffler Vermögensverwaltungs GmbH against any other member of the IHO Group and against any hedging counterparty which is not a member of the IHO Group and intra-group loan receivables. The S-Verwaltungs Group Revolving Facility is, or as the case may be, will be secured by security over (i) all shares held by the Parent Guarantor Continental AG, the Issuer and Schaeffler Vermögensverwaltungs GmbH and (ii) 66⅓% of the shares held by the Parent Guarantor in the Company only. Security over any assets securing the S-Verwaltungs Group Facilities will be released if the relevant assets are disposed of in accordance with the terms of the S-Verwaltungs Group Facilities Agreement (subject to certain prerequisites as the case may be).

Financial Covenants

In respect of its financial condition, the Parent Guarantor must comply with a leverage financial covenant as set out in the S-Verwaltungs Group Facilities Agreement on each specified testing date, being the last date of the relevant testing period (which is a period of twelve months ending on each of March 31, June 30, September 30 and December 31 of each year), by reference to latest consolidated financial statements of IHO.

Under the financial covenants, the Parent Guarantor must ensure that the ratio of consolidated total net debt of the IHO Group on any testing date to consolidated EBITDA of the IHO Group (both as calculated in accordance with the terms and provisions of the S-Verwaltungs Group Facilities Agreement) (the "**Leverage Ratio**") for the testing period ending on the relevant testing date is not more than as set out in the table below next to the respective testing date:

Testing period ending	Leverage Ratio
December 31, 2013	7.000:1
March 31, 2014	7.000:1
June 30, 2014	7.000:1
September 30, 2014	6.750:1
December 31, 2014	6.500:1
March 31, 2015	6.500:1
June 30, 2015	6.250:1
September 30, 2015	6.250:1
December 31, 2015	6.000:1
March 31, 2016	6.000:1
June 30, 2016	5.750:1
September 30, 2016	5.750:1
December 31, 2016	5.500:1
March 31, 2017	5.500:1

Covenants

The S-Verwaltungs Group Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the S-Verwaltungs Group Facilities Agreement in respect of the relevant covenant (customized to the business of the S-Verwaltungs Group and, where relevant, the Schaeffler Group and adjusted to the current credit standing of the IHO Group). Such restrictive covenants include, but are not limited to, restrictions on (i) the incurrence of financial indebtedness, (ii) asset disposals, (iii) the granting of security ("**negative pledge**"), (iv) the granting of loans or credits or the provision of guarantees, (v) mergers and other reorganization measures, (vi) acquisitions and investments, (vii) enterprise agreements with entities which are not members of the IHO Group or which are members of the Continental Group, (viii) substantial changes to the general nature of the business of the S-Verwaltungs Group and the Schaeffler Group, and (ix) the redemption or repurchase by the Parent Guarantor of its share capital. Additionally, the Parent Guarantor has the obligation to provide certain financial information and other information regarding IHO's, the Company's and its financial condition to the lenders under the S-Verwaltungs Group Facilities Agreement.

Furthermore, the S-Verwaltungs Group Facilities Agreement requires the members of the S-Verwaltungs Group or, as the case may be, Schaeffler Group to observe certain customary affirmative covenants (subject to agreed exceptions and qualifications) including with relation to the obtaining of and compliance with any required authorizations (including environmental approvals), compliance with laws (including environmental laws), maintenance of *pari passu* ranking of unsecured debt obligations, preservation and maintenance of assets, the granting of access to the Parent Guarantor and the other members of the S-Verwaltungs Group, the payment of taxes and the replenishment of the minimum reserve amount standing to the credit of the Interest Reserve Account from dividends received by the Parent Guarantor with respect to its shares in Continental AG.

Note purchase condition

The S-Verwaltungs Group Facilities Agreements allows for voluntary redemption and repurchase of bonds or notes issued by any member of the Schaeffler Verwaltungs Group, if such redemption or repurchase is financed by incurrence of permitted financial debt which becomes subject to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

Restricted Investments and separation of decks

The S-Verwaltungs Group Facilities Agreement generally restricts payments, including by way of dividends or other distributions, and the declaration or making of any such dividend or other distribution, by the Parent Guarantor to any of its direct or indirect shareholders or any affiliate of any such shareholder (except for any member of the S-Verwaltungs Group, any member of the Schaeffler Group or any member of the Continental Group) (each such person being a "**Restricted Person**"), subject to certain permitted sources which may be used to fund payments to a Restricted Person, specified limited cash amounts which may be paid in any financial year (€60 million for 2013, €75 million 2014, €100 million for 2015, €115 million for 2016 and €120 million 2017 (as the case may be increased by (i) the amount of any net dividend received in respect of the shares of the Parent Guarantor in Continental AG which is not required to be applied towards mandatory prepayment of loans outstanding under the S-Verwaltungs Group Revolving Facility or the replenishment of the Interest Reserve Account and (ii) in any financial year where the Issuer does not elect payment of PIK Interest in relation to the Notes, by an amount equal to 50% of: "x" minus the aggregate amount of all interest payments and other payments made by any member of the S-Verwaltungs Group to a person (other than any affiliate of the Parent Guarantor) where "x" is €216.9 million for 2014, €228 million for 2015 and €236.5 for 2016) (in each case subject to a full carry forward of unused amounts) and an additional amount of EUR 200 million per twenty-four months for tax (payments) and certain limited purposes for which a Restricted Person may use any such up-streamed amounts.

Under the S-Verwaltungs Group Facilities Agreement, no member of the S-Verwaltungs Group may incur or permit to subsist any actual or contingent payment liability, or in respect of the obligations of, or enter into any contract or agreement with, or transfer to or exchange any assets with a Restricted Person unless otherwise permitted under the S-Verwaltungs Group Facilities Agreement.

Continental AG shares disposal and release of Continental AG shares security

The shares held in Continental AG can be disposed of at any time if the net proceeds from any such share disposal are used to prepay the term facilities. In addition, Unrestricted Continental Shares (as defined in the S-Verwaltungs Group Facilities Agreement) may be, subject to certain requirements, disposed of to a member of the Schaeffler Group without any mandatory prepayment being required or used as collateral for certain permitted financial indebtedness. Upon the occurrence of two trigger events, each of which is linked to a certain reduction in leverage, a certain number of shares in Continental AG will become Unrestricted Continental Shares.

25% of the shares in Continental AG held by the S-Verwaltungs Group will qualify as Unrestricted Continental Shares when leverage of the Schaeffler Group is reduced to 3.125x or less for two consecutive quarters and total debt of the S-Verwaltungs Group is reduced to an amount of €2,200 million or less (not taking into account repayment of any shareholder loans).

Further, an additional 33% of all shares held by the S-Verwaltungs Group (which do not qualify as Unrestricted Continental Shares in accordance with the preceding paragraph) will qualify as Unrestricted Continental Shares when the leverage of the Schaeffler Group is reduced to 2.625x or less for two consecutive quarters and total debt of the S-Verwaltungs Group is reduced to an amount of €1,500 million or less (not taking into account repayment of any shareholder loans).

Notwithstanding the occurrence of the aforementioned trigger events, the security granted over Unrestricted Continental Shares will stay in place unless such security is released in the case of Unrestricted Continental Shares which are simultaneously or promptly used for a permitted purpose. All shares will qualify as Unrestricted Continental Shares if the Company achieves a Baa3/BBB- long-term credit rating (or better) from any two of Moody's, S&P and Fitch.

Events of Default

The S-Verwaltungs Group Facilities Agreement contains customary events of default, the occurrence of which would allow the lenders to cancel their commitments, declare that all or part of the loans together with accrued interest and all other amounts accrued or outstanding under the finance documents be immediately due and payable.

These events of default, subject to certain agreed grace periods and exceptions, include, without limitation:

(a) failure to make payment of amounts due and payable in connection with the S-Verwaltungs Group Facilities Agreement;

(b) failure to comply with the financial covenant;

(c) the making of payments to a Restricted Person which are not permitted;

(d) a cross-default with respect to the S-Group Senior Facilities Agreement and the Existing Notes (and any debt instrument refinancing any of them), subject to the expiry of a certain remedy or, as the case may be, waiver period where a creditor of the S-Group Senior Facilities Agreement or the Existing Notes (or the debt instrument which has refinanced any of them) is entitled to declare such debt immediately due and payable but has not done so;

(e) a cross-default with respect to other financial indebtedness of the S-Verwaltungs Group, subject to a threshold of €50 million;

(f) certain insolvency events or proceedings in relation to the Parent Guarantor, IHO and its subsidiaries (other than any member of the Schaeffler Group) and certain material members of the Schaeffler Group;

(g) certain creditors' processes, including expropriations, attachments or sequestration of assets of IHO, any of its subsidiaries (other than any member of the Schaeffler Group) or certain material members of the Schaeffler Group or similar events subject to a threshold of €25 million.

(h) failure to comply with the provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement or an undertaking agreement between IHO, Schaeffler Holding GmbH & Co. KG and the facility agent under the S-Verwaltungs Group Facilities Agreement by any member of the IHO Group (other than any member of the Schaeffler Group); and

(i) qualification of the audit report for the annual audited financial statements of IHO, the Parent Guarantor or the Company in a way that is materially adverse.

Governing Law

The S-Verwaltungs Group Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

S-Verwaltungs Group Security Pooling and Intercreditor Agreement

Overview

In connection with the issuance of the Notes, *inter alios*, Schaeffler Holding GmbH & Co. KG, the Parent Guarantor, the Issuer and certain subsidiaries of Schaeffler Holding GmbH & Co. KG as obligors and security providers will enter into a security pooling and intercreditor agreement (the "**S-Verwaltungs Group Security Pooling and Intercreditor Agreement**") to govern the relationships and relative priorities among: (i) the obligors named therein; (ii) the Collateral providers named therein; (iii) certain intra-group creditors and debtors named therein; (iv) the syndicated facilities lenders named therein; (v) the hedge counterparties under certain hedging agreements named therein; (vi) Commerzbank Aktiengesellschaft, Luxembourg Branch as security trustee; (vii) Commerzbank Aktiengesellschaft, Luxembourg Branch as facility agent under the S-Verwaltungs Group Facilities Agreement, (viii) the Trustee for the Notes and (ix) the trustee for any other notes that accede to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in the future. By accepting a Note, the Holder shall be deemed to have agreed to, and accepted the terms and conditions of, the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

The Parent Guarantor (which is referred to in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement as "Company"), the Issuer and the obligors, the Collateral providers and the intra-group debtors are referred to in this description as "**Debtors**."

The Parent Guarantor together with its subsidiaries from time to time (but excluding any member of the Schaeffler Group and of the Continental Group) is referred to in this description as "**S-Verwaltungs Group**."

The S-Verwaltungs Group Security Pooling and Intercreditor Agreement is governed by English law. It sets out:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;

- turnover provisions; and
- when security and guarantees will be released to permit a sale of the Collateral.

The following description is a summary of certain provisions, among others, contained in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement that relate to the rights and obligations of the Holders and our other senior creditors. It does not restate the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in its entirety nor does it describe provisions relating to the rights and obligations of other classes of our debt and debt of our ultimate parent entity Schaeffler Holding GmbH & Co. KG or capital expenditures. As such, we urge you to read the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in its entirety because it, and not the description that follows, defines the rights of the Holders. In this summary, capitalized terms have the meanings given to them in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, unless the contrary is otherwise stated or the context otherwise requires.

Ranking and priority

Each of the parties to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will agree that the Liabilities owed by the members of the Group to (i) the lenders under the S-Verwaltungs Group Facilities Agreement, the Holders and certain hedge counterparties (such Liabilities being collectively referred to as the "**Senior Liabilities**" and such creditors being "**Secured Creditors**"), (ii) Schaeffler Holding GmbH & Co. KG, any member of the Parent Group or any other Restricted Person (each as defined below) (such Liabilities being referred to together as the "**Parent Liabilities**") and (iii) certain members of the Group (the "**Intra-Group Liabilities**") will rank in right and priority of payment in the following order and will be postponed and subordinated to any prior ranking Liabilities as follows:

First the Senior Liabilities (*pari passu*, without any preference among such Liabilities);

Second the Intra-Group Liabilities (*pari passu*, without any preference among such Liabilities); and

Third the Parent Liabilities (*pari passu*, without any preference among such Liabilities).

In this description, "**Parent Group**" refers to INA-Holding Schaeffler GmbH & Co. KG together with its subsidiaries from time to time (excluding members of the S-Verwaltungs Group and of the Schaeffler Group), and "**Restricted Person**" means any direct or indirect shareholder of the Parent Guarantor or any of their respective affiliates (except for any member of the Schaeffler Group and any member of the Continental Group).

The Parent Liabilities are and will remain unguaranteed and unsecured by any member of the S-Verwaltungs Group and of the Schaeffler Group. Prior to the date on which all Senior Liabilities have been fully discharged ("**Senior Discharge Date**"), the Intra-Group Liabilities and the Parent Liabilities shall comply with the provisions set out in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. The ranking and priority set forth above shall apply regardless of the order of registration, filing, notice or execution of any document; the date upon which the Liability was incurred or arose; whether a person is obliged to advance any such Liability; and any fluctuations in the outstanding amount, or any intermediate discharge in whole or in part of any Liability.

Each of the parties to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will agree that the Collateral shall rank and secure the Senior Liabilities *pari passu* and without any preference between the Secured Creditors.

Collateral

The Collateral is shared between the Holders, certain hedge counterparties, the holders of any *pari passu* additional debt and the lenders under our S-Verwaltungs Group Facilities Agreement and includes liens and other forms of security interests over, *inter alia*, the shares in the Issuer, the shares in Schaeffler AG and shares in Continental AG owned by the Parent Guarantor, certain accounts, certain intra-group receivables and certain hedging receivables. No such Secured Creditor will be entitled to take the benefit of any guarantee or security unless such guarantee or security is also offered for the benefit of the other Secured Creditors. The Collateral will rank and secure the Secured Obligations owed to the Secured Creditors *pari passu* and without any preference between them, provided that with respect to any Notes Liabilities any Accessory Security Interest will secure only the relevant Notes Parallel Debt Obligations or any other parallel debt obligation in favor of the Security Trustee and none of the Transaction Security shall rank and secure any of the Subordinated Liabilities.

In addition, the S-Verwaltungs Group Security Pooling and Intercreditor Agreement provides that the Guarantees and Collateral will be released in certain circumstances described further below in "*—Release of Transaction Security and Guarantees: Disposals.*"

Subordinated Liabilities

Each of the parties to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement agrees that the Intra-Group Liabilities and the Parent Liabilities are subordinated to the Liabilities owed by the Debtors to the Secured Creditors. Each of the parties to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement agrees that the Parent Liabilities are subordinated to the Intra-Group Liabilities.

Note Creditors and Note Liabilities

Payment of Note Liabilities

Prior to any Enforcement Action, the Debtors may make Payments of the Notes Liabilities at any time in accordance with the Indenture and the Notes. On or after the occurrence of any Enforcement Action, the Debtor will make all Payments in relation to the Notes Liabilities to the Security Trustee, and the Security Trustee will apply such Payments as set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

Security and Guarantees—Note Creditors

The Trustee (acting on behalf of the Holders) and the Holders may take, accept or receive the benefit of:

- any Security in respect of the Notes Liabilities in addition to the Transaction Security if, and to the extent legally possible, at the same time it is also offered either (i) to the Security Trustee as trustee for the other Secured Creditors in respect of the Liabilities owed to them; or (ii) in the case of any jurisdiction in which effective Security cannot be granted in favor of the Security Trustee as trustee for the relevant Secured Creditors, as the case may be, (a) to the other Secured Creditors in respect of the Liabilities owed to them; or (b) to the Security Trustee under a parallel debt structure for the benefit of the other Secured Creditors, and ranks in the same order of priority as that described under the caption "*—Ranking and priority*" provided that all amounts received or recovered by any Secured Creditor with respect to such Security are paid to the Security Trustee to the extent required under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement (for example, as described under the caption "*—Turnover of Receipts*") and held and applied in the manner described under the caption "*—Application of Proceeds;*" and
- any guarantee, indemnity or other assurance against loss in respect of the Notes Liabilities in addition to those in (i) the Notes Documents in their form at the date of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement or any equivalent provisions under any other Notes Documents relating to any other Notes; or (ii) the S-Verwaltungs Group Security Pooling and Intercreditor Agreement; if and to the extent legally possible, at the same time it is also offered to the other Secured Creditors (in the case of any Holder, through the relevant Trustee) as the case may be in respect of the Liabilities owed to them and ranks in the same order of priority as that described under the caption "*—Ranking and priority,*" provided that

all amounts received or recovered by any Secured Creditor with respect to such guarantee, indemnity or other assurance against loss are paid to the Security Trustee to the extent required under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement (for example, as described under "*—Turnover of Receipts*") and held and applied in the manner described under the caption "*—Application of Proceeds.*"

Amendments: Notes Documents

Other than for certain specific purposes under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement as described under the caption "*—Parallel Debt (Covenant to pay the Security Trustee)*" and the definition of the term "Secured Obligations" under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and except for amendments to Notes Documents to effect the issuance of Notes (including Additional Notes) subject to and in accordance with the terms and provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and the other Transaction Finance Documents, any amendment of any term of the Notes Documents which results in any increase of any amount of principal, interest or fees shall not be permitted and shall be disregarded for all purposes of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, unless consented to in writing by each facility agent.

Option to purchase: Holders

Following any Enforcement Action, the relevant Trustee may, at the direction and the expense of the relevant Holders (the "**Purchasing Holders**"), if (i) it gives not less than fifteen Business Days prior written notice to each facility agent in respect of the facilities agreement and if applicable, the hedge counterparties; and (ii) prior to giving any such notice, it obtains all necessary approvals from the Purchasing Holders, acquire or procure the acquisition by a person nominated by the relevant Trustee on behalf of the Purchasing Holders of all (but not part only) of the rights and obligations of the lenders under the relevant facilities agreement and the hedge counterparties in connection with the Liabilities under the finance documents and the Liabilities under the hedging agreements by way of transfer under the relevant provision of the S-Verwaltungs Group Facilities Agreement or the corresponding provision in any other finance documents or relevant hedging agreement.

Restriction on Enforcement: Holders

Subject to the description in the two paragraphs below and certain provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement relating to hedge counterparties and hedging liabilities, each Holder shall be entitled to take any Enforcement Action at any time in its several sole discretion in respect of the Notes Liabilities other than steps relating to the enforcement of Collateral or insolvency proceedings in respect of a Debtor which the Instructing Group must consent to.

If the Instructing Group provides consent to any Secured Creditor to take any Enforcement Action, such consent shall apply equally to all Holders to take the same Enforcement Action and notice of such consent shall be provided to all the Agents and the Security Trustee and each hedge counterparty at the same time.

Notwithstanding the above or anything to the contrary in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, after the occurrence of an Insolvency Event in relation to a Debtor, each Holder may, to the extent it is able to do so under the relevant Notes Documents, take certain Enforcement Action and/or claim in the winding up, dissolution, administration, reorganization or similar insolvency event of that Debtor for Notes Liabilities owing to it (but, for the avoidance of doubt, may not direct the Security Trustee to enforce the Transaction Security in any manner other than as a member of the Instructing Group).

Subordination on Insolvency

Payment of distributions

After the occurrence of an Insolvency Event in relation to any member of the S-Verwaltungs Group, any party entitled to receive a distribution out of the assets of that member of the S-Verwaltungs Group in respect of Liabilities owed to that party shall, to the extent it is able to do so, direct the person responsible for the distribution of the assets of that member of the S-Verwaltungs Group to pay that distribution to the Security Trustee until the Liabilities owing to the Secured Creditors have been paid in full.

The Security Trustee shall apply distributions paid to it as provided for in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and as described under "*—Application of Proceeds.*"

Set-Off

Subject to certain exceptions relating to certain netting arrangements for hedging transactions, to the extent that any member of the S-Verwaltungs Group's Liabilities is discharged by way of set-off (mandatory or otherwise) after the occurrence of an Insolvency Event in relation to that member of the S-Verwaltungs Group, any Creditor (and in case of the Trustee, subject to the provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Turnover of Receipts*"), which benefited from that set-off shall pay an amount equal to the amount of the Liabilities owed to it which are discharged by that set-off to the Security Trustee for application as described under the caption "*—Application of Proceeds.*"

Filing of claims

Without prejudice to provisions relating to set-off as described above, after the occurrence of an Insolvency Event in relation to any member of the S-Verwaltungs Group, each Creditor irrevocably authorizes the Security Trustee, on its behalf, to:

- take any Enforcement Action (in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement) against that member of the S-Verwaltungs Group;
- demand, sue, prove and give receipt for any or all of that member of the S-Verwaltungs Group's Liabilities;
- collect and receive all distributions on, or on account of, any or all of that member of the S-Verwaltungs Group's Liabilities; and
- file claims, take proceedings and do all other things the Security Trustee considers reasonably necessary to recover that member of the S-Verwaltungs Group's Liabilities.

Creditors' actions

Each Creditor will do all things that the Security Trustee requests; and if the Security Trustee is not entitled to take any of the actions contemplated by the S-Verwaltungs Group Security Pooling and Intercreditor Agreement or if the Security Trustee requests that a Creditor take that action, undertake that action itself in accordance with the instructions of the Security Trustee or grant a power of attorney to the Security Trustee (on such terms as the Security Trustee may reasonably require) to enable the Security Trustee to take such action.

Security Trustee's instructions

The Security Trustee shall act on the instructions of the Instructing Group entitled, at that time, to give instructions under the relevant provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

Turnover of Receipts

Turnover by the Creditors

Subject to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and as generally described under the caption "*—Exclusions,*" if at any time prior to the Senior Discharge Date, a Creditor receives or recovers:

- any Payment or distribution of, or on account of or in relation to, any of the Liabilities which is not either a Permitted Payment or made in accordance with the provisions described under the caption "*—Application of Proceeds;*"
- other than as described under the caption "*—Set Off,*" any amount by way of set-off in respect of any of the Liabilities owed to it which does not give effect to a Permitted Payment;
- notwithstanding the above, and other than where the provisions described under the caption "*—Set Off*" apply, any amount:
  - — on account of, or in relation to, any of the Liabilities:
    - after the occurrence of an Enforcement Action or acceleration of the Senior Liabilities in accordance with the transaction finance documents; or
    - as a result of any other litigation or proceedings against a member of the S-Verwaltungs Group (other than after the occurrence of an Insolvency Event in respect of that member of the S-Verwaltungs Group); or
  - — by way of set-off in respect of any of the Liabilities owed to it after the occurrence of an Enforcement Action or acceleration of the Senior Liabilities in accordance with the transaction finance documents,

  other than, in each case, any amount received or recovered in accordance with the provisions described the caption "*—Application of Proceeds;*"
- the proceeds of any enforcement of any Transaction Security except in accordance with the provisions described under the caption "*—Application of Proceeds;*"
- the proceeds from the making of demands under any Guarantee except in accordance with the provisions described under the caption "*—Application of Proceeds;*"
- other than as described under the caption "*—Set Off,*" any distribution in cash or in kind or Payment of, or on account of or in relation to, any of the Liabilities owed by any member of the S-Verwaltungs Group which is not received or recovered in accordance with the provisions described under the caption "*—Application of Proceeds*" and which is made as a result of, or after, the occurrence of an Insolvency Event in respect of that member of the S-Verwaltungs Group,

that Creditor will:

- — in relation to receipts and recoveries not received or recovered by way of set-off:
  - hold an amount of that receipt or recovery equal to the relevant Liabilities (or if less, the amount received or recovered) on trust for the Security Trustee and promptly pay that amount to the Security Trustee for application in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement; and
  - promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the relevant Liabilities to the Security Trustee for application in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement; and
- — in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Trustee for application in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

Exclusions

The provisions under the caption "*—Turnover by the Creditors*" shall not apply to any receipt or recovery:

- by way of close-out netting, payment netting or inter-hedging agreement netting by a hedge counterparty;
- resulting from any Permitted Refinancing;
- in accordance with the provisions described under the caption "*—Equalization*"; or
- that has been distributed by a Trustee to any of the relevant Holders in accordance with the terms of the relevant Notes Documents unless the relevant Trustee had actual knowledge that an Enforcement Action had occurred or that the receipt or recovery falls within the provisions described under the caption "*—Turnover by the Creditors*" prior to distribution of the relevant amount.

Enforcement of Transaction Security

Enforcement Instructions

Following an Enforcement Decision, the Transaction Security shall be enforced by the Security Trustee in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, the relevant Transaction Security Document and the Enforcement Decision.

If requested by a Facility Agent, a Trustee or the Instructing Group, the Security Trustee shall notify the Debtors, the Parent Guarantor and/or the Security Providers (or any of them) of the occurrence of any Default, Event of Default or acceleration (howsoever described) under any of the Transaction Finance Documents as required under any Transaction Security Document (referred to under the relevant Transaction Security Document as "**Default Notice**"), provided that the enforcement of any Transaction Security may only be requested by the Instructing Group. Without prejudice to the foregoing and subject as described under the caption "*—Decisions of the Instructing Group,*" the Security Trustee shall not enforce (or, as the case may be, instruct any Secured Creditor to enforce) any of the Transaction Security unless an Enforcement Decision has been made directing it to do so. If requested by the relevant Facility Agent, a Trustee or the Instructing Group, the Security Trustee shall revoke the Default Notice specified in such request vis-à-vis the Parent Guarantor and the Debtors and/or the Security Providers which had previously received such Default Notice.

Subject to the Transaction Security having become enforceable in accordance with its terms, the Instructing Group (as defined in section 18 of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement) may give or refrain from giving instructions to the Security Trustee to enforce or refrain from enforcing the Transaction Security as it sees fit.

Manner of enforcement

At any time after an Enforcement Decision has been made, the Security Trustee shall notify the Debtors, the Parent Guarantor and/or the Security Providers (or any of them) of such Enforcement Decision in writing (referred to under the relevant Transaction Security Document as "**Enforcement Notice**") and the Security Trustee shall, subject to the terms and conditions of such Enforcement Decision and the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, commence with and initiate such measures as the Security Trustee may deem appropriate, necessary or advisable for the enforcement of all or part of the relevant Transaction Security in accordance with the Enforcement Decision, the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and the provisions of the relevant Transaction Security Documents.

The Secured Creditors (including for the avoidance of doubt any creditor in respect of a Permitted Refinancing or Permitted Financing and (if acceded) any agent, trustee or representative appointed by any such creditor) acknowledge and agree with each other that:

- none of the Secured Creditors shall exercise any independent power to enforce any of the Transaction Security (or to exercise any rights, remedies, discretions or powers or to grant any consents or releases relating to the Transaction Security under or pursuant to the Security Pooling and Intercreditor Agreement or any Transaction Finance Documents in particular, but not limited to in case where it is a direct party to any Transaction Security Document as pledgee or otherwise) or otherwise have direct recourse to any of the Transaction Security other than with the consent of the Security Trustee holding the respective Transaction Security (acting on the instructions of the Instructing Group); and
- none of the Secured Creditors shall be entitled to act individually to require the Security Trustee to take any action or proceedings under or in relation to the Transaction Security and/or the Transaction Security Documents or to exercise any of the rights, powers or discretions conferred on it by the Security Pooling and Intercreditor Agreement or the Transaction Security Documents, other than in its capacity as a member of the Instructing Group.

Exercise of voting rights

Each Creditor agrees with the Security Trustee that it will (save, in the case of a Secured Creditor, where to do so would be unlawful and/or contradictory to its obligations under any applicable legislation) cast its vote in any proposal put to the vote by, or under the supervision of, any judicial or supervisory authority in respect of any insolvency, pre insolvency or rehabilitation or similar proceedings relating to any member of the S-Verwaltungs Group as instructed by the Security Trustee.

The Security Trustee shall give instructions as directed by the Instructing Group.

The provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described above shall not entitle any party to exercise or require any other Secured Creditor to exercise such power of voting or representation to waive, reduce, discharge, extend the due date for repayment of or reschedule any of the Senior Liabilities.

Waiver of rights

To the extent permitted under applicable law and subject to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the captions "*—Enforcement Instructions,*" "*—Manner of enforcement,*" "*—Distressed Disposals,*" and "*—Application of Proceeds,*" each of the Secured Creditors and each of the Debtors waives all rights it may otherwise have to require that the Transaction Security be enforced in any particular order or manner or at any particular time or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Transaction Security or of any other security interest, which is capable of being applied in or towards discharge of any of the Secured Obligations is so applied.

Assignment and waiver of Liabilities

Subject to the condition precedent that (i) an Enforcement Decision has been taken and (ii) notice has been given by the Security Trustee that such waiver shall become effective, the Parent and each Intra-Group Lender, if any, waives any and all claims it may or will have against any of the Debtors arising under or in respect of the Transaction Security (including its enforcement), in particular, without limitation, claims for reimbursement, and any of its claims under any Intra Group Liability or, as the case maybe, Parent Liability other than the IBV Loan to the extent so notified by the Security Trustee.

Release of Transaction Security and Guarantees: Disposals

Non-Distressed Disposals: General

If, prior to an Enforcement Decision, in respect of a disposal of any asset by a Security Provider which is subject to any Transaction Security (other than a disposal of Continental Shares):

- each Facility Agent has (i) notified the Security Trustee that such disposal and the release of the relevant Transaction Security is not prohibited under the Finance Documents (with respect to which such Facility Agent acts as facility agent); and (ii) instructed the Security Trustee to release the relevant Transaction Security encumbering such asset; and
- each Trustee has: (i) notified the Security Trustee that such disposal and the release of the relevant Transaction Security is not prohibited under the respective Notes Document (with respect to which such Trustee acts as Trustee); and (ii) instructed the Security Trustee to release the relevant Transaction Security encumbering such asset;

(a "**Non-Distressed Disposal**"),

the Security Trustee is irrevocably authorized and instructed by all Secured Creditors (at the cost of the relevant Debtor or the Parent Guarantor and without any consent, sanction, authority or further confirmation from any Creditor or Debtor) to comply with such instructions and:

- to release the Transaction Security and/or any other claim (relating to a Debt Document) over that asset;
- where that asset consists of shares in the capital of or interest in a member of the S-Verwaltungs Group, to release the Transaction Security and/or any other claim (relating to a Debt Document) over that member of the S-Verwaltungs Group's assets and those of any of its Subsidiaries as well as all Secured Obligations and all Guarantees and any Parallel Debt Obligation (but not only part thereof) owed by that member of the Group or any of its Subsidiaries, upon such member of the S-Verwaltungs Group ceasing to be a Subsidiary of the Parent Guarantor as a result of such disposal; and
- to execute and deliver or enter into any release of the Transaction Security or any claim described above and grant all consents, execute all agreements and make all other declarations (including without limitation any certificates of non-crystallization of any floating charge or any consent to dealing) that may, in the discretion of the Security Trustee, be considered necessary or desirable,

in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If that Non-Distressed Disposal is not made, each release of Transaction Security or any claim described above shall have no effect and the Transaction Security or claim subject to that release shall continue in such force and effect as if that release had not been effected (in each case to the extent legally possible) and the Debtors shall take all action reasonably requested by the Security Trustee to confirm or retake the relevant Transaction Security.

Non-Distressed Disposals: Continental Shares

If, prior to an Enforcement Decision, in respect of a (i) disposal, (ii) other transfer (including, but not limited to, by way of payment of dividend in kind), or (iii) use as collateral, for any indebtedness of any member of the S-Verwaltungs Group incurred otherwise than under the Transaction Finance Documents owed to any third party creditor (other than to a Restricted Person), of Continental Shares subject to Transaction Security and related rights by the relevant Security Provider:

- each Facility Agent has: (i) notified the Security Trustee that such disposal, transfer or granting of Security over all or a certain number of the Continental Shares is not prohibited under the respective Finance Documents (with respect to which such Facility Agent acts as facility agent); and (ii) instructed the Security Trustee to release the Transaction Security over Continental Shares and related rights; and

- each Trustee has (i) notified the Security Trustee that such disposal, transfer of or granting of Security over all or a certain number of the Continental Shares is not prohibited under the respective Notes Document (with respect to which such Trustee acts as Trustee); and (ii) instructed the Security Trustee to release the Transaction Security over Continental Shares and related rights;

(a "**Non-Distressed Disposal Continental Shares**")

the Security Trustee is irrevocably authorized and instructed by the Secured Creditors (at the cost of the relevant Security Provider or the Parent Guarantor and without the need for any further consent, authority or further confirmation from any Secured Creditor or Debtor) to comply with such instructions and:

- to release the Transaction Security over the relevant number of Continental Shares and related rights which are subject to such disposal, transfer or grant of Security; and
- to execute and deliver or enter into any release of the Transaction Security over the respective Continental Shares and related rights and grant all consents, execute all agreements and make all other declarations that may, in the discretion of the Security Trustee, be considered necessary or desirable,

in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If that Non-Distressed Disposal Continental Shares is not made, each release of Transaction Security over Continental Shares and related rights described above shall have no effect and the Transaction Security subject to that release shall continue in such force and effect (in each case to the extent legally possible) as if that release had not been effected and the Debtors shall take all action reasonably requested by the Security Trustee to confirm or retake the relevant Transaction Security.

Application of Proceeds resulting from Non-Distressed Disposals

The Parties agree that if and to the extent pursuant to the terms of any Transaction Finance Document any proceeds resulting from any disposal of an asset in accordance with the description under "*—Non-Distressed Disposals: General*" and "*—Non-Distressed Disposals: Continental Shares*" above must be applied towards a prepayment of any obligations outstanding under the relevant Transaction Finance Documents (each a "**Mandatory Prepayment Event**"), then any prepayment of the Secured Obligations which would result from such Mandatory Prepayment Event shall be made (and any proceeds received by any member of the Group in connection with that Mandatory Prepayment Event shall be applied) in accordance with the terms of the relevant Transaction Finance Document(s).

Distressed Disposals

If, following an Enforcement Decision:

- the Security Trustee (acting on the instructions of or with the consent of the Instructing Group) sells or otherwise disposes of any Charged Property;
- the relevant Security Provider concerned sells or otherwise disposes of such asset at the request of the Security Trustee (acting on the instructions of or with the consent of the Instructing Group); or
- a Receiver sells or otherwise disposes of such asset with the consent of the Security Trustee (acting on the instructions of or with the consent of Instructing Group),

(a "**Distressed Disposal**"),

the Security Trustee is authorized to execute on behalf of itself and in the name and on behalf of each Secured Creditor, without the need for any further referral to or authority from any Secured Creditor:

- release of Transaction Security/non crystallization certificates: to release the Transaction Security or any other claim over that asset and execute and deliver or enter into any release of that Transaction Security or claim and issue any letters of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Trustee, be considered necessary or desirable;
- release of liabilities and Transaction Security on a share sale (Obligor): if the asset which is sold or disposed of (either as a result of the enforcement of the Transaction Security or as a result of a disposal of shares by a Security Provider at the request of or (in the case of a disposal by a receiver) with the consent of the Security Trustee (in each case acting on the instructions of or with the consent of the Instructing Group)) consists of the shares in the capital of an Obligor (other than the Parent Guarantor or any issuer of Notes), to release on behalf of the relevant Creditors and Debtors:
  - that Obligor and any Subsidiary of that Obligor from all of its Liabilities; all Parallel Debt Obligations (but not only part thereof); and all Guarantees it may have to (i) any Security Provider or other Obligor, both actual and contingent, in its capacity as a guarantor, security provider or borrower or otherwise (including any liability to any Security Provider or other Obligor by way of guarantee, contribution, subrogation, assignment by operation of law (*cessio legis*) or indemnity) or (ii) any Secured Creditor, both actual and contingent, in its capacity as a guarantor, security provider or Obligor under the Parallel Debt Obligations; and
  - any Transaction Security granted by that Obligor or any Subsidiary of that Obligor over any of its assets under any of the Transaction Security Documents;
- release of liabilities and Transaction Security on a share sale (Holding Company): if the asset which is sold or disposed of (either as a result of the enforcement of the Transaction Security or as a result of a disposal of shares by a Security Provider at the request of or (in the case of a disposal by a receiver) with the consent of the Security Trustee (in each case acting on the instructions of or with the consent of the Instructing Group)) consists of the shares in the capital of any Holding Company of an Obligor (other than the Parent Guarantor or any issuer of Notes), to release on behalf of the relevant Creditors and Debtors:
  - that Holding Company and any Subsidiary of that Holding Company from: all of its Liabilities; all Parallel Debt Obligations (but not only part thereof); and all Guarantees it may have to (i) any Security Provider or other Obligor, both actual and contingent, in its capacity as a guarantor, security provider or borrower or otherwise (including any liability to any Security Provider or other Obligor by way of guarantee, contribution, subrogation, assignment by operation of law (*cessio legis*) or indemnity) or (ii) any Secured Creditor, both actual and contingent, in its capacity as a guarantor, security provider or Obligor under the Parallel Debt Obligations; and
  - any Transaction Security granted by any Subsidiary of that Holding Company over any of its assets;
- disposal of liabilities on a share sale: if the asset which is sold or disposed of consists of shares in the capital of an Obligor or the Holding Company of an Obligor and the Security Trustee decides to sell or dispose of: all of the Liabilities; all Parallel Debt Obligations (but not only part thereof); and all Guarantees, owed by that Obligor or Holding Company to (i) any Security Provider or other Obligor, both actual and contingent, in its capacity as a guarantor, security provider or borrower or otherwise or (ii) to any Secured Creditor, both actual and contingent, in its capacity as a guarantor, security provider or Obligor under the Parallel Debt

Obligations, to execute and deliver or enter into any agreement to sell or dispose of all or part of any such Liabilities, Parallel Debt Obligations and Guarantees, on behalf of, in each case, the relevant Creditors and Debtors.

The net proceeds of each Distressed Disposal (and the net proceeds of any release of Liabilities, if any) shall be paid to the Security Trustee for application in accordance with the provisions set forth under "*—Application of Proceeds*" as if those proceeds were the proceeds of an enforcement of the Transaction Security.

In the absence of any instructions of the Instructing Group requesting the Security Trustee to enter into (or not to enter into, as the case may be) a disposal for a specific consideration and subject always to the provisions set forth under "*—Enforcement Instructions,*" the Security Trustee shall take reasonable care to obtain a fair market price in the prevailing market conditions (though the Security Trustee shall not have any obligation to postpone any such Distressed Disposal or disposal of Liabilities in order to achieve a higher price).

Creditors' and Debtors' actions

Each Creditor and Debtor will do all things that the Security Trustee requests in order to give effect to the release of Transaction Security and Guarantees Disposals (which shall include, without limitation, the execution of any assignments, transfers, releases or other documents (including special power of attorney for the benefit of the Security Trustee) that the Security Trustee may consider to be necessary to give effect to the releases or disposals contemplated hereunder; and if the Security Trustee is not entitled to take any of the actions contemplated hereunder or if the Security Trustee requests that any Creditor or Debtor take any such action, take that action itself in accordance with the instructions of the Security Trustee, provided that the proceeds of those disposals are applied in accordance with the provisions described under "*—Application of Proceeds resulting from Non-Distressed Disposals*" or under "*—Distressed Disposals,*" as the case may be.

Release of Transaction Security and Guarantees: General

Transaction Security

If, prior to an Enforcement Decision, the Facility Agent and each Trustee has delivered to the Security Trustee the Release Notification, the Security Trustee:

- shall as soon as reasonably practicable release the Transaction Security specified in such notification in accordance with such notification; and
- is irrevocably authorized and instructed by the Secured Creditors (at the cost of the relevant Security Provider or the Parent Guarantor and without the need for any further consent, authority or further confirmation from any Secured Creditor or Debtor):
  - — to release such Transaction Security; and
  - — to execute and deliver or enter into any release of the relevant Transaction Security and grant all consents, execute all agreements and make all other declarations that may, in the discretion of the Security Trustee, be considered necessary or expedient

  in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If following a release of such Transaction Security the Parent Guarantor or any other member of the Group is required pursuant to the Transaction Finance Documents to reinstate Transaction Security previously released then such Transaction Security has to be reinstated (other than, for the avoidance of doubt, with respect to any asset (including any shares or interest in any entity) disposed of (whether by way of asset or share deal) in the meantime where that disposal was permitted pursuant to the terms of the Facilities Agreement(s) and the Notes Documents).

General

The Security Trustee shall not release any Transaction Security (or any part thereof) other than pursuant to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the captions "*—Release of Transaction Security and Guarantees: Disposals,*" "*—Release of Transaction Security and Guarantees: General*" and "*—Accession of Debt and Collateralization—Transaction Security*" without the prior consent of each Facility Agent and Trustee.

If the Security Trustee is required to release any Transaction Security by operation of law, any approval shall only be required for the selection (if legally permissible) of the Transaction Security which is to be released.

If each Facility Agent and each Trustee have notified the Security Trustee that the Facilities Liabilities and the Notes Liabilities have been unconditionally and irrevocably discharged in full and the Parent Guarantor has requested the Security Trustee to do so, the Security Trustee shall (and is authorized by each other Secured Creditor to) release, confirm any extinction by operation of law, re-assign or re-transfer, as appropriate, to the relevant Security Provider the Transaction Security and the Parallel Debt Obligations in its own name and in the name and on behalf of any other Secured Creditor holding the relevant Transaction Security, as the case may be, without the need for any further referral to or authority from any other Secured Creditors, save to the extent that the Security Trustee is required to transfer such Security or any surplus proceeds to any third party by mandatory law. Each Secured Creditor shall make any declarations and perform any other acts which are necessary to give full force and effect to any release of Transaction Security pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Release of Transaction Security and Guarantees: Disposals*" or "*—Release of Transaction Security and Guarantees: General.*"

Application of Proceeds

Order of application—General

Subject to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Prospective liabilities and determination of quotas,*" the proceeds shall be held by the Security Trustee on trust and, to the extent permitted by applicable mandatory law and subject to the application of proceeds set forth under "*—Order of application—Security over Schaeffler Shares*" and "*—Order of application—Security not securing Restricted Revolving Credit Facilities Liabilities*" be applied by it towards discharging the claims of the Creditors in the following order of priority (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full):

- ***first,*** in or towards discharging *pro rata* all expenses incurred by the Security Trustee, or by any person appointed by the Security Trustee, by any Trustee and by any Facility Agent;
- ***second,*** in payment to: each Facility Agent on its own behalf and on behalf of the relevant Finance Parties for application towards the discharge of the Facilities Liabilities; each Trustee on its own behalf and on behalf of its respective Holders for application towards the discharge of the Notes Liabilities; and the Hedge Counterparties for application towards the discharge of the Hedging Liabilities, on a *pro rata*, *pari passu* basis;
- ***third,*** in payment to any other person if and to the extent the Security Trustee or any other Secured Creditor having received the relevant Transaction Security is obliged by law to make such payment in priority to any Security Provider;
- ***fourth,*** in payment pro rata to the relevant Intra-Group Lender towards the discharge of the Intra-Group Liabilities;
- ***fifth,*** if none of the Debtors is under any further actual or contingent liability under any Transaction Finance Document and no Intra-Group Liabilities are outstanding, in payment to the Parent towards the discharge of any Parent Liabilities; and

- ***sixth,*** the balance, if any, in payment to the relevant Debtor,

Order of application—Security over Schaeffler Shares

Any proceeds from the enforcement of any Transaction Security relating to the Schaeffler Shares which secures Facilities Liabilities (including Restricted Revolving Facilities Liabilities) shall be applied by the Security Trustee towards discharging the claims of the Creditors in the following order of priority (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full):

- ***first,*** in or towards discharging *pro rata* all expenses incurred by the Security Trustee, or by any person appointed by the Security Trustee, by any Trustee and by any Facility Agent;
- ***second***, in payment to each relevant Facility Agent on its own behalf and on behalf of the relevant Finance Parties for application towards the discharge of the Restricted Revolving Facilities Liabilities on a *pro rata* basis and ranking *pari passu* between themselves;
- ***third***, in payment to each Facility Agent on its own behalf and on behalf of the relevant Finance Parties for application towards the discharge of all Facilities Liabilities (other than any Restricted Revolving Facilities Liabilities), each Notes Trustee on its own behalf and on behalf of its respective Noteholders for application towards the discharge of the Notes Liabilities and the Hedge Counterparties for application towards the discharge of the Hedging Liabilities, on a *pro rata, pari passu basis;*
- ***fourth,*** in payment to any other person if and to the extent the Security Trustee or any other Secured Creditor having received the relevant Transaction Security is obliged by law to make such payment in priority to any Security Provider;
- ***fifth,*** in payment *pro rata* to the relevant Intra-Group Lender towards the discharge of the Intra-Group Liabilities;
- ***sixth,*** if none of the Debtors is under any further actual or contingent liability under any Transaction Finance Document and no Intra-Group Liabilities are outstanding, in payment to the Parent towards the discharge of any Parent Liabilities; and
- ***seventh,*** the balance, if any, in payment to the relevant Debtor.

Order of application—Security not securing Restricted Revolving Facilities Liabilities

Any proceeds from the enforcement of any Transaction Security which secures any Facilities Liabilities (excluding Restricted Revolving Facilities Liabilities) shall be applied by the Security Trustee towards discharging the claims of the Creditors in the following order of priority (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full):

- ***first,*** in or towards discharging *pro rata* all expenses incurred by the Security Trustee, or by any person appointed by the Security Trustee, by any Trustee and by any Facility Agent;
- ***second***, in payment to each Facility Agent on its own behalf and on behalf of the relevant Finance Parties for application towards the discharge of all Facilities Liabilities (other than any Restricted Revolving Facilities Liabilities), each Notes Trustee on its own behalf and on behalf of its respective Noteholders for application towards the discharge of the Notes Liabilities and the Hedge Counterparties for application towards the discharge of the Hedging Liabilities, on a *pro rata, pari passu basis*;
- ***third,*** in payment to any other person if and to the extent the Security Trustee or any other Secured Creditor having received the relevant Transaction Security is obliged by law to make such payment in priority to any Security Provider;
- ***fourth,*** in payment *pro rata* to the relevant Intra-Group Lender towards the discharge of the Intra-Group Liabilities;

- ***fifth,*** if none of the Debtors is under any further actual or contingent liability under any Transaction Finance Document and no Intra-Group Liabilities are outstanding, in payment to the Parent towards the discharge of any Parent Liabilities; and
- ***sixth,*** the balance, if any, in payment to the relevant Debtor.

Application of proceeds by Security Trustee

Any Agent other than the Security Trustee receiving any proceeds shall without undue delay forward such proceeds it has received to the Security Trustee for distribution pursuant to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and described under the caption "*—Order of application*" above.

Prospective liabilities and determination of quotas

Following an Enforcement Decision, the Security Trustee may in its discretion hold an amount of the proceeds in an interest bearing suspense or impersonal account in the name of the Security Trustee with such financial institution (including itself) and for as long as the Security Trustee shall think fit (the interest being credited to the relevant account) for later application under the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Order of application*" in respect of:

- sums (other than interest amounts) notified by the Secured Creditors to the Security Trustee that may become payable in the future under the Transaction Finance Documents in connection with any of the claims of the relevant secured creditor (in particular, without limitation, in case of letters of credit or guarantees) the exact amount of which cannot, at the date notified by the Security Trustee, be finally determined and which may not be covered by future proceeds);
- sums as the Security Trustee reasonably considers may become payable in the future in respect of expenses and which it considers may not be covered by future proceeds; and
- any part of the Senior Liabilities that the Security Trustee reasonably considers may become payable in the future,
- any sums the Security Trustee has received and with respect to which it reasonably considers that payment of such sums may be avoided or subject to draw-back from it (in particular, but not limited to, as a result of the realization of Transaction Security with respect to which any hardening periods or new hardening periods have or may have commenced (and not been completed) in connection with a Permitted Refinancing or a Permitted Financing) pursuant to legal and/or insolvency proceedings instituted in respect of the relevant member of the Group; and
- any sums the Security Trustee has received and with respect to which it reasonably considers that the relevant Secured Creditor is not entitled under applicable mandatory law to receive or to retain such sums,

and the retained funds shall be distributed only once it has been finally determined whether and to what extent the claims expected by the Secured Creditors have actually materialized, *provided that* if and to the extent any funds retained for the benefit of one or more Secured Creditors have been contested by any other Secured Creditor, the relevant funds shall be finally distributed upon the earlier of:

- the Security Trustee having received from each of the Secured Creditors for the benefit of which the relevant funds have been retained its written consent as to the distribution of the relevant funds; or
- any of the Secured Creditors having notified the Security Trustee in writing of any court judgment, court or administration order or any other ruling, which permits enforcement against the relevant party providing evidence (satisfactory to the Security Trustee) that the claims expected by the Secured Creditors for the benefit of which the relevant funds have been retained have actually materialized or (as the case may be) that any future

materialization of such claims may be excluded. Claims in connection with guarantees or letters of credit shall be deemed to have been materialized in case any payment has been made under them by the relevant Secured Creditor.

The Security Trustee is entitled to refrain from the distribution of proceeds resulting from the enforcement of Transaction Security, if and for as long as, pursuant to the terms of the relevant Transaction Security Document, the Security Trustee may be required to return (all or part of) such proceeds to the relevant Transaction Security Provider as a result of an outstanding determination by an auditor (or any other independent third party) of the amount which is enforceable and may be retained in respect of such Transaction Security.

As long as the amount of any right and claim eligible for the distribution of proceeds is not finally determined, such right and claim shall generally not be considered in the determination of the distribution quotas. A definite determination of the distribution quotas shall only be made when each of the Secured Creditors has notified the Security Trustee in writing that all amounts of the respective rights and claims eligible for the distribution of proceeds have been determined finally. On the basis of such notices the Security Trustee shall calculate the share of each Secured Creditor in the proceeds to be distributed in accordance with the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Order of application*". If and to the extent such shares and/or amounts have been contested by any Secured Creditor before the respective date which has been duly notified by the Security Trustee to the Secured Creditors for this purpose, the Security Trustee may refrain from the final distribution and the proceeds shall be finally distributed upon the earlier of:

- the Security Trustee having received from each of the Secured Creditors, its written consent as to the distribution of the relevant funds; or
- any of the Secured Creditors having notified the Security Trustee in writing of an enforceable title providing evidence (satisfactory to the Security Trustee) as to the calculation of such share and/or amounts.

If the application of such definite distribution quotas would lead to a different allocation of any proceeds that have already been distributed, corresponding compensation payments shall be made among the relevant Secured Creditors if and to the extent necessary to reflect the definite distribution quotas.

Investment of proceeds

Prior to the application of the proceeds in accordance with the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Order of application*" the Security Trustee may, in its discretion, hold all or part of those proceeds in an interest bearing suspense or impersonal account(s) in the name of the Security Trustee with such financial institution (including itself) and for so long as the Security Trustee shall think fit (the interest being credited to the relevant account) pending the application from time to time of those monies in the Security Trustee's discretion in accordance with the provisions of this with the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement under the caption "*—Application of Proceeds.*"

Permitted Deductions

The Security Trustee shall be entitled, in its discretion, (a) to set aside by way of reserve amounts required to meet and (b) to make and pay, any deductions and withholdings (on account of taxes or otherwise) which it is or may be required by any applicable law to make from any distribution or payment made by it under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, and to pay all Taxes which may be assessed against it in respect of any of the Transaction Security, or as a consequence of performing its duties, or by virtue of its capacity as Security Trustee under any of the Debt Documents or otherwise (other than in connection with its remuneration for performing its duties under the Transaction Finance Documents).

Refinancing of Senior Liabilities and New Debt

Refinancing

Subject to the terms and provisions of all Transaction Finance Documents including the specific provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, the Parent Guarantor or any of its Subsidiaries may refinance or replace the Facilities Liabilities (including replacement of any undrawn commitment under the Finance Documents) and/or the Notes Liabilities, in each case in whole or in part, by way of a senior secured facilities financing (such refinancing or replacement, the "**Senior Facilities Refinancing**") and/or issuance of Notes (the "**Notes Refinancing,**" together with the Senior Facilities Refinancing, the "**Senior Refinancing**"), if:

- the obligations of each borrower and guarantor under such Senior Refinancing will rank *pari passu*, without preference or priority, with all of its obligations under the Transaction Finance Documents and will rank ahead of the Intra-Group Liabilities and the Parent Liabilities;
- at such time no acceleration event or event of default has occurred and is continuing under any Transaction Finance Document;
- such Senior Refinancing is not prohibited under the relevant Notes Documents of any Notes then outstanding Liabilities then outstanding;
- the aggregate principal amount made or to be made available pursuant to such refinancing or replacement does not exceed the aggregate amount of the refinanced Secured Obligations outstanding at the time of such refinancing and the aggregate amount of the undrawn commitments under any Transaction Finance Document to be replaced thereby; and
- each obligor, each guarantor, each Security provider and each creditor (including, as the case may be, any agent appointed by such creditors and any trustee or representative of such creditors) in respect of such Senior Refinancing accedes to the Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the Security Pooling and Intercreditor Agreement.

All liabilities incurred under any Permitted Refinancing will become Secured Obligations, be treated for all purposes of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in the same way as the refinanced Secured Obligations and rank accordingly as Senior Liabilities in accordance with the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and (to the extent permitted by applicable law) be secured by the Transaction Security existing as of the date such liabilities are incurred *pari passu* with the then existing Senior Liabilities, *provided that*

- in case of a Notes Refinancing, the Notes Effective Date has occurred with respect to such Notes; and
- in case of a Senior Facilities Refinancing, the Facilities Effective Date has occurred with respect to such Senior Facilities Refinancing.

New Debt

Subject to the terms and provisions of all Transaction Finance Documents including the specific provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, the Parent Guarantor or any of its Subsidiaries may increase or restructure any Facilities Liabilities and/or incur new Liabilities under a senior secured facilities financing (the "**Senior Facilities Financing**") and/or issue Notes (the "**Notes Financing**" together with the Senior Facilities Financing and the financing set out below, the "**Senior Financing**"), in each case in whole or in part, if:

- the obligations of each borrower and guarantor under such Senior Financing will rank *pari passu*, without preference or priority, with all of its obligations under the Transaction Finance Documents and will rank ahead of the Intra-Group Liabilities and the Parent Liabilities;
- at such time no acceleration event and no event of default has occurred and is continuing under any Transaction Finance Document;
- such Senior Financing is permitted under the Finance Documents of any Facilities Liabilities then outstanding and is not prohibited under the relevant Note Documents of any Notes then outstanding; and
- each obligor, each guarantor, each Security provider and each creditor (including, as the case may be, any agent appointed by such creditors and any trustee or representative of such creditors) in respect of such Senior Financing accedes to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

All liabilities incurred in connection with any Permitted Financing will become Secured Obligations, be treated for all purposes of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement in the same way as any other Secured Obligations and rank accordingly as Senior Liabilities in accordance with the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and (to the extent permitted by applicable law) be secured by the Transaction Security existing as of the date such liabilities are incurred *pari passu* with the then existing Senior Liabilities, *provided that:*

- in case of a Notes Financing, the Notes Effective Date has occurred with respect to such Notes; and
- in case of a Senior Facilities Financing, the Facilities Effective Date has occurred with respect to such Senior Facilities Financing.

Nothing in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement shall affect or limit the rights of any member of the Group to take out, issue or incur indebtedness under bilateral or syndicated loan or credit financing or any bonds, notes or similar instruments if and to the extent:

- the relevant indebtedness thus incurred is not secured by any asset which is subject to Transaction Security; and
- such take-out, issue and/or incurrence is not prohibited pursuant to the Finance Documents and the Notes Documents in each case under which any Facilities Liabilities or, as the case may be, Notes Liabilities are outstanding.

Restricted Revolving Facilities

The Security Trustee may, and shall upon written request of the Company, designate any revolving credit facility to be provided to the Company under a Senior Facilities Refinancing or a Senior Facilities Financing as a "Restricted Revolving Facility" if the amount of the total commitments under that new revolving credit facility does not, when aggregated with the available commitments under any then existing Restricted Revolving Facility (other than any available commitment that will be cancelled on or before the first utilisation under such new revolving credit facility) exceed an amount of €200,000,000.

Accession of Debt and Collateralization

Notes Effective Date

If in respect of a Notes Refinancing or a Notes Financing,

- by way of any Notes other than the Additional Notes:
  - a Trustee in respect of such Notes has agreed to be bound by the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement as Trustee;
  - the relevant Trustee or the Parent Guarantor has instructed the Security Trustee in writing in respect of each Transaction Security Document to which the Security Trustee is a party to procure the conclusion of one or more Security Confirmation Agreements, a Local Law Security Amendment Agreement (to the extent applicable) and/or the provision of Lower Ranking Security and/or to procure a release and retake of Collateral if permitted according to the provisions described under the caption "*—Transaction Security.*"
  - the Security Trustee has received a legal opinion from legal counsel to it or to the Parent Guarantor that the respective Holders are, on or after the occurrence of any Enforcement Action, entitled under the terms of such Notes Guarantees for such Notes, or under the terms of the respective Notes or under applicable law, in each case as in effect on the issue date of such Notes, to demand payment under such Notes Guarantees to themselves;
  - the Facility Agent has notified the Security Trustee that the issuance of such Notes is permitted under the Finance Documents of any Facilities Liabilities then outstanding and each Trustee has notified the Security Trustee that the issuance of such Notes is not prohibited under the relevant Notes Documents of any Notes then outstanding;
  - subject to the provisions described under the caption "*—Transaction Security,*" the Security Trustee has received legal opinion(s) from legal counsel to it or to the Parent Guarantor capable of being relied upon by, each Facility Agent, each Trustee, the Security Trustee and the other Secured Creditors other than the Holders (in form and substance satisfactory to the Security Trustee and with a copy to each Trustee) confirming that from a legal perspective the conclusion of the Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of Lower Ranking Security, in each case as set out in the respective instruction will not adversely affect any Transaction Security granted to the Security Trustee or any other Secured Creditor as of that time (including an opinion statement that no new hardening periods with respect to such existing Transaction Security result from, and no hardening periods with respect to such existing Transaction Security are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement), *provided that,* with respect to any Secondary Transaction Security only, to the extent such legal opinion(s) do not confirm for such Secondary Transaction Security existing as of that time that no new hardening periods result from, and no hardening periods are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement, if the Security Trustee has received either (i) written instructions from each Trustee and each Facility Agent that nevertheless the respective Security Confirmation Agreement(s) and/or Local Law Security Amendment Agreements shall be entered into by the Security Trustee and/or Lower Ranking Security be granted to the Security Trustee; or (ii) a Solvency Certificate from the Parent Guarantor, dated not earlier than the Business Day immediately preceding the day on which the Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of Lower Ranking Security are to become effective and duly signed by the chief financial officer and the chief executive officer of the Parent Guarantor; and

— unless the Security Trustee is party to the relevant Indenture governing such Notes, the Security Trustee in its sole discretion has confirmed that the terms of the relevant notes documents are satisfactory to it with respect to its position as Security Trustee;

- by way of any Additional Notes:
  - — the Parent Guarantor has either:
    - — instructed the Security Trustee in accordance with the provisions described under the caption "*—Notes Effective Date;*" or
    - — informed the Security Trustee in writing about the proposed issuance of Additional Notes prior to the proposed issuance date, unless the Security Trustee is party to the relevant Indenture governing such Additional Notes,
  - — the Security Trustee has received a legal opinion from legal counsel to it or to the Parent Guarantor that the respective Holders are, on or after the occurrence of any Enforcement Action pursuant to the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, not entitled under the terms of such Notes Guarantees for such Additional Notes, or under the terms of the respective Additional Notes or under applicable law, in each case as in effect on the issue date of such Additional Notes to demand payment under such Notes Guarantees to themselves;
  - — each Facility Agent has notified the Security Trustee in writing that the issuance of such Additional Notes is permitted under the Finance Documents of any Facilities Liabilities then outstanding and each Notes Trustee has notified the Security Trustee in writing that the issuance of such Additional Notes is not prohibited under the relevant Notes Documents of any Notes then outstanding;
  - — subject to the provision described under the caption "*—Transaction Security,*" the Security Trustee has received (y) legal opinions confirming that from a legal perspective the Security created by the Transaction Security Documents will secure the Notes Liabilities of such Additional Notes (including, for the avoidance of doubt, the respective Notes Parallel Debt Obligation), and (z) if and to the extent any Security Confirmation Agreements, Local Law Security Amendment Agreements or Lower Ranking Security are entered into in order to secure such Notes Liabilities of Additional Notes, the legal opinions and, as applicable, the solvency certificate or instructions referred to for the issuance of Notes after than Additional Notes; and
  - — unless the Security Trustee is party to the relevant Indenture governing such Additional Notes, the Security Trustee in its sole discretion has confirmed in writing to the Parent Guarantor that the terms of the relevant notes documents are satisfactory to it with respect to its position as Security Trustee,

(with respect to any Notes and Additional Notes, the "**Notes Effective Date Requirements**") then the Security Trustee shall, subject as described under the caption "*—Decisions of Secured Creditors*", notify in writing the Agents and the Issuer that the requirements for a "**Notes Effective Date**" for such Notes Refinancing or Notes Financing have been satisfied (the date as of which the Security Trustee has made such notification the "**Notes Effective Date**" in relation to such Notes Refinancing or Notes Financing and such notification being the "**Notes Effective Date Notice.**"

Facilities Effective Date

If in respect of a Senior Facilities Refinancing or Senior Facilities Financing,

- written notices have been received by the Security Trustee,
  - — from the relevant Facility Agent confirming to the Security Trustee that such Senior Facilities Refinancing or Senior Facilities Financing, as the case may be, is permitted under the Finance Documents of any Facilities Liabilities then outstanding; and

— either from each Trustee confirming to the Security Trustee or from the Parent Guarantor certifying for the benefit of each Agent, that such Senior Facilities Refinancing or Senior Facilities Financing, as the case may be, is not prohibited under the relevant Notes Documents of any Notes then outstanding; and

- the relevant Facility Agent or the Parent Guarantor has instructed the Security Trustee in writing (on which instruction the Security Trustee may rely) in respect of each Transaction Security Document to which the Security Trustee is a party, to procure the conclusion of one or more Security Confirmation Agreements, Local Law Security Amendment Agreement (to the extent applicable) and/or the provision of Lower Ranking Security, in each case as set out under the caption "*—Transaction Security,*" and
- subject to the provisions set forth under the caption "*—Transaction Security,*" the Security Trustee has received legal opinion(s) from legal counsel to it or the Parent Guarantor addressed to, and/or capable of being relied upon by, each Facility Agent, each Trustee, the Security Trustee and the other Secured Creditors other than the Holders (in form and substance satisfactory to the Security Trustee and with a copy to each Trustee) confirming that from a legal perspective the conclusion of any Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of any Lower Ranking Security will not adversely affect any Transaction Security granted to the Security Trustee or any other Secured Creditor as of that time (including an opinion statement that no new hardening periods with respect to such existing transaction security result from, and no hardening periods with respect to such existing transaction security are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement), *provided that,* with respect to any Secondary Transaction Security only, such legal opinion(s) do not need to confirm for such Secondary Transaction Security existing as of that time that no new hardening periods result from, and no hardening periods are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement, if the Security Trustee has received either written instructions from each Trustee and Facility Agent that nevertheless the respective Security Confirmation Agreement(s) and/or Local Law Security Amendment Agreements shall be entered into by the Security Trustee and/or Lower Ranking Security be granted to the Security Trustee; or a Solvency Certificate from the Parent Guarantor, dated not earlier than the Business Day immediately preceding the day on which the Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of lower ranking Security are to become effective and duly signed by the chief financial officer and the chief executive officer of the Parent Guarantor;

(together, the "**Facilities Effective Date Requirements**") then the Security Trustee shall notify in writing the other Secured Creditors (other than the Holders) that the requirements for a "Facilities Effective Date" for such Senior Facilities Refinancing or Senior Facilities Financing have been satisfied (the date as of which the Security Trustee has made such notification the "**Facilities Effective Date**" in relation to such Senior Facilities Refinancing or Senior Facilities Financing and such notification being the "**Facilities Effective Date Notice**").

Decisions of Secured Creditors

With respect to any Notes, the Security Trustee may submit the question, whether from a legal perspective the conclusion of the Security Confirmation Agreement(s) and/or the provision of Lower Ranking Security and/or any Local Law Security Amendment Agreement (in each case as set out in the instruction under the caption "*—Notes Effective Date,*" or "*—Facilities Effective Date,*" will or will not adversely affect any Transaction Security granted to the Security Trustee or any other Secured Creditor as of that time and the legal opinions referred to under the provisions set forth under the caption "*—Notes Effective Date,*" or "*—Facilities Effective Date,*" to the Facility Agent(s) and the Trustee(s). The Facility Agent(s) and the Trustee(s) may waive the requirements set out under the provisions described under the caption "*—Notes Effective Date,*" and "*—Facilities Effective Date*" by an unanimous instruction issued by all Facility Agent(s) and all Trustee(s) to the Security Trustee.

If the Security Trustee has submitted the question referred to above to the Facility Agent(s) and the Trustee(s), then the Security Trustee shall prior to having received an unanimous instruction issued by all Facility Agent(s) and all Trustee(s) waiving the requirements set out under the caption "*—Notes Effective Date,*" and/or "*—Facilities Effective Date,*" respectively, be under no obligation to provide any notice that a Notes Effective Date or a Facilities Effective Date has occurred.

Transaction Security

In case of any Non-accessory Security Interest the Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree to a confirmation of the Notes Parallel Debt Obligations or SFA Parallel Debt Obligations, as the case may be, and a confirmation and/or amendment of the terms of the Transaction Security Documents creating and recording such Non-accessory Security Interest, in order that, such Non-accessory Security Interest shall serve to secure all relevant Notes Liabilities and/or Facilities Liabilities (including those in respect of which the Notes Effective Date or Facilities Effective Date, as the case may be, has been or is intended to be declared) and the other Secured Obligations equally and ratably, in each case subject to the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement (any such confirmation and/or amendment agreement, a "**Security Confirmation Agreement**"). Each Security Provider and each Secured Creditor shall make any declaration and take any action which is necessary or expedient to effect such amendment of the relevant Transaction Security Document to which it is a party.

In case of any Accessory Security Interest (i) the relevant Transaction Security Document shall not be amended or released as a result of the occurrence of the relevant Notes Effective Date or Facilities Effective Date and (ii) upon the occurrence of the relevant Notes Effective Date or Facilities Effective Date, as the case may be, each Security Provider shall instead as soon as reasonably practicable after the relevant instruction grant, for the purpose of securing (y) the relevant Notes Parallel Debt Obligations, SFA Parallel Debt Obligations or any other parallel debt obligation in favor of the Security Trustee, as the case may be, and (z) to the extent such Accessory Security Interest also secures SFA Principal Obligations, the relevant SFA Principal Obligations incurred under the Senior Facilities Refinancing or Senior Facilities Financing, additional Security for the benefit of the Security Trustee over any asset which is already subject to any Transaction Security in the form of such a security interest (but not over any other of its assets) which shall rank immediately behind any Security previously granted over such asset (such Security, the "**Lower Ranking Security**"). In case of a Senior Facilities Refinancing or Senior Facilities Financing, Lower Ranking Security shall also be granted to the creditors of such Senior Facilities Refinancing or Senior Facilities Financing, if the relevant Accessory Security Interest has also been granted to the creditors of the SFA Principal Obligations. Any Lower Ranking Security shall form part of the Transaction Security and be subject to the provisions of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

In case of any security interest created under any Transaction Security Document governed by German law, the Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree with the relevant Obligor and / or Security Provider to a (i) confirmation of the Notes Parallel Debt Obligation or SFA Parallel Debt Obligations, as the case may be, and an amendment agreement governed by German law relating to any security interest created by way of assignment or transfer of assets under the relevant Transaction Security Documents governed by German law providing that such security interest shall secure all relevant Notes Parallel Debt Obligations or SFA Parallel Debt Obligations, as the case may be, and the other Secured Obligations, including the relevant Notes Liabilities or Facilities Liabilities, equally and ratably, and (ii) Lower Ranking Security with respect to any security interest created by way of pledges, in each case subject to the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement (any such agreement named above, a Local Law Security Amendment Agreement).

To the extent liabilities incurred under any Permitted Refinancing or Permitted Financing cannot be secured *pari passu* with the then existing Senior Liabilities under the existing Transaction Security Documents without the Transaction Security under such existing Transaction Security Documents first being released, the Parties agree that the Security Trustee is authorized to release such existing Transaction Security *provided that* immediately on such release, the Transaction Security released shall be re-taken and granted for the benefit of the Secured Creditors and the creditors in respect of such Permitted Refinancing or Permitted Financing on terms substantially similar to the Transaction Security Documents which governed the released Transaction Security and subject to the same ranking as set forth under the caption "*—Transaction Security*" and *provided further that* the Security Trustee has received, in form and substance satisfactory to it, an opinion of counsel confirming that, following such release and grant of Transaction Security, any new hardening period in respect of any such Transaction Security re-taken to secure the Senior Liabilities is no longer than any new hardening periods in respect of such Transaction Security granted to secure the liabilities incurred under any Permitted Refinancing or Permitted Financing and; the Security Trustee has received written instructions from the Trustee(s) and Facility Agent(s) to release and retake such Transaction Security.

Decisions of the Instructing Group

Resolutions

If, pursuant to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, a decision, instruction or consent of the Instructing Group is required or requested by the Parent Guarantor, the Security Trustee or any Secured Creditor (in case of the Finance Parties acting through the relevant Facility Agent and in case of the Holders acting through the Trustee(s)) the following shall apply:

- Any decision, instruction or consent of the Instructing Group for the purpose of this Agreement (including, for the avoidance of doubt, any Enforcement Decision relating to the enforcement of any Transaction Security) shall be made in the form of resolutions.
- For each issuance of Notes (and separately for series of Notes denominated in different currencies) the relevant Trustee shall determine, in accordance with the relevant Notes Documents and applicable laws, the aggregate principal amount of the relevant Notes Participations under such issuance of Notes (or series of Notes, as the case may be) that has (or is deemed under the relevant Notes Documents to have) voted in favor of (the "**Notes Participations Approval Amount**") and against (the "**Notes Participations Disapproval Amount**") the relevant decision, instruction or consent under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. The relevant Trustee shall notify the Notes Participations Approval Amount and the Notes Participations Disapproval Amount for such issuance of Notes (separately for series of Notes denominated in different currencies) to the Security Trustee in accordance with the procedure set forth under caption "*—Resolutions.*" If the Security Trustee has not received any notification from a Trustee within the relevant time period, the Notes Participation under that issuance of Notes shall be disregarded in determining whether a resolution is passed. For the avoidance of doubt, the underlying decisions by any Holders shall be adopted by such Holders in accordance with the relevant Notes Documents and applicable laws.
- For each Facilities Agreement (and separately for Bank Credit Participations under the same Facilities Agreement where the underlying commitment is denominated in different base currencies), the relevant Facility Agent shall determine, in accordance with the terms of the relevant Facilities Agreement and applicable laws, the aggregate amount of Bank Credit Participations under such Facilities Agreement that has (or is deemed or otherwise treated

under the relevant Facilities Agreement as having) voted in favor of (the "**Bank Participations Approval Amount**") and against (the "**Bank Participations Disapproval Amount**") the relevant decision, instruction or consent under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. The relevant Facility Agent shall notify the Bank Participations Approval Amount and the Bank Participations Disapproval Amount for such Facilities Agreement (as the case may be, separately for Bank Credit Participations under the same Facilities Agreement where the underlying commitment is denominated in different base currencies) to the Security Trustee in accordance with the procedure set forth under caption "*—Resolutions.*" If the Security Trustee has not received any notification from the Facility Agent within the relevant time period, the Bank Credit Participation under that Facilities Agreement shall be disregarded in determining whether a resolution is passed pursuant to the below. For the avoidance of doubt, the underlying decisions by any Finance Parties shall be adopted by such Finance Parties in accordance with the relevant Facilities Agreement to which they are a party and applicable laws.

- In no event shall the sum of the Notes Participations Approval Amount and the Notes Participations Disapproval Amount with respect to any issuance of Notes (or any series of Notes denominated in different currencies, as the case may be) or the sum of the Bank Participations Approval Amount and the Bank Participations Disapproval Amount with respect to any Facilities Agreement (or the relevant Bank Credit Participations under that Facilities Agreement where the underlying commitment is denominated in different base currencies) exceed the aggregate Notes Participations under such issuance of Notes (or series of Notes, as the case may be) or Bank Credit Participations under such Facilities Agreement (or such relevant Bank Participations under that Facilities Agreement where the underlying commitment is denominated in different base currencies), respectively. The Notes Participations Approval Amounts and Notes Participations Disapproval Amounts for all issuances of Notes (separately for series of Notes denominated in different currencies), the Bank Participations Approval Amounts and Bank Participations Disapproval Amounts for all Facilities Agreements (separately for Bank Credit Participations under the same Facilities Agreement which are denominated in different base currencies) shall be determined by the Security Trustee on the basis of the information obtained hereunder and in accordance with the provisions set forth under caption "*—Information*" on or before the Business Day preceding the date on which votes may be submitted according to the below, and, if any such amount is denominated in a currency other than EUR, the Security Trustee shall convert such amount into EUR at the Spot Rate of Exchange for the purchase in the foreign exchange market of the relevant foreign currency as of the fifth Business Day preceding the date on which the relevant Resolution Notice (as defined below) is dispatched by the Security Trustee.
- A resolution is passed if the sum of (i) the aggregate Bank Participations Approval Amounts for all Facilities Agreements; and (ii) the aggregate Notes Participations Approval Amounts for all issuances of Notes, exceeds the sum of the aggregate Bank Participations Disapproval Amounts for all Facilities Agreements; and the aggregate Notes Participations Disapproval Amounts for all issuances of Notes, (in each case on a EUR basis, converted pursuant to the paragraph above) with respect to the relevant resolution.
- Any resolution passed pursuant to the paragraph above is referred to as a decision or resolution of the Instructing Group for the purposes of this Agreement, any Facilities Agreement and, if required, the Transaction Security Documents and the Guarantee Documents. For the avoidance of doubt, all Secured Creditors (including any Secured Creditor who is not entitled to participate in or abstains from the voting) shall be bound by the decision of the Instructing Group.

At the request of the Parent Guarantor or any Secured Creditor (in case of the Finance Parties acting through the Facility Agent under, and subject to the provisions of, the Facilities Agreement to which such Finance Party is a party and, in case of any Holders acting through the Trustee(s) subject to the provisions of the applicable Notes Documents), the Security Trustee shall request votes from the Secured Creditors, subject to the above, by a notice to the Secured Creditors (in case of the Holders, to the Trustee(s) acting for or on account of the respective Holders, and in case of the Finance Parties, to the Facility Agent acting for or on account of the respective Finance Parties) (the "**Resolution Notice**") which has to be (x) given by letter, facsimile or comparable means of communication and/or (y) made available for a period of not less than ten (10) Business Days on a web site the address of which has been notified by the Security Trustee to the Secured Creditors (in case of the Holders, to the Trustee(s) acting for or on account of the respective Holders, and in case of the Finance Parties, to the Facility Agent acting for or on account of the respective Finance Parties) at least five (5) Business Days before dispatching the Resolution Notice (the "**Web Site**"). The Resolution Notice shall specify the resolution to be voted on.

Resolution Notices relating to the same decision, instruction or consent shall be dispatched to all classes of Secured Creditors entitled to vote on the same day and shall have substantially the same content; provided that, for purposes of obtaining any consent of the Instructing Group under the caption "*—Amendments: Finance Documents*" only, the Parent Guarantor may require, in a request made by it pursuant to the above, that the Security Trustee give a Resolution Notice to, and obtain the results of the vote of, a class of Secured Creditors entitled to vote before it gives such Resolution Notice to another class of Secured Creditors entitled to vote (in which case the conversion rate for purposes of the above shall be the relevant conversion rate as published as of the fifth Business Day preceding the date on which the first Resolution Notice is dispatched). Should the aggregate Notes Participations Approval Amounts and/or Bank Credit Participations Approval Amounts (in each case, converted into EUR in accordance with the above and the immediately preceding sentence) of the class or classes of Secured Creditors which have voted on the matter constitute a majority of the Total Participations, the Security Trustee shall refrain from delivering any further Resolution Notice relating to such matter to any other class of Secured Creditors and notify the Parent Guarantor that the resolution has been duly passed.

The Trustee(s) and the Facility Agent(s) shall submit the respective Notes Participations Approval Amounts, Notes Participations Disapproval Amounts, Bank Participations Approval Amounts and Bank Participations Disapproval Amounts to the Security Trustee by letter, facsimile, any comparable means or any means made available by the Security Trustee for this purpose on the Web Site:

- prior to the occurrence of any Notes Effective Date, within the time limit set by the Security Trustee in the Resolution Notice. If the Security Trustee does not set a time limit in the Resolution Notice, then the relevant Secured Creditor (in case of the Finance Parties, through the respective Facility Agent, subject to the above) must return the respective vote within five (5) Business Days, and within three (3) Business Days if it is stated in the Resolution Notice that the resolution is urgent; and
- in any other case, within thirty (30) Business Days or any extended time limit set by the Security Trustee in the Resolution Notice.

Only Notes Participations Approval Amounts, Notes Participations Disapproval Amounts, Bank Participations Approval Amounts and Bank Participations Disapproval Amounts submitted to the Security Trustee in accordance with, and within the relevant time period specified in, the paragraph above shall be taken into consideration for purposes of determining whether a resolution has been passed. The relevant time period shall commence on the date of receipt of the Resolution Notice by the respective Secured Creditor (in case of the Finance Parties, through the respective Facility Agent and, in case of any Holders, through the respective Trustee(s)). Such notice shall be deemed received by the relevant Secured Creditor (in case of the Finance Parties, through the respective Facility Agent and, in case of the Holders, through the respective Trustee), if by letter, at noon two (2) days after such letter was posted (or in the case of airmail, five (5) days after the letter was delivered to the custody of the postal services institutions), or if by facsimile, e-mail, any comparable means or by the Web Site during or before the business hours of the addressee, then on the day of transmission, otherwise on the next following Business Day, in each case where the Resolution Notice has been made to the address as provided for in the relevant notice provisions or made available on the Web Site, as the case may be.

General

Without prejudice to the provisions set forth in the S-Verwaltungs Group Security and Pooling Agreement under the caption "*—Enforcement of Transaction Security,*" the Security Trustee shall:

- exercise any right, power, authority or discretion vested in it as Security Trustee in accordance with any instructions given to it by the Instructing Group (or, if so instructed by the Instructing Group, refrain from exercising any right, power, authority or discretion vested in it as Security Trustee); and
- not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Instructing Group.

In the absence of instructions from the Instructing Group, the Security Trustee may in its sole discretion refrain from any action, or if it decides in its sole discretion to act, act as it considers to be in its sole discretion in the best interest of the Secured Creditors.

Parallel Debt (Covenant to pay to the Security Trustee)

Each of the Obligors that is a party to the Syndicated Facilities Agreement and/or any other Facilities Agreement irrevocably and unconditionally agrees and undertakes with the Security Trustee, in each case subject to the occurrence of a Facilities Effective Date relating to such Facilities Agreement (except with respect to the Syndicated Facilities Agreement), that each of them shall pay to the Security Trustee on the terms set out in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to any Finance Party (i) under any Finance Document, (ii) in respect of any claims for damages and claims arising out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Finance Document (the "**SFA Principal Obligations**") as and when the same fall due for payment under the relevant Finance Document, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**SFA Parallel Debt Obligations**");

Each of the Obligors that is an issuer of any Notes (or guarantees any present or future sums, liabilities or obligations (actual and contingent) owing by any member of the S-Verwaltungs Group to any Trustee or any Holder under any Notes or any related Notes Document) irrevocably and unconditionally agrees and undertakes with the Security Trustee, in each case subject to the occurrence of a Notes Effective Date relating to such Notes (except with respect to the Notes offered hereby), that each of them shall pay to the Security Trustee on the terms set out in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to the relevant Trustee or the relevant Holders (i) under the relevant Notes Documents or (ii) out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Notes Document (the "**Notes Principal Obligations**") as and when the same fall due for payment under the relevant Notes Document, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**Notes Parallel Debt Obligations**") it being acknowledged by all

Parties that the existence and extent of the Notes Principal Obligations under the Notes Documents and therefore of the corresponding Notes Parallel Debt Obligations shall be a matter for New York law in accordance with the terms of the applicable Notes Documents;

Each of the Obligors that is a party to the Hedging Agreements irrevocably and unconditionally agrees and undertakes with the Security Trustee that each of them shall pay to the Security Trustee on the terms set out in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to the Hedge Counterparties (i) under the Hedging Agreements or (ii) out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Hedging Agreement (the "**Hedging Principal Obligations,**" and together with the SFA Principal Obligations and the Notes Principal Obligations, the "**Principal Obligations**") as and when the same fall due for payment under the relevant Hedging Agreement, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**Hedging Parallel Debt Obligations,**" and together with the SFA Parallel Debt Obligations and the Notes Parallel Debt Obligations, if any, the "**Parallel Debt Obligations**").

The right of the Security Trustee on the terms set out in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement to demand payment of the Parallel Debt Obligations shall be independent and several from the rights of the other Secured Creditors to demand payment of the Principal Obligations *provided that* (i) the payment by an Obligor of all or any part of its Parallel Debt Obligations to one or other or the Security Trustee shall also discharge (in the amount of the relevant payment) (y) the corresponding Principal Obligations (unless the respective Paying Agent has received payment of such amount but not forwarded such amount to the respective Holders (in particular, by way of forwarding to the relevant clearing system for such Notes (in accordance with the terms governing such Notes) for distribution to the respective Holders), and (ii) conversely the payment by an Obligor of all or any part of its Principal Obligations shall also discharge (in the amount of the relevant payment) all corresponding Parallel Debt Obligations owed to the Security Trustee on the terms set out in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement. For the avoidance of doubt, no Principal Obligation shall be discharged as a result of any voidness or voidability of the Parallel Debt Obligations or any similar defense invoked by or on behalf of an Obligor *vis-à-vis* the Security Trustee. No Obligor may declare a set off or otherwise invoke any counterclaim against the Parallel Debt Obligations.

Despite the foregoing, any payment:

- under the Finance Documents shall be made in accordance with the provisions set forth in the S-Verwaltungs Group Security and Pooling Agreement under the caption "*—Payment of Facilities Liabilities*" and the Finance Documents;
- under the Notes Documents shall be made in accordance with the provisions set forth in the S-Verwaltungs Group Security and Pooling Agreement under the caption "*—Payment of Notes Lia*bilities;"
- under the Hedging Agreements (other than any Transaction Security Document or in respect of any Guarantee) shall be made to the relevant Hedge Counterparty unless expressly stated otherwise in the relevant Hedging Agreements.

Notwithstanding the above, the Security Trustee will be fully entitled, on the basis of the parallel debt undertakings stated above, to (y) request payment to of any of the amounts which in accordance with paragraphs (i) to (iii) above have to be paid to the relevant Facility Agent, any other Finance Party, the Paying Agent(s), the Trustees or the Hedge Counterparties, respectively, if the relevant Principal Obligation was not paid when due; and (z) enforce the

Transaction Security granted in its favor on the basis of the Parallel Debt Obligations in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement if such request is not fulfilled.

Without limiting or otherwise affecting the Security Trustee's rights against any Obligor, the Security Trustee agrees with each other Secured Creditor (in case of any Holders, acting through the Trustee(s)) (on a several basis) that (subject to the below) it will not exercise its rights under the Parallel Debt Obligations except with the consent of the relevant Secured Creditors under the respective Principal Obligations or, in case of the Notes Principal Obligations, with the consent of the relevant Trustee(s).

Nothing shall in any way limit each of the Security Trustee's rights to act in the protection or preservation of rights under any Transaction Security Document or to enforce any Transaction Security as contemplated by the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, the relevant Transaction Security Document or any other Transaction Finance Document (or to do any act reasonably incidental to the foregoing).

Equalization

If, for any reason, any Senior Liabilities remain unpaid after the Enforcement Date and the resulting losses and deficiencies affecting the Secured Creditors are not in proportion to the ratio of their respective Exposure at the Enforcement Date to the aggregate Exposures of all the Secured Creditors at the Enforcement Date, the Secured Creditors (in case of any Holders, through the Trustee(s), subject to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Turnover by the Creditors*" will make such payments amongst themselves as the Security Trustee shall require to put the Secured Creditors in such a position that (after taking into account such payments) those losses and deficiencies are borne in those proportions.

Turnover of enforcement proceeds

If:

- the Security Trustee is not entitled, for reasons of applicable law, to pay amounts received pursuant to the making of a demand under any guarantee, indemnity or other assurance against loss or the enforcement of the Transaction Security to the Secured Creditors but is entitled to distribute those amounts to creditors (such creditors, the Receiving Creditors) who, in accordance with the terms of the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, are subordinated in right and priority of payment to the Secured Creditors; and
- the Senior Discharge Date has not yet occurred (nor would occur after taking into account such payments),

then the Receiving Creditors (subject, in the case of the Trustee, to the provisions set forth in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement described under the caption "*—Turnover by the Creditors*" shall make such payments to the Secured Creditors as the Security Trustee shall require to place the Secured Creditors in the position they would have been in had such amounts been available for application against the Senior Liabilities.

Change of Finance Party or Holder

Any Holder may transfer all or part of its Notes in accordance with the terms of the relevant Notes Documents, and upon any such transfer the transferee shall have the rights and benefits of a Holder under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and be subject to the limitations and obligations of a Holder under the S-Verwaltungs Group Security Pooling and Intercreditor Agreement.

Consents, Amendments and Override

Required consents

Subject to the below, the S-Verwaltungs Group Security Pooling and Intercreditor Agreement may be amended or waived with the consent of the Parent Guarantor, the Agents, and all Finance Parties provided that to the extent an amendment, waiver or consent could not reasonably be expected to adversely affect the interests of any other class of Secured Parties, only written agreement from any affected class shall be required.

An amendment or waiver that has the effect of changing or which relates to the provisions set forth in the S-Verwaltungs Group Security and Pooling Agreement under the caption "*—Intra-Group Lenders and Intra-Group Liabilities,*" "*—Parent and Parent Liabilities,*" "*—Parent Undertaking—Restrictions on proceeds from IPO,*" "*—Release of Transaction Security and Guarantees: Disposals,*" "*—Release of Transaction Security and Guarantees: General,*" "*—Additional Transaction Security,*" "*—Costs and Expenses,*" "*—Indemnities,*" "*—Information*" or "*—Notices*" may be amended or waived only with the consent of the Parent Guarantor, the Security Trustee, the Trustee(s) and the relevant Facility Agent, but without the consent of any other Party.

If any amendment or waiver has the effect of changing or which relates to the caption "*—Ranking/Subordinated Liabilities,*" "*—Transaction Security,*" "*—Hedge Counterparties and Hedging Liabilities,*" "*—Turnover of Receipts,*" "*—Parallel Debt,*" "*—Equalization,*" or "*—Transaction costs and expenses,*" "*—Secured Creditors' indemnity,*" "*—Information*" or "*—Notices,*" then such amendment or waiver shall in addition require the consent of each Hedge Counterparty. Any amendment or waiver which has the effect of changing or which relates to "*—Application of Proceeds*" shall only require the consent of each Hedge Counterparty, if such amendment or waiver would adversely affect the Hedge Counterparties.

The S-Verwaltungs Group Security Pooling and Intercreditor Agreement may be amended by the Facility Agent, the Trustees, and the Security Trustee without the consent of any other Party to cure defects and manifest errors, resolve ambiguities or to reflect changes in each case of a minor, technical or administrative nature.

Agreement to override

Unless expressly stated otherwise in the S-Verwaltungs Group Security Pooling and Intercreditor Agreement, in the case of any conflict between the S-Verwaltungs Group Security Pooling and Intercreditor Agreement and any other Debt Document, the S-Verwaltungs Group Security Pooling and Intercreditor Agreement shall prevail.

S-Group Senior Facilities Agreement

IBH as borrower and certain of Schaeffler AG's other subsidiaries as guarantors are parties to a senior term loan and revolving credit facilities agreement originally dated December 14, 2012 (as amended by the Borrower Exchange Agreement, the March 2013 Amendment Agreement and the April 2013 Amendment Agreement, the "**S-Group Senior Facilities Agreement**") providing for credit facilities in the aggregate amount of initially €4,475,000,000 and $1,500,000,000 with, among others, Barclays Bank PLC, Bayerische Landesbank, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, HSBC Bank plc., J.P. Morgan Limited, Landesbank Baden-Württemberg and UniCredit Bank AG as mandated lead arrangers, Deutsche Bank Luxembourg S.A. as facility agent and Commerzbank Aktiengesellschaft, Luxembourg branch and Deutsche Bank Luxembourg S.A. as security trustees and certain banks and financial institutions named therein as original lenders.

Pursuant to the terms and conditions of the S-Group Senior Facilities Agreement, the lenders have made or, as the case may be, will make available to the borrowers the following credit facilities:

- a €625 million term loan facility ("**Facility C-EUR**") and a $1,700 million term loan facility ("**Facility C-USD**" and, together with Facility C-EUR, the "**Facility C**"), which has been fully drawn and which matures on January 27, 2017;

- a €1,453 million term loan facility ("**Facility D**", and together with Facility C, the "**Term Loan Facilities**") which has been fully drawn and which matures on June 30, 2016; and
- a €1,000 million revolving credit facility ("**Revolving Facility B**", and together with the Term Loan Facilities, the "**S-Group Facilities**"), which matures on June 30, 2016. Revolving Facility B will be available for drawings until one month prior to the final maturity date and may be utilized by way of drawings in cash. In addition, the Schaeffler Group may agree with a lender under Revolving Facility B that such lender (or any affiliate of any such lender) provides an ancillary facility on a bilateral basis in place of all or part of the unutilized revolving commitment of that lender; an ancillary facility may be made available by way of an overdraft facility, a guarantee or stand-by letter of credit facility, a short term loan facility, a current account or any other facility or accommodation agreed between IBH and the lender. The maximum account of all commitments made available under ancillary facilities must not exceed €350 million. As of March 31, 2013, €57 million was drawn under ancillary facilities.

Interest

The Facilities bear interest, in case of Euro loans, at a rate of EURIBOR, or, in the case of loans drawn in USD or any other currency other than Euro, LIBOR (provided that EURIBOR in relation to Facility C-EUR only is, if EURIBOR is below 1.00%, 1.00% and LIBOR in relation to Facility C-USD only is, if LIBOR is below 1.00%, 1.00%), plus the applicable margin, plus mandatory cost, if any. The applicable margin is 3.75% per annum in relation to Facility C-EUR and 3.25% per annum in relation to Facility C-USD. The applicable margin in relation to Facility D and Revolving Facility B is 3.25% per annum, in each case, until the earlier of the date on which (i) the compliance certificate relating to the first covenant testing date following the original date of the S-Group Senior Facilities Agreement is delivered, (ii) the Company is assigned a long-term credit rating, or such rating is withdrawn or changed, or (iii) all long-term credit ratings previously assigned to the Company are withdrawn after the date of the S-Group Senior Facilities Agreement. Thereafter the applicable margin in relation to Facility D and Revolving Facility B is or, as the case may be, will be, in each case, a percentage per annum determined in accordance with certain combined rating/leverage ratchets.

The term loans outstanding under Facility C were used to partially refinance the December 2012 Senior Facilities Agreement. The term loans outstanding under Facility D were used to partially repay outstanding amounts under the March 2013 Senior Facilities Agreement. Revolving Facility B may be used towards general corporate purposes of the Schaeffler Group. Any loan made available under Revolving Facility B shall be repaid on the last day of its interest period and all amounts outstanding under Revolving Facility B shall be repaid on the final maturity date of Revolving Facility B. Subject to certain conditions, we may voluntarily prepay our utilizations and/or permanently cancel all or part of the available commitments under the Facilities. In addition to voluntary prepayments, the S-Group Senior Facilities Agreement requires mandatory prepayment of the term loans made available under the Facilities in full or in part in certain circumstances, including (i) with respect to any lender, in full if it becomes unlawful in any applicable jurisdiction for such lender to perform any of its obligations under the S-Group Senior Facilities Agreement or to fund or maintain its participation in any loans, (ii) with respect to any lender who so requires, in full following a specified negotiation period after the occurrence of a Change of Control as defined under "*Description of the Notes*" (although such lender will, at the request of IBH, assign at par its commitment and participation in any facility to another lender willing to accept such assignment, subject to certain conditions) and (iii) in each case subject to certain criteria, from net proceeds received from (A) asset disposals (subject to certain thresholds and a reinvestment period), (B) the sale of certain shares in Continental AG, (C) dividend payments in relation to certain shares in Continental AG, (D) any debt capital issue, loan or other financing, (E) any increase in the share capital of the Company, and from excess cash flow.

Security and Guarantees

The S-Group Senior Facilities Agreement requires that (i) the aggregate gross assets (excluding all intra-group items) of the Company and each guarantor represents not less than 75% of our consolidated gross assets; (ii) the aggregate unconsolidated EBITDA of the Company and each guarantor represents not less than 70% of our total unconsolidated EBITDA; and (iii) the aggregate turnover (excluding all intra-group items) of the Company and each guarantor represents not less than 70% of our consolidated turnover, *provided* that the gross assets, EBITDA and turnover of any member of the Schaeffler Group incorporated or established in South Korea, China, India or the Russian Federation will be disregarded for such purposes.

The S-Group Senior Facilities Agreement also requires that each of the Schaeffler Group's subsidiaries (i) whose unconsolidated gross assets represent 2% or more of the Schaeffler Group's total unconsolidated gross assets; (ii) whose unconsolidated turnover represents 2% or more of the Schaeffler Group's total unconsolidated turnover; or (iii) whose unconsolidated EBITDA represents 2% or more of the Schaeffler Group's total unconsolidated EBITDA ("**Material Subsidiaries**", but excluding the Issuer for as long as it is a finance subsidiary and any Material Subsidiary incorporated or established in South Korea, India, China and Russia) guarantees the S-Group Senior Facilities Agreement.

The Facilities are, or as the case may be, will be secured by security over (i) all shares and interests in each guarantor, each member of the Schaeffler Group which directly or indirectly holds shares or interests in a guarantor (other than the Company), Schaeffler Immobilien GmbH & Co. KG and Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung and Schaeffler Familienholding Drei GmbH & Co. KG, (ii) all shares held by the Schaeffler Group in Continental AG, (iii) the material cash pooling master accounts (other than any such account maintained in the U.S. or China), (iv) material accounts receivables (and ancillary rights and claims but excluding, *inter alia*, accounts receivable and the respective ancillary rights of U.S. companies), (v) claims against any hedging counterparty which is not a member of the Schaeffler Group (but excluding any claims under hedging arrangements taken out in order to hedge any currency, interest or pricing rate risk in relation to activities in, or members of the Schaeffler Group incorporated or organized under the laws of, Brazil, India, China, Korea or South Africa) and (vi) certain material intra-group loan receivables. Part of the collateral securing the Facilities will be released under certain circumstances as described under "*—Reset Dates, relaxation of covenants and releases of collateral*" and "*—Continental AG shares disposal and release of Continental AG shares security.*"

Financial Covenants

In respect of its financial condition, the Schaeffler Group must comply with certain financial covenants as set out in the S-Group Senior Facilities Agreement on each specified testing date, being the last date of the relevant testing period (which is a period of twelve months ending on each of March 31, June 30, September 30 and December 31 of each year), by reference to our latest consolidated financial statements. The relevant components of testing compliance with the financial covenants are calculated with respect to our ratios of consolidated total net debt on each testing date to our consolidated EBITDA for the testing period ending on the relevant testing date, our consolidated EBITDA to our consolidated net finance charges on a rolling aggregate basis for each testing period and our consolidated cash flow to consolidated debt service on a rolling aggregate basis for each testing period.

Under the financial covenants, the Company must ensure that:

- the ratio of consolidated total net debt on any testing date to consolidated EBITDA (both as calculated in accordance with the terms and provisions of the S-Group Senior Facilities Agreement) (the "**Leverage Ratio**") for the relevant testing period is not more than as set out in the table below next to the respective testing date:

Testing period ending	Leverage Ratio
September 30, 2013	3.50:1
December 31, 2013	3.50:1
March 31, 2014	3.40:1
June 30, 2014	3.40:1
September 30, 2014	3.30:1
December 31, 2014	3.30:1
March 31, 2015	3.10:1
June 30, 2015	3.10:1
September 30, 2015	2.90:1
December 31, 2015	2.90:1
March 31, 2016	2.75:1
June 30, 2016	2.75:1
September 30, 2016	2.75:1
December 31, 2016	2.75:1

- the ratio of consolidated EBITDA to consolidated net finance charges (both as calculated in accordance with the terms and provisions of the S-Group Senior Facilities Agreement) (the "**Interest Cover Ratio**") is for each testing period not less than as set out in the table below next to the respective testing date:

Testing period ending	Interest Cover Ratio
September 30, 2013	3.00:1
December 31, 2013	3.00:1
March 31, 2014	3.50:1
June 30, 2014	3.50:1
September 30, 2014	3.50:1
December 31, 2014	3.50:1
March 31, 2015	4.00:1
June 30, 2015	4.00:1
September 30, 2015	4.30:1
December 31, 2015	4.30:1
March 31, 2016	4.50:1
June 30, 2016	4.50:1
September 30, 2016	4.50:1
December 31, 2016	4.50:1

- we do not incur in any financial year any capital expenditure in excess of an amount equal to 8% of the consolidated net sales of the Company in such financial year, provided that an additional amount of up to €20 million of the capital expenditure for the respective next financial year may be carried back to, and used as additional capital expenditure in, the then current financial year (resulting in the maximum amount of capital expenditure permissible to be incurred in that current financial year being increased, and the maximum amount of capital expenditure permissible to be incurred in the immediately following financial year being reduced accordingly, by the respective amount carried back and used as capital expenditure). If and for as long as (i) the Leverage Ratio of the Company is equal to or less than 2.75:1 on two consecutive testing dates and (ii) our total financial debt (disregarding any shareholder loans and borrowings between members of the Schaeffler Group) has been repaid to an amount of €6,650 million, the amount of capital expenditure spent in any financial year (less any amount carried back to the relevant immediately preceding financial year as described above) must not exceed 8.25% of the consolidated net sales of the Company (although, if any such condition ceases to be fulfilled during the course of a financial year, the allowed capital expenditure for that financial year shall be reduced on a prorated basis). If two of Standard & Poor's, Moody's and Fitch have confirmed that the Company has a long-term credit rating of at least BBB- /Baa3, respectively, the capital expenditure covenant no longer applies.

Covenants

The S-Group Senior Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the S-Group Senior Facilities Agreement in respect of the relevant covenant (customized to our business and adjusted to our current credit standing). Such restrictive covenants include, but are not limited to, restrictions on (i) the incurrence of financial indebtedness, (ii) asset disposals, (iii) the granting of security ("**negative pledge**"), (iv) the granting of loans or credits or the provision of guarantees, (v) mergers and other reorganization measures, (vi) acquisitions and investments, (vii) enterprise agreements with entities which are not members of the Schaeffler Group or which are members of the Continental Group, (viii) substantial changes to the general nature of our business, and (ix) the redemption or repurchase by the Company of its share capital. Additionally, we have the obligation to provide certain financial information and other information regarding our financial condition to the lenders under the S-Group Senior Facilities Agreement.

In addition, the S-Group Senior Facilities Agreement requires us to observe certain customary affirmative covenants (subject to agreed exceptions and qualifications) including with relation to the obtaining of and compliance with any required authorizations (including environmental approvals), compliance with laws (including environmental laws), maintenance of *pari passu* ranking of unsecured debt obligations, maintenance of appropriate insurances, preservation and maintenance of assets and intellectual property, the granting of access to the Company and the payment of taxes.

Note purchase condition

The S-Group Senior Facilities Agreements allows for voluntary redemption and repurchase of bonds or notes issued by any member of the Schaeffler Group, if such redemption or repurchase is financed (i) from certain restricted sources permitted by the S-Group Senior Facilities Agreement and provided that a proportionate amount of the Facilities is prepaid at the same time or (ii) by incurrence of permitted financial debt which becomes subject to the Security Pooling and Intercreditor Agreement.

Restricted Investments and separation of decks

The S-Group Senior Facilities Agreement generally restricts payments, including by way of dividends or other distributions, and the declaration or making of any such dividend or other distribution, by the Company to: (i) prior to an Initial Public Equity Offering (as defined in the "*Description of the Notes*"), any of its direct or indirect shareholders or any affiliate of any such shareholder (except for any member of the Schaeffler Group or any member of the Continental Group); and (ii) following an Initial Public Equity Offering, the Family Shareholders (and their respective legal or appointed heirs) or any entity in which they hold the majority of the voting share capital or which they otherwise control (except for any member of the Schaeffler Group or any member of the Continental Group) (each such person referred to under (i) and (ii) above being a "**Restricted Person**"), subject to certain exemptions, including specified limited cash amounts (€210 million in 2012, €245 million in 2013, €290 million in 2014, €325 million in 2015, €350 million in 2016 and in 2017 (with a carry forward (100% of the unused amount) and backward (20%) mechanism)) which may be paid in any financial year for particular purposes (and which may in turn only be used by certain Restricted Persons for certain permitted purposes provided that payment of interest is subject to a sub-limited being €159.9 million in 2012, €185.5 million in 2013, €216.9 million in 2014, €228 million in 2015, €236.5 million in 2016 and in 2017 (which is also subject to a carry forward mechanism (100% of the unused amount)), payment under arm's length transactions up to a maximum of €5 million in any financial year and, subject to certain conditions, limited payment from excess cash flow and proceeds from certain limited events including the disposal of Unrestricted Continental Shares (as described below under "*—Continental AG shares disposal and release of Continental AG shares security*"). The availability of these permitted payments will be subject to the absence of certain defaults under the S-Group Senior Facility Agreement.

Under the S-Group Senior Facilities Agreement, subject to certain exceptions, no member of the Schaeffler Group may incur or permit to subsist any actual or contingent payment liability, or in respect of the obligations of, or enter into any contract or agreement with, or transfer to or exchange any assets with a Restricted Person. In addition, subject to certain exceptions, no material assets, intellectual property or authorizations used for the conduct of the business of Schaeffler Group may be owned or held by any Restricted Person. Subject to certain exceptions, all employees and managers involved in our business shall be employed by the Schaeffler Group and not by a Restricted Person.

Continental AG shares disposal and release of Continental AG shares security

The shares held in Continental AG can be disposed of at any time if the net proceeds from any such share disposal are used to prepay the term facilities. In addition, Unrestricted Continental Shares (as defined in the S-Group Senior Facilities Agreement) may be, subject to certain requirements, disposed of without any mandatory prepayment being required. Upon the occurrence of two trigger events, each of which is linked to a certain reduction in leverage, a certain number of shares in Continental AG will become Unrestricted Continental Shares.

25% of our shares in Continental AG (*i.e.*, currently 9.0% of all shares in Continental AG) will qualify as Unrestricted Continental Shares when the leverage is reduced to 2.5x or less for two consecutive quarters and total debt is reduced to an amount of €6,400 million or less (not taking into account repayment of any shareholder loans).

Further, an additional 33% of all shares held by us (which do not qualify as Unrestricted Continental Shares in accordance with the preceding paragraph) will qualify as Unrestricted Continental Shares when leverage is reduced to 2.0x or less for two consecutive quarters and total debt is reduced to an amount of €5,650 million or less (not taking into account repayment of any shareholder loans).

Notwithstanding the occurrence of the aforementioned trigger events, the security granted over Unrestricted Continental Shares will stay in place unless such security is released in the case of Unrestricted Continental AG Shares which are simultaneously or promptly used for a permitted purpose. All shares will qualify as Unrestricted Continental Shares if Schaeffler AG achieves a Baa2/BBB long-term credit rating (or better) from any two of Moody's, S&P and Fitch and it may then request the release of the relevant security.

Reset Dates, relaxation of covenants and release of collateral

The S-Group Senior Facilities Agreement provides for a mechanism according to which certain covenants will relax.

First Reset Date: If and for as long as our leverage is less than 2.75x for two consecutive quarters and our total debt is reduced to an amount of €6,650 million (disregarding shareholder loans and borrowings between members of the Schaeffler Group),

(i) the general baskets relating to negative pledge, disposals, financial indebtedness, loans-out, guarantees, acquisitions and, in relation to financial indebtedness, in addition, a specific basket increase;

(ii) the annual amount permitted to be spent as capital expenditure increases; and

(iii) the proportion of excess cashflow to be applied towards mandatory prepayment of the term loans is reduced.

Second Reset Date: If and for as long as the Company is assigned a solicited long-term investment grade credit rating (Baa3/BBB-) by at least two of Moody's, S&P and Fitch,

(i) the capital expenditure covenant no longer applies;

(ii) the general baskets relating to negative pledge, disposals, financial indebtedness, loans-out, guarantees, acquisitions and, in relation to financial indebtedness, in addition, a specific basket increase further;

(iii) the annual amount permitted to be paid in cash to a Restricted Person (irrespective of specific events or circumstances resulting in certain other payments and/or distributions (in cash or kind) becoming permissible) is increased to the higher of 50% of our net income and a floor amount set out in the S-Group Senior Facilities Agreement (being €210 million in 2012, €245 million in 2013, €290 million in 2014, €325 million in 2015, €350 million in 2016 and in 2017);

(iv) the financial indebtedness covenant no longer applies in relation to the Company, IBH and any finance subsidiary;

(v) the guarantor coverage undertaking no longer applies;

(vi) the Company may request the release of all security interests other than any security interest over shares or interests in any obligor or other member of the Schaeffler Group or over the shares in Continental AG;

(vii) acquisitions on arm's length terms are generally permitted (subject to a confirmation by the Company that (i) it would have complied with the Leverage Ratio (taking into account the relevant acquisition on a *pro forma* basis) applicable to the last financial covenant testing date prior to the relevant acquisition and (ii) according to its forecast (taking into account the relevant acquisition on a *pro forma* basis), it will comply with all of the financial covenants on the next four financial covenant testing dates);

(viii) the amount of proceeds received from asset disposals, any debt capital issue, loan or other financing or the amount of excess cash flow to be applied towards mandatory prepayment of term loans is reduced; and

(ix) the Company is no longer required to deliver its annual budgets.

Events of Default

The S-Group Senior Facilities Agreement contains customary events of default, the occurrence of which would allow the lenders to cancel their commitments, declare that all or part of the loans together with accrued interest and all other amounts accrued or outstanding under the finance documents be immediately due and payable or declare that all or part of the amounts outstanding under any ancillary facilities be immediately due and payable.

These events of default, subject to certain agreed grace periods and exceptions, include, without limitation:

(a) failure to make payment of amounts due and payable in connection with the S-Group Senior Facilities Agreement;

(b) failure to comply with the financial covenants;

(c) the making of Restricted Investments which are not permitted;

(d) a cross-default with respect to the S-Verwaltungs Group Facilities Agreement and the Notes, subject to a threshold of €5 million in relation to a cross-default arising from readjustments or rescheduling of debt (but not insolvency or similar proceedings) and further subject to the expiry of a certain remedy or, as the case may be, waiver period in certain cases where a creditor of the S-Verwaltungs Group Facilities Agreement or the Notes is entitled to declare such debt immediately due and payable but has not done so;

(e) a cross-default with respect to other financial indebtedness of the Schaeffler Group, subject to a threshold of €50 million;

(f) certain insolvency events or proceedings;

(g) certain creditors' processes, including expropriations, attachments or sequestration of assets or similar events subject to a threshold of €25 million.

(h) change of ownership events, including where an obligor (other than the Company) ceases to be a subsidiary of the Company;

(i) failure to comply with the provisions of the Security Pooling and Intercreditor Agreement by any member of the Schaeffler Group, Schaeffler Holding GmbH & Co KG or Schaeffler Verwaltungs GmbH; and

(j) qualification of the audit report for the annual audited financial statements in a way that is materially adverse.

Governing Law

The S-Group Senior Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

Existing Notes

February 2012 Notes

Schaeffler Finance B.V. issued €800,000,000 in aggregate principal amount of senior secured notes due 2017 (the "**2017 Euro Notes**"), $600,000,000 in aggregate principal amount of senior secured notes due 2017 (the "**2017 Dollar Notes**"), €400,000,000 in aggregate principal amount of senior secured notes due 2019 (the "**2019 Euro Notes**") and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (the "**2019 Dollar Notes**" and, together with the 2017 Dollar Notes; the 2017 Euro Notes and the 2019 Euro Notes, the "**February 2012 Notes**") under a New York law governed indenture dated February 9, 2012 (as amended, the "**February 2012 Notes Indenture**") among, *inter alios*, itself as issuer, Schaeffler AG and Schaeffler AG's subsidiaries that guarantee the February 2012 Notes, Deutsche Bank AG, London Branch (as successor trustee following the resignation of Deutsche Trustee Company Limited) as trustee, Deutsche Bank Luxembourg S.A. as general security trustee and Commerzbank Aktiengesellschaft, Luxembourg Branch, as Continental shares security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the 2017 Euro Notes accrues at the rate of 7.75% per annum, interest on the 2017 Dollar Notes accrues at the rate of 7.75% per annum, interest on the 2019 Euro Notes accrues at the rate of 8.75% per annum and interest on the 2019 Dollar Notes accrues at the rate of 8.50% per annum. Interest on the February 2012 Notes is payable in the currency in which such February 2012 Notes are denominated semi-annually in arrears on February 15 and August 15, commencing on August 15, 2012. The Issuer will make each interest payment to the noteholders of record on the immediately preceding February 1 and August 1.

The Schaeffler Group used the net proceeds from the sale of the February 2012 Notes, together with drawings under the January 2012 Senior Facilities Agreement, for prepayment in full of outstanding amounts under the Repaid Senior Facilities Agreement.

July 2012 Notes

Schaeffler Finance B.V. issued €325,979,000 in aggregate principal amount of senior secured notes (the "**July 2012 Notes**") under a New York law governed indenture dated July 4, 2012 (as amended, the "**July 2012 Notes Indenture**") among, *inter alios*, itself as Issuer, Schaeffler AG and Schaeffler AG's subsidiaries that guarantee the July 2012 Notes, Deutsche Trustee Company Limited as trustee, Deutsche Bank Luxembourg S.A. as general security trustee and Commerzbank Aktiengesellschaft, Luxembourg Branch, as Continental shares security trustee, in a public offering in Luxembourg and Germany and in a private transaction not subject to the registration requirements of the U.S. Securities Act. Interest on the July 2012 Notes accrues at a rate of 6.75% per annum and is payable in euro semi-annually in arrears on May 15 and November 15, commencing on November 15, 2012. The Issuer will make each interest payment to the noteholders of record on the immediately preceding May 1 and November 1.

The Schaeffler Group used the net proceeds from the sale of the July 2012 Notes for partial repayment of outstanding amounts under the January 2012 Senior Facilities Agreement.

April 2013 Notes

Schaeffler Finance B.V. issued €600,000,000 in aggregate principal amount of senior secured notes due 2018 (the "**2018 Euro Notes**") and $850,000,000 in aggregate principal amount of senior secured notes due 2021 (the "**2021 Dollar Notes**" and together with the 2018 Euro Notes, the "**April 2013 Notes**" and, the April 2013 Notes together with the February 2012 Notes and the July 2012 Notes, the "**Existing Notes**") under a New York law governed indenture dated April 29, 2013 (the "**April 2013 Notes Indenture**"), among, *inter alios*, itself as issuer, Schaeffler AG and Schaeffler AG's subsidiaries that guarantee the April 2013 Notes, Deutsche Bank AG, London Branch as trustee, Deutsche Bank Luxembourg S.A. as general security trustee and Commerzbank Aktiengesellschaft, Luxembourg Branch, as Continental shares security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the 2018 Euro Notes accrues at the rate of 4.25% per annum and interest on the 2021 Dollar Notes accrues at the rate of 4.75% per annum. Interest on the April 2013 Notes is payable in the currency in which such April 2013 Notes are denominated semi-annually in arrears on May 15 and November 15, commencing on November 15, 2013. The Issuer will make each interest payment to the noteholders of record on the immediately preceding May 1 and November 1.

The Schaeffler Group used the net proceeds from the sale of the April 2013 Notes, for partial repayment of outstanding amounts under the March 2013 Senior Facilities Agreement.

Terms and conditions of Existing Notes

The terms and conditions of the Existing Notes are, except for the maturity and the interest rate, substantially identical to those of in the "*Description of the Notes.*" Therefore, the Schaeffler Group is subject to certain covenants which limit the ability to incur financial indebtedness. Among others, the Existing Notes indentures limit the ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- pay dividends on, redeem or repurchase its capital stock;
- make certain Restricted Investments and investments, including dividends or other distributions with regard to the shares of the Issuer or its restricted subsidiaries;
- create or incur certain liens;
- enter into agreements that restrict its subsidiaries' ability to pay dividends;
- transfer or sell assets;
- merge or consolidate with other entities;
- enter into certain transactions with affiliates; and
- impair the security interests for the benefit of the noteholders of the Existing Notes.

Pursuant to customary provisions for high-yield notes contained in the indentures governing the Existing Notes, the Schaeffler Group may make certain restricted payments. In addition to the capacity for restricted payments under a customary restricted payments build-up basket, which is based on 50% of the Schaeffler Group's consolidated net income (as defined in the indentures), the Schaeffler Group may, among others, make payments to the Parent Guarantor in an amount not to exceed (i) €245.0 million in 2013; (ii) €290.0 million in 2014; (iii) €325.0 million in 2015; and (iv) €350.0 million in 2016 and any calendar year thereafter to, among other things, pay interest and fees in respect to the IHO Debt Instruments, as amended, supplemented or otherwise modified from time to time. In addition, the Schaeffler Group has further restricted payments availability under its restricted payments general basket of €200.0 million in the aggregate.

The availability of these baskets for restricted payments will be subject to the absence of certain defaults or events of default occurring under the indentures governing the Existing Notes.

Under the February 2012 Notes Indenture, the July 2012 Notes Indenture and the April 2013 Notes Indenture, upon the occurrence of certain change of control events, each of the noteholders is entitled to require Schaeffler Finance B.V. to redeem in whole or in part the February 2012 Notes, the July 2012 Notes and the April 2013 Notes, respectively, at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts.

In addition, under the February 2012 Notes Indenture and the April 2013 Notes Indenture if, prior to May 22, 2017, the IHO debt instruments are not repaid or refinanced or their maturity is not extended as provided in the February 2012 Notes Indenture and the April 2013 Notes Indenture, Schaeffler Finance B.V. will also be required to offer to repurchase the February 2012 Notes and the April 2013 Notes, respectively at a purchase price equal to 100% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repurchase.

Like the Notes, the February 2012 Notes Indenture, the July 2012 Notes Indenture and the April 2013 Notes Indenture also provide for events of default, including cross acceleration and cross-payment defaults with respect to financial indebtedness in an aggregate amount of at least €50.0 million, entitling the noteholders to demand immediate redemption of the February 2012 Notes, July 2012 Notes and April 2013 Notes, respectively.

Existing Security Pooling and Intercreditor Agreement

In connection with the approximately €8,000 million refinancing in February 2012, Schaeffler Holding GmbH & Co. KG, Schaeffler Verwaltungs GmbH, Schaeffler AG, Schaeffler Finance B.V., certain subsidiaries of Schaeffler AG as obligors and security providers, entered into a security pooling and intercreditor agreement dated January 27, 2012, as amended (the "**Existing Security Pooling and Intercreditor Agreement**") to govern the relationships and relative priorities among: (i) the obligors named therein; (ii) the collateral providers named therein; (iii) certain intra-group creditors and debtors named therein; (v) the syndicated facilities lenders named therein; (vi) the hedge counterparties under certain hedging agreements named therein; (vii) the original ancillary lenders named therein; (viii) Deutsche Bank Luxembourg S.A. as general security trustee; (ix) Commerzbank Aktiengesellschaft, Luxembourg Branch as Continental shares security trustee; (x) Deutsche Bank Luxembourg S.A. as facility agent under the S-Group Senior Facilities Agreement and (xi) the trustees for the Existing Notes and the trustee for any other notes that accede to the Existing Security Pooling and Intercreditor Agreement in the future.

Schaeffler AG, the obligors, the collateral providers and the intra-group debtors under the Existing Security Pooling and Intercreditor Agreement are referred to in this description as "Existing SPICA Debtors."

The Existing Security Pooling and Intercreditor Agreement is governed by English law. It sets out:

- the relative ranking of certain indebtedness of the Existing SPICA Debtors;
- the relative ranking of certain security granted by the Existing SPICA Debtors;
- when payments can be made in respect of certain indebtedness of the Existing SPICA Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of the collateral.

In the Existing Security Pooling and Intercreditor Agreement, the Parent Guarantor has undertaken with the relevant secured creditors, *inter alia*, not to amend the terms and conditions, in particular shorten the term, of the IHO Debt Instruments or repay the IHO Debt Instruments prior to 30 June 2017, subject to certain exceptions set out in the Existing Security Pooling and Intercreditor Agreement.

The Issuer, the Trustee for the Notes, the Security Trustee, the facility agent and the lenders under the S-Verwaltungs Group Senior Facilities Agreement are not party to the Existing Security Pooling and Intercreditor.

IBV Loan

Schaeffler Holding GmbH & Co. KG as lender and INA Beteiligungsverwaltungs GmbH ("**IBV**") as borrower entered into a German law governed deposit master agreement dated June 23, 2010 (the "**IBV Loan**"). Under the IBV Loan, the lender may place deposits to the borrower with a term of up to one year in an amount not exceeding €65 million. Amount, term and other specific details of each deposit will be agreed on a case by case basis. The deposits bear interest at the applicable interbank rate minus 0.10% per annum (margin). The margin may be adjusted by IBV on June 30 of each calendar year. Interest is due every December 31 and at the due date of repayment of the deposit. The IBV Loan may be terminated by either party at the end of a calendar month by giving three months prior written notice. However, any deposits already granted under the IBV Loan shall not be affected by the termination.

Annuity Loan

During the November 2009 refinancing, we acquired an interest rate cap with the lenders under the Repaid Senior Facilities Agreement as counter-parties to hedge the variable interest rate component of the IHO Facilities Agreement. This acquisition was funded by an annuity loan. The initial carrying value of the annuity loan was €171.2 million with an interest rate of approximately 17%. As of March 31, 2013, the annuity loan had a book value of €42 million. The final annuity will be due on December 31, 2013. The annuity loan was originally secured by the collateral under the Repaid Senior Facilities Agreement and, since then, has been secured by the collateral on a *pari passu* basis with the S-Group Senior Facilities Agreement and the Existing Notes.

Description of the Notes

Schaeffler Holding Finance B.V. (the "**Issuer**") will issue the Notes (as defined below) under an indenture to be dated as of July 24, 2013 (the "**Indenture**") among, *inter alios,* itself as Issuer, Schaeffler Verwaltungs GmbH as parent guarantor (the "**Parent Guarantor**"), Deutsche Trustee Company Limited, as trustee (the "**Trustee**") and Commerzbank Aktiengesellschaft, Luxembourg Branch, as security trustee (the "**Security Trustee**"), in a private transaction that is not subject to the registration requirements of the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**").

Unless the context requires otherwise, references in this "*Description of the Notes*" to the Notes include any Additional Notes (as defined below) that are issued. See "*Important information about this Offering Memorandum*." The terms of the Notes include those set forth in the Indenture which is hereby incorporated by reference. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended. The Security Documents referred to below under the caption "*—Security*" define the terms of the security that will secure the Notes.

In connection with this offering of Notes, the Issuer will lend the proceeds from the sale and issuance of the Notes to the Parent Guarantor in the form of one or more proceeds loans (the "**Note Proceeds Loan**"). The Issuer has no material business operations and upon completion of this offering will have no material assets other than, after the Issue Date, its rights under the Note Proceeds Loan. As a result, the Issuer will be wholly dependent on payments by the Parent Guarantor under the Note Proceeds Loan to provide the funds necessary to make the required payments of principal of, and interest, premium or Additional Amounts, if any, under, the Notes.

The Indenture, the Notes and the Note Guarantee will be subject to the terms of the Intercreditor Agreement and any Additional Intercreditor Agreements entered into in the future. The terms of the Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantee. Please see "*Description of other indebtedness—S-Verwaltungs Group Security Pooling and Intercreditor Agreement*" for a summary of the material terms of the Intercreditor Agreement.

The following description is only a summary of the material provisions of the Indenture, the Notes, the Note Guarantee and the Security Documents and refers to the Intercreditor Agreement. It does not restate those agreements in their entirety. We urge you to read the Indenture, the Security Documents and the Intercreditor Agreement because they, and not this description, define your rights as holders of the Notes (the "**Holders**"). Copies of the Indenture, the form of Note, the Security Documents and the Intercreditor Agreement are available as set forth below under "*—Additional information*."

You can find the definitions of certain terms used in this description under "*—Certain definitions*." Certain defined terms used in this description but not defined below under "*—Certain definitions*" have the meanings assigned to them in the Indenture. In this description, the term "*Issuer*" refers only to Schaeffler Holding Finance B.V. and not to any of the Parent Guarantor's other Subsidiaries. The term "*Parent Guarantor*" refers only to Schaeffler Verwaltungs GmbH and not to any of its Subsidiaries, and the term "*Company*" refers only to Schaeffler AG and not to any of its Subsidiaries.

The registered Holder will be treated as the owner of a Note for all purposes. Only registered Holders will have rights under the Indenture.

Brief description of the Notes and the Note Guarantee

The Notes

The Notes:

- will be general senior obligations of the Issuer;
- will be secured by security interests over the Collateral;

- will be structurally subordinated to any existing and future Indebtedness of the Parent Guarantor's subsidiaries (other than the Issuer), including Indebtedness under the Schaeffler Group Senior Facilities Agreement and the Existing Notes;
- will, together with the Obligations under the Parent Guarantor Group Facilities Agreement and related finance documents and certain Hedging Obligations, be secured by the Collateral as described below under "—*Security*;"
- will be guaranteed by the Parent Guarantor;
- will be effectively subordinated to any existing and future Indebtedness of the Issuer that is secured by property or assets that do not secure the Notes, to the extent of the value of property and assets securing such Indebtedness;
- will rank *pari passu* in right of payment with all existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes; and
- will rank senior in right of payment to all existing and future Indebtedness of the Issuer that is subordinated in right of payment to the Notes.

The Note Guarantee

The Notes will be guaranteed by the Parent Guarantor.

The Note Guarantee of the Parent Guarantor:

- will be a general senior obligation of the Parent Guarantor;
- will be structurally subordinated to all existing and future Indebtedness of any of the Parent Guarantor's subsidiaries (other than the Issuer), including Indebtedness under the Schaeffler Group Senior Facilities Agreement and the Existing Notes;
- will, together with the Obligations under the Parent Guarantor Group Facilities Agreement and related finance documents and certain Hedging Obligations, be secured by the Collateral as described below under "—*Security*;"
- will be effectively subordinated to any existing and future Indebtedness of the Parent Guarantor that is secured by property or assets that do not secure the Note Guarantee, to the extent of the value of the property and assets securing such Indebtedness;
- will rank *pari passu* in right of payment with all existing and future Indebtedness of the Parent Guarantor that is not subordinated in right of payment to the Note Guarantee;
- will rank senior in right of payment to all existing and future Indebtedness of the Parent Guarantor that is subordinated in right of payment to the Note Guarantee; and
- will be effectively senior to all of the Parent Guarantor's existing and future unsecured Indebtedness to the extent of the assets securing the Note Guarantee.

None of the Parent Guarantor's Restricted Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these Restricted Subsidiaries (other than the Issuer), the Restricted Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Parent Guarantor or the Issuer.

The operations of the Parent Guarantor are conducted through its Subsidiaries (other than the Issuer) and, therefore the Parent Guarantor depends on the cash flow of its Subsidiaries (other than the Issuer) to meet its obligations, including its obligations under the Note Guarantees. As of the Issue Date, neither the Company nor any of its Subsidiaries will provide a Note Guarantee. Holders of the Notes do not have a direct claim on the cash flow or assets of the Company and its Subsidiaries and neither the Company nor its Subsidiaries have any obligation, contingent or otherwise, to pay amounts due under the Notes, the Note Guarantee or the Note Proceeds Loan or to make funds available to the Parent Guarantor or the Issuer for those purposes. Certain legal and contractual restrictions limit the Parent Guarantor's ability to access the cash flow of its Subsidiaries, including legal restrictions on the payment of corporate dividends. The Note Guarantee and the Notes will be structurally subordinated to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of any of the Company and its Subsidiaries. Any right of the Parent Guarantor to receive assets of its Subsidiaries upon that Subsidiary's liquidation or reorganization (and the consequent right of the Holders to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors.

As of March 31, 2013, on a *pro forma* basis after giving effect to this offering and the application of the proceeds therefrom, the Issuer would have had no outstanding Indebtedness other than the Notes, and the Parent Guarantor would have had no outstanding Indebtedness for borrowed money other than the Note Guarantee, the Note Proceeds Loan and an aggregate principal amount of €2,175 million of Indebtedness outstanding under the Parent Guarantor Group Facilities Agreement. In addition, €200 million are available for drawing by the Parent Guarantor under the revolving credit facility under the Parent Group Facilities Agreement. As of March 31, 2013, on a *pro forma* basis after giving effect to the S-Group April/May Transactions, the Company and its Subsidiaries had €6,758 million of Indebtedness outstanding (comprising, among other things, of borrowings under the Schaeffler Group Senior Facilities Agreement and the Existing Notes; see "*Capitalization*"). In addition, as of March 31, 2013, the Company and certain of its Subsidiaries had €943 million available for drawing under the revolving credit facility under the Schaeffler Group Senior Facilities Agreement.

The Issuer is a finance company that has no subsidiaries. Upon completion of the Offering, the only significant asset of the Issuer will be the receivable under the Notes Proceeds Loan. See "*Risk factors—Risks related to the Notes— The Issuer is a special purpose entity dependent upon cash flow from subsidiaries of the Parent Guarantor to meet its obligations on the Notes*."

As of the Issue Date all of the Parent Guarantor's Subsidiaries will be "Restricted Subsidiaries" for purposes of the Indenture. Under certain circumstances described below under the caption "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries*," the Parent Guarantor will be permitted to designate Restricted Subsidiaries as "Unrestricted Subsidiaries." Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture.

Principal and maturity

The Issuer will issue €800,000,000 in aggregate principal amount of senior secured PIK toggle notes due 2018 (the "**Euro Notes**"), and $1,000,000,000 in aggregate principal amount of senior secured PIK toggle notes due 2018 (the "**Dollar Notes**" and, together with the Euro Notes, the "**Notes**") in this offering.

The Issuer may issue additional Notes ("**Additional Notes**") under the Indenture from time to time after this offering. The Notes may be issued in one or more series under the Indenture. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption "*—Certain covenants—Limitation on Indebtedness.*" The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase, except as otherwise provided in the Indenture. The Issuer will issue Euro Notes in minimum denominations of €100,000 and integral multiples of €1 in excess thereof and Dollar Notes in minimum denominations of $200,000 and integral multiples of $1 in excess thereof. PIK Notes (as defined below) may be issued in minimum denominations of €1 and $1, as the case may be. The Notes will mature on August 15, 2018. The redemption price at maturity will equal 100% of the principal amount of the Notes redeemed.

Interest

Cash interest on the Euro Notes will accrue at the rate of 6.875% per annum (the "**Euro Cash Interest Rate**") and cash interest on the Dollar Notes will accrue at the rate of 6.875% per annum (the "**Dollar Cash Interest Rate**" and, together with the Euro Cash Interest Rate, the "**Cash Interest Rate**"). PIK Interest (as defined below) on the Notes will accrue at the relevant Cash Interest Rate plus 0.75% per annum. If the Issuer pays all eligible interest in PIK Interest, it will increase the principal amount of the Notes or issue Notes in a principal amount up to a maximum of €240,054,026 and $300,067,533. Upon the payment of PIK Interest, a notice shall be published on the website of the Luxembourg Stock Exchange in the form of Appendix 1. Interest on the Notes will be payable in the currency in which such Notes are denominated semi-annually in arrears on February 15 and August 15 commencing on February 15, 2014. The Issuer will make each interest payment to the Holders of record on the immediately preceding February 1 and August 1.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest shall be payable entirely in cash ("**Cash Interest**") for the first two Interest Periods and for the final Interest Period ending at the Stated Maturity of the Notes. For any other Interest Period, interest shall be payable entirely in cash, except that, if the Applicable Amount (as defined below) for the relevant interest payment date:

(i) equals or exceeds 75%, but is less than 100%, of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on (a) 25% of the then outstanding principal amount of the Notes by increasing the principal amount of the outstanding Notes or by issuing Additional Notes in a principal amount equal to such interest ("**PIK Interest**") and (b) 75% of the then outstanding principal amount of the Notes as Cash Interest;

(ii) equals or exceeds 50%, but is less than 75%, of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on (a) 50% of the then outstanding principal amount of the Notes as PIK Interest and (b) 50% of the then outstanding principal amount of the Notes as Cash Interest;

(iii) equals or exceeds 25%, but is less than 50%, of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on (a) 75% of the then outstanding principal amount of the Notes as PIK Interest and (b) 25% of the then outstanding principal amount of the Notes as Cash Interest; or

(iv) is less than 25% of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on the Notes entirely as PIK Interest.

As used herein, "**Applicable Amount**" shall be an amount equal to the lowest of:

(1) the amount, if any, to which the Cash Interest payable on the Notes on the relevant interest payment date would need to be reduced such that the Average Liquidity with respect to such interest payment date would be equal to €1,000.0 million;

(2) the amount, if any, to which the Cash Interest payable on the Notes on the relevant interest payment date would need to be reduced such that Leverage as of the Testing Date immediately preceding the 15th day preceding the relevant interest payment date, determined to give pro forma effect to the distribution (by way of dividend, loan or otherwise) by the Company to the Parent Guarantor or the Issuer of cash in an amount required to pay the Cash Interest payable on the Notes on such interest payment date and any cash interest mandatorily payable under the Parent Guarantor Group Facilities Agreement on or prior to such interest payment date, would be equal to 90.0% of the maximum Leverage permitted under the Schaeffler Group Senior Facilities Agreement (or any Credit Facility that refinances or replaces the Schaeffler Group Senior Facilities Agreement) for such Testing Date;

(3) the amount, if any, to which the Cash Interest payable on the Notes on the relevant interest payment date would need to be reduced such that the Projected Liquidity as of the 15th day preceding such interest payment date would be equal to €1,000.0 million; and

(4) the amount, if any, to which the Cash Interest payable on the Notes on the relevant interest payment date would need to be reduced such that Projected Leverage for the Relevant Testing Date, determined to give pro forma effect to the distribution (by way of dividend, loan or otherwise) by the Company to the Parent Guarantor or the Issuer of cash in an amount required to pay the Cash Interest payable on the Notes on such interest payment date and any cash interest mandatorily payable under the Parent Guarantor Group Facilities Agreement on or prior to such interest payment date, would be equal to 90.0% of the maximum Leverage permitted under the Schaeffler Group Senior Facilities Agreement (or any Credit Facility that refinances or replaces the Schaeffler Group Senior Facilities Agreement) for such Relevant Testing Date.

The insufficiency or lack of funds available to the Issuer to pay Cash Interest as required by the preceding paragraph shall not permit the Issuer to pay PIK Interest in respect of any Interest Period and the sole right of the Issuer to elect to pay PIK Interest shall be as (and to the extent) provided in the preceding paragraph.

If interest with respect to an Interest Period is not paid entirely in cash, the Issuer shall deliver an Officer's Certificate to the Trustee (with a copy to each Paying Agent) on or prior to the eighth Business Day preceding the relevant interest payment date, which Officer's Certificate shall (i) set forth in reasonable detail the Parent Guarantor's and/or the Company's determination with respect to the clause or clauses permitting the Issuer to pay PIK Interest (including in reasonable detail the calculation and components of the Average Liquidity, Leverage, Projected Leverage and/or Projected Liquidity, as the case may be), (ii) state, for each of the Dollar Notes and the Euro Notes, the total amount of interest to be paid on such interest payment date and the amount of such interest to be paid as PIK Interest, and (iii) be signed by an Officer of the Issuer and by the chief financial officer of each of the Parent Guarantor and the Company. The Trustee, the Paying Agents and the Registrars shall be entitled to conclusively rely upon such Officer's Certificate without independent verification. On the same date, the Issuer shall also deliver a notice (the "**PIK Notice**") to the Trustee (copied to the Principal Paying Agent), which notice shall state the total amount of interest to be paid on the relevant interest payment date and the amount of such interest to be paid as PIK Interest. The Parent Guarantor shall cause the Company to post such notice on the Company's website and cause such notice to be delivered to DTC, Euroclear and Clearstream for communication to direct participants in any Global Note. For so long as Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Parent Guarantor will also cause such notice to be published in a newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (www.bourse.lu). For the avoidance of doubt, interest on the Notes due on any interest payment date with respect to which an Officer's Certificate and a notice are not delivered in accordance with this paragraph must be paid entirely in cash.

To the extent the Issuer is required pursuant to this section to pay Cash Interest for all or any portion of the interest due on any interest payment date, the Parent Guarantor shall, and shall cause each of the Restricted Subsidiaries to take all such shareholder, corporate or other actions necessary or appropriate to permit the making of any dividends or distributions (including by way of loans or advances) to permit the Issuer to pay such Cash Interest on such interest payment date; provided that any such shareholder, corporate or other actions would not violate applicable law or cause a breach of any applicable contract.

If the Issuer pays a portion of the interest on the Notes as Cash Interest and as PIK Interest, such Cash Interest and PIK Interest shall be paid to Holders of the Notes *pro rata* in accordance with their interests. Following an increase in the principal amount of the outstanding Notes as a result of a payment of PIK Interest, the Notes will bear interest on such increased principal amount from and after the date of such payment.

Notwithstanding anything to the contrary, the payment of accrued interest in connection with any redemption or repurchase of the Notes as described under "*—Optional redemption*" and "*—Repurchase at the option of the holders—Change of Control*" and "*—Asset Sales,*" will be made solely in cash.

We cannot assure you that the Company and its Subsidiaries will have the ability to pay dividends or otherwise distribute funds to the Issuer or the Parent Guarantor in order to allow the Issuer to make Cash Interest payments on the Notes. The ability of the Company and its Subsidiaries to pay dividends and make distributions to Parent Guarantor and the Issuer is subject to important restrictions. See "*Description of other indebtedness*" and "*Risk factors—Risks Related to the Notes—The Notes will be structurally subordinated to indebtedness of the subsidiaries of the Parent Guarantor.*"

No later than 120 days following any interest payment date on which PIK Interest was paid (except if PIK Interest was paid on such interest payment date solely in reliance on clause (1) or (2) of the definition of Applicable Amount), the Issuer shall deliver to the Trustee an Officer's Certificate, signed by an Officer of the Issuer and the chief financial officer of each of the Parent Guarantor and the Company, setting forth (i) the sum of (x) the actual average weekly balance of the aggregate amount of cash and Cash Equivalents of the Parent Guarantor and its Restricted Subsidiaries (the "**Actual Cash Balance**") for the same period for which the Projected Cash Balance relating to such interest payment date was determined and (y) the actual average weekly balance of amounts that were available for drawing under the revolving credit facility of the Schaeffler Group Senior Facilities Agreement (and the revolving credit facility of any Credit Facility that refinances or replaces the Schaeffler Group Senior Facilities Agreement) (the "**Actual Available RCF Drawings**") for the same period for which the Projected Available RCF Drawings relating to such interest payment date were determined (such sum, the "**Actual Liquidity**"), (ii) the actual Leverage (the "**Actual Leverage**") as of the Testing Date as of which the Projected Leverage was determined in relation to such interest payment date, and (iii) the Excess PIK Interest (as defined below), if any, in each case calculated by the chief financial officer of the Parent Guarantor or the Company. The Trustee and the Paying Agents shall be entitled to conclusively rely upon such Officer's Certificate without independent verification.

The amount of PIK Interest paid on such interest payment date that exceeds the amount of PIK Interest that the Issuer would have been permitted to pay if the Actual Liquidity or Actual Leverage had been used in place of the Projected Liquidity or the Projected Leverage, as applicable, shall constitute "**Excess PIK Interest**" with respect to such interest payment date (if the Issuer fails to deliver an Officer's Certificate as and when required pursuant to the preceding paragraph, the entire amount of PIK Interest paid on such interest payment date shall be deemed to be Excess PIK Interest). When the aggregate amount of Excess PIK Interest for such interest payment date and any Excess PIK Interest for prior interest payment dates which Excess PIK Interest has not previously been redeemed pursuant to this paragraph exceeds €25 million, the Issuer shall, on the next following interest payment date, mandatorily redeem Notes in an amount equal to such aggregate Excess PIK Interest at a redemption price of 100% of the aggregate principal amount thereof, together with accrued and unpaid interest and Additional Amounts, if any, to the date of redemption (a "**Mandatory Excess PIK Interest Redemption**"). The Issuer shall give not less than 30 nor more than 60 days' prior notice of such redemption to the Holders (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and notice*"). The Issuer shall give the Trustee notice of any redemption at least five Business Days prior to the notice being given to the Holders.

From the time a PIK Notice is delivered by the Issuer until the first subsequent interest payment date on which interest on the Notes is paid entirely in cash, each member of the Parent

Guarantor Group will elect to, and will, capitalize accrued interest with respect to Indebtedness (other than the Notes) to the fullest extent permitted under the instrument governing such Indebtedness at such time.

Interest Reserve Account

The Parent Guarantor will maintain a separate cash deposit account with the Security Trustee (the "**Interest Reserve Account**"), which, on the Issue Date, will have a cash balance of at least €50.0 million, and which will form part of the Collateral. The Parent Guarantor will, and will cause each other member of the Parent Guarantor Group to, deposit any dividend or other payments received by any member of the Parent Guarantor Group with respect to any shares of Capital Stock of Continental, promptly upon such receipt, into the Interest Reserve Account, but only if and to the extent that the cash balance of the Interest Reserve Amount immediately prior to the receipt and application of such dividend or other payments is less than €50.0 million. Funds deposited in the Interest Reserve Account may only be used for the payment of interest with respect to (i) the Notes (and any Additional Notes), (ii) Indebtedness outstanding under the Parent Guarantor Group Facilities Agreement and (iii) any Indebtedness of the Issuer or the Parent Guarantor under Credit Facilities refinancing any of the Indebtedness described under clauses (i) and (ii) and incurred in compliance with the covenant described under "*Certain covenants—Limitation on Indebtedness*".

Payments on the Notes

Principal, premium, if any, interest, and Additional Amounts, if any, on the Global Notes (as defined below) will be payable at the corporate trust office or agency of one or more Paying Agents in London, United Kingdom except that payments on the Euro Global Notes (as defined below) will be made to the common depositary whose nominee is the registered holder of the Euro Global Notes and payments on the Dollar Global Notes (as defined below) will be made to Cede & Co. as the registered holder of the Dollar Global Notes.

Principal, premium, if any, Cash Interest and Additional Amounts, if any, on any definitive registered Notes in certificated form ("**Definitive Registered Notes**") will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes in (i) the Borough of Manhattan, City of New York, (ii) the City of London and (iii) Luxembourg, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. In addition, at the option of the Issuer, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Interest, if payable in the form of Additional Notes, on any Definitive Registered Notes will be payable by the Issuer delivering to the Trustee and Paying Agent such Additional Notes in the relevant amount as Definitive Registered Notes and an order to authenticate such notes. See "*—Paying Agent and Registrar for the Notes*."

PIK Interest on the Notes will be payable (x) with respect to Notes represented by one or more Global Notes registered in the name of or held by a nominee of DTC, Euroclear or Clearstream, as applicable on the relevant record date, by increasing the principal amount of the outstanding Global Note by an amount equal to the amount of PIK Interest for the applicable Interest Period (rounded up to the nearest €1.00 or $1.00 (as applicable)) (a "**PIK Payment**") and (y) with respect to Notes represented by Definitive Registered Notes, by issuing Additional Notes ("**PIK Notes**") in certificated form in an aggregate principal amount equal to the amount of PIK Interest for the applicable period (rounded up to the nearest €1.00 or $1.00 (as applicable)), and the Trustee or its authenticating agent will, at the request of the Issuer, authenticate and deliver such PIK Notes in certificated form for original issuance to the Holders on the relevant record date, as shown by the records of the register of Holders. Following an increase in the principal amount of the outstanding Global Notes as a result of a PIK Payment, the Global Notes will bear interest on such increased principal amount from and after the date of such PIK Payment. Any PIK Notes issued in certificated form will be dated as of the applicable interest payment date and will bear interest from and after such date. All PIK Notes issued will mature on August 15, 2018 and will be governed by, and subject to the terms, provisions and conditions of, the Indenture and shall have the same rights and benefits as the Notes issued on the Issue Date. Any certificated PIK Notes will be issued with the description "PIK" on the face of such PIK Note. Unless the context otherwise requires, in this "Description of the Notes," references to the "Notes" include the Notes and any PIK Notes that are actually issued.

The Issuer will pay interest on the Notes to Persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Such holders must surrender their Notes to a Paying Agent to collect principal payments.

The rights of holders of beneficial interests in the Notes to receive the payments on the Notes will be subject to applicable procedures of DTC, Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each, a "**Paying Agent**") for the Notes in each of (i) the Borough of Manhattan, City of New York; (ii) the City of London and (iii) Luxembourg, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. The Issuer will undertake to maintain a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting on November 26 and 27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directive. The initial Paying Agents will be Deutsche Bank Trust Company Americas in New York, Deutsche Bank AG, London Branch in the City of London and Deutsche Bank Luxembourg S.A. in Luxembourg.

The Issuer will also maintain one or more registrars (each, a "**Registrar**") with offices in each of (i) the Borough of Manhattan, City of New York; and (ii) Luxembourg, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market. The Issuer will also maintain a transfer agent in each of New York and Luxembourg. The initial Registrar in New York will be Deutsche Bank Trust Company Americas and Deutsche Bank Luxembourg S.A. in Luxembourg. The initial transfer agents will be Deutsche Bank Trust Company Americas in New York and Deutsche Bank Luxembourg S.A. in Luxembourg. The Registrar and the transfer agent in Luxembourg will maintain a register (the "**Register**") reflecting ownership of Definitive Registered Notes outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on behalf of the Issuer and a copy of the Register will be sent to the Issuer on the Issue Date and after any change to the Register made by the Registrar, with such copy to be held by the Issuer and at its registered office. In case of discrepancies between the Register and the register held by the Issuer at its registered office, the latter will prevail for purposes of Luxembourg law. See "*Book Entry, Delivery and Form*."

The Issuer may change the Paying Agents, the Registrars or the transfer agents without prior notice to the Holders. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a daily newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Transfer and exchange

The Notes will be issued in the form of several registered notes in global form, without interest coupons, as follows:

- Each series of Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**144A Global Notes**").
  - — The 144A Global Note representing the Dollar Notes (the "**Dollar 144A Global Note**") will, on the Issue Date, be deposited with a custodian for The Depository Trust Company ("**DTC**") and registered in the name of Cede & Co., as nominee of DTC.
  - — The 144A Global Note representing the Euro Notes (the "**Euro 144A Global Note**"), will, on the Issue Date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear Bank SA./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**").
- Each series of Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Notes**" and, together with the 144A Global Note, the "**Global Notes**").
  - — During the 40-day "distribution compliance period" (as such term is defined in Rule 902 of Regulation S under the U.S. Securities Act), the Regulation S Global Notes representing the Dollar Notes (the "**Dollar Regulation S Global Note**" and, together with the Dollar 144A Global Note, the "**Dollar Global Notes**") will initially be credited within DTC for the accounts of Euroclear and Clearstream. After the 40-day distribution compliance period ends, investors may also hold their interests in the permanent Dollar Regulation S Global Note through organizations other than Clearstream or Euroclear that are DTC participants.
  - — The Regulation S Global Notes representing the Euro Notes (the "**Euro Regulation S Global Note**" and, together with the Euro 144A Global Note, the "**Euro Global Notes**") will, on the closing date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Notes (the "**Book-Entry Interests**") will be limited to persons that have accounts with DTC, Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Transfer restrictions.*" In addition, transfers of Book-Entry Interests between participants in DTC, Euroclear or Clearstream will be effected by DTC, Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by DTC, Euroclear or Clearstream and their respective participants.

Book-Entry Interests in the 144A Global Note, or the "**Restricted Book-Entry Interest**" may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Note, or the "**Regulation S Book-Entry Interests**," only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the U.S. Securities Act.

Regulation S Book-Entry Interest may be transferred to a person who takes delivery in the form of 144A Book-Entry Interest only upon delivery by the transfer of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer restrictions*" and in accordance with any applicable securities law of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Notes from which it was transferred and will become a Book-Entry Interest in the Global Notes to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred. For a more detailed description, please see "*Book-entry, delivery and form*."

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €100,000 or $200,000 and integral multiples of €1 or $1 in excess thereof, as the case may be, upon receipt by the applicable Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. PIK Notes in the form of Definitive Registered Notes issued from time to time in payment of accrued interest or Additional Amounts may be issued in minimum denominations of €1 or $1, as the case may be (rounded to the nearest whole integer). It is expected that such instructions will be based upon directions received by DTC, Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Transfer restrictions*."

Subject to the restrictions on transfer referred to above, Euro Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 and integral multiples of €1 in excess thereof and Dollar Notes issued as Definitive Registered Notes may be transferred or exchanged in whole or in part, in minimum denominations of $200,000 and integral multiples of $1 in excess thereof, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents to the Registrar, furnish information regarding the account of the transferee at DTC, Euroclear or Clearstream, where appropriate, furnish certain certificates and opinions and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer or exchange; *provided* that if the Issuer or the Parent Guarantor is a party to the transfer or exchange, the Holder will not be required to pay such Taxes.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

Additional Amounts

All payments made by or on behalf of the Issuer under or with respect to the Notes or the Parent Guarantor with respect to its Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Issuer or the Parent Guarantor is then incorporated or organized, engaged in business for tax purposes or otherwise resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction of any Paying Agent or any political subdivision thereof or therein (each, a "**Tax Jurisdiction**") will at any time be required to be made from any payments made by or on behalf of the Issuer under or with respect to the Notes or any of the Parent Guarantor with respect to its Note Guarantee, including payments of principal, redemption price, purchase price, interest or premium, the Issuer or the Parent Guarantor, as applicable, will pay such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received in respect of such payments by each Holder after such withholding, deduction or imposition (including any such withholding, deduction or imposition from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding, deduction or imposition; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any present or former connection between the Holder or the beneficial owner of the Notes (or between a fiduciary, settlor, beneficiary, partner of, member or shareholder of, or possessor of a power over, the relevant Holder, if the relevant Holder is an estate, trust, nominee, partnership, limited liability company or corporation) and the relevant Tax Jurisdiction (including being or having been a citizen, resident, or national thereof or being or having been present or engaged in a trade or business therein or having or having had a permanent establishment therein), but excluding any connection arising merely from the holding of such Note, the exercise or enforcement of rights under such Note or under the Note Guarantee or the receipt of any payments in respect of such Note or the Note Guarantee;

(2) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment (where Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(3) any estate, inheritance, gift, sales, excise, transfer, personal property or similar Taxes;

(4) any Taxes withheld, deducted or imposed on a payment to an individual or a "residual entity" (as interpreted within the context of the European Council Directive 2003/48/EC) that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting on November 26 and 27, 2000 on the taxation of savings income or any law implementing or complying with or introduced, in order to conform to, such directive;

(5) Taxes imposed on or with respect to a payment made to a Holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;

(6) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to the Note Guarantee;

(7) any Taxes to the extent such Taxes would not be imposed or withheld but for the failure of the Holder or beneficial owner of Notes (including, for these purposes, any financial institution through which the Holder or beneficial owner holds the Notes or through which payment on the Notes is made), following a written request by or on behalf of the Issuer or the Parent Guarantor or a Paying Agent addressed to the Holder or beneficial owner (and made at a time that would enable the Holder or beneficial owner acting reasonably to comply with that request, and in all events, at least 30 days before any withholding or

deduction would be required), to comply with any certification, identification, information or other reporting requirement whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, that is a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the Holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the Holder or beneficial owner is legally entitled to provide such certification, information or documentation;

(8) any Taxes to the extent such Taxes would not be imposed or withheld but for the application of section 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"), as of the date of this Offering Memorandum, including any current or future Treasury regulations, other official interpretations thereunder, or any law implementing an intergovernmental approach thereto ("**FATCA**");

(9) any Taxes imposed on or with respect to any payment by the Issuer or the Parent Guarantor to the Holder if such Holder is a fiduciary or partnership or any person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such Holder been the sole beneficial owner of such Note; or

(10) any combination of items (1) through (9) above.

In addition to the foregoing, the Issuer and the Parent Guarantor will also pay and indemnify the Holder for any taxes, charges or similar levies which are levied by any Tax Jurisdiction on the execution, delivery, issuance, registration or transfer (other than a transfer of the Notes after this offering) of any of the Notes, the Indenture, the Note Guarantee or any other document referred to therein, and any taxes, charges or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of any of the Notes or the Note Guarantee.

If the Issuer or the Parent Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or the Note Guarantee, each of the Issuer or the Parent Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Issuer or the Parent Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information necessary to enable the Paying Agents to pay such Additional Amounts to Holders on the relevant payment date. The Issuer and the Parent Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

If the Issuer is required to pay any Additional Amounts due on any payment of Cash Interest, such Additional Amounts shall be paid in cash to the extent that the Issuer would be required to pay Cash Interest as described above under "—Interest". In other cases, such Additional Amounts may be paid, at the Issuer's option, in the form of cash or PIK Notes.

The Issuer or the Parent Guarantor will make all withholdings and deductions required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer or the Parent Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the Parent Guarantor will furnish to the Trustee (or to a Holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or the Parent Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee or the Holder) by such entity. To the extent that the Issuer is required by law or by the interpretation or administration thereof to make any deduction or withholding from any payment of interest on the Notes or any payment of Additional Amounts which, in either case, is made through the issuance of PIK Notes, the foregoing provisions shall apply with respect to such withholding or deduction requirement, *mutatis mutandis*.

Whenever in the Indenture or in this "*Description of the Notes*" there is mentioned, in any context, the payment of amounts of principal, interest or any other amount payable under, or with respect to, any of the Notes or the Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture, any transfer by a Holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer or the Parent Guarantor is incorporated, engaged in business for tax purposes or otherwise resident for tax purposes or any jurisdiction from or through which such Person makes any payment on the Notes (or the Note Guarantee) and any department or political subdivision thereof or therein.

Note Guarantee

The Notes will be guaranteed by the Parent Guarantor. For as long as the Intercreditor Agreement or any Additional Intercreditor Agreement is in effect, on or after the occurrence of an Enforcement Action (as defined in the Intercreditor Agreement), all payments in respect of any Note Guarantee may only be made to the Security Trustee (and the Trustee and, subject to the terms of the Indenture, any holder of Notes may make demands or claims under the Note Guarantee only to the effect that such payments be made to the Security Trustee) for application pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement, as the case may be.

Note Guarantee Release

The Note Guarantee of the Parent Guarantor will be released:

(1) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" *and* "*—Satisfaction and Discharge*;"

(2) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes; or

(3) as described under "*—Amendment, supplement and waiver*."

Upon any occurrence giving rise to a release of the Note Guarantee as specified above, the relevant Trustee or the Security Trustee, as applicable, will execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of the Note Guarantee. Neither the Issuer nor the Parent Guarantor will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Security

General

The Notes and the Note Guarantee will be secured by the Collateral as described below. The Collateral will initially include the following properties and assets:

(1) first-ranking pledges over the Capital Stock of the Issuer;

(2) first-ranking pledges over all Capital Stock in the Company and Schaeffler Vermögensverwaltungs GmbH;

(3) first-ranking pledges over all Capital Stock in Continental owned by the Parent Guarantor (as of the date of this Offering Memorandum constituting approximately 13.76% of the issued and outstanding share capital of Continental);

(4) first-ranking pledges over all bank accounts of the Parent Guarantor (including the Interest Reserve Account) and Schaeffler Vermögensverwaltungs GmbH; and

(5) security assignment of all intragroup receivables and hedging receivables of the Parent Guarantor, the Issuer and Schaeffler Vermögensverwaltungs GmbH, including a security assignment of the Note Proceeds Loan.

Any additional assets that may in the future be pledged to secure Obligations under the Notes, the Note Guarantee and the Indenture would also constitute Collateral.

The obligations under the Notes, the Parent Guarantor Group Facilities Agreement, certain Hedging Obligations and any future Indebtedness that is permitted under the Indenture to share the Collateral (including any PIK Notes) will be secured equally and ratably by first-ranking liens over the Collateral. Under the Indenture, the Parent Guarantor and the Restricted Subsidiaries will be permitted to maintain additional Permitted Collateral Liens, and in connection therewith will be permitted to incur certain additional Indebtedness and other liabilities in the future which may share in the Collateral. The amount of such Permitted Collateral Liens will be limited by the covenants described under the captions "*—Certain covenants—Limitation on Liens*" and "*—Certain covenants—Limitation on Indebtedness*." The amount of such additional Indebtedness secured by the Collateral could be significant.

Any obligations under the revolving credit facility of the Parent Guarantor Group Facilities Agreement (or any replacement revolving facility) will receive priority with respect to any proceeds received upon any enforcement action relating to approximately 66.3% of the shares of Capital Stock of the Company forming part of the Collateral. Any proceeds received upon any enforcement action relating to such shares will, after all obligations under such revolving credit facility have been paid from such recoveries, be applied pro rata in repayment of all obligations under the Notes, the Parent Guarantor Group Facilities Agreement (other than the revolving credit facility), certain Hedging Obligations and any future Indebtedness that is permitted under the Indenture to share the Collateral. Obligations under the revolving credit facility under the Parent Guarantor Group Facilities Agreement (or any replacement revolving facility) will not be secured by (i) the remaining approximately 33.7% of the shares of Capital Stock of the Company forming part of the Collateral, (ii) any account pledges or any security assignment of intragroup receivables and hedging receivables, and any proceeds received upon any enforcement action relating to such portions of the Collateral will be applied pro rata in repayment of all obligations under the Notes, the Parent Guarantor Group Facilities Agreement (other than the revolving credit facility or any replacement revolving facility), certain Hedging Obligations and any future Indebtedness that is permitted under the Indenture to share the Collateral.

The Security Documents have been or will be entered into, among others, as the case may be, by the Security Trustee or its nominee(s), who will act as security trustee with respect to the Collateral for the Trustee and the Holders, for the lenders under the Parent Guarantor Group Facilities Agreement, for the hedge counterparties under certain hedging obligations and for the holders of any other Indebtedness that is permitted to share in the Collateral.

The proceeds from the sale of the Collateral may not be sufficient to satisfy the obligations owed to the Holders. No appraisals of the Collateral have been made in connection with this offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. Under the Intercreditor Agreement, the Holders will be required to share recovery proceeds with other Secured Creditors (as defined in the Intercreditor Agreement), have certain limitations on their ability to enforce the security documents and have agreed that the Collateral may be released in certain circumstances without their consent. See "*Risk factors—Risks related to the Note Guarantee and the Collateral—There may not be sufficient Collateral to pay all or any of the Notes*."

Each Holder, by accepting a Note, shall be deemed (i) to have authorized the Trustee to enter into the Intercreditor Agreement and the Security Trustee to enter into the Security Documents and the Intercreditor Agreement; and (ii) to be bound thereby. Each Holder, by accepting a Note, appoints the Trustee or the Security Trustee, as the case may be, as its trustee or agent under the Security Documents and the Intercreditor Agreement and authorizes it to act as such.

Subject to the terms of the Security Documents, the Issuer and the Parent Guarantor, as the case may be, will be entitled to exercise any and all voting rights and to receive and retain any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares of stock resulting from stock splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Collateral.

Security Documents

The Issuer, the entities holding the respective Collateral and the Security Trustee have entered or will enter into Security Documents defining the terms of the Liens that secure the Notes and the Note Guarantee and the other secured obligations that will be secured by the Collateral. Subject to the terms of, and limitations under, the Security Documents, these Liens will secure the payment and performance when due of all of the payment obligations of the Issuer and the Parent Guarantor under the Notes, the Indenture, the Note Guarantee and the Security Documents. The terms of the Security Documents applicable to Collateral that is not provided by the Issuer or the Parent Guarantor will contain certain limitations on the enforcement to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the relevant security grantors and their respective shareholders, directors and general partners. See "*Risk factors—Risks related to the Note Guarantee and the Collateral—Enforcement of the Note Guarantee across multiple jurisdictions may be difficult*," "*Risk Factors—Risks related to the Note Guarantee and the Collateral—Enforcement of the Collateral across multiple jurisdictions may be difficult*."

In Germany and the Netherlands, the rights of the Trustee and the Holders will not be directly secured by the Security Documents, but through the parallel debt claim acknowledged by the relevant Guarantor by way of an independent acknowledgement of Indebtedness to the General Security Trustee in the Intercreditor Agreement that (subject to limitations generally to an effect similar to the limitations on the Note Guarantee) is equal to the total amounts payable under the Indenture and the Notes. Please see "*Limitations on validity and enforceability of the Subsidiary Guarantees and Collateral and certain insolvency law considerations*."

Enforcement of security

Neither Holders nor the Trustee are a party to the Security Documents. Therefore, neither the Trustee nor the Holders may, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The Holders may only take action through the Security Trustee, and the Collateral generally will only be enforced upon the relevant Security Trustee taking enforcement action. The Security Trustee will only take enforcement action if an enforcement decision is taken under the Intercreditor Agreement.

The Holders will be entitled to vote on such decisions. However, the Security Trustee will take an enforcement action only if a majority of votes cast by Secured Creditors entitled to vote under the Intercreditor Agreement is in favor of such action.

The Intercreditor Agreement provides that the Security Trustee will take an enforcement action with respect to any of the Collateral only upon the instruction of the Instructing Group (as defined below). Any decision, instruction or consent requiring action by the Instructing Group under the Intercreditor Agreement, including decisions and instructions with respect to the enforcement of the Collateral, will be made in the form of a resolution in the following manner:

Holders (as well as holders of any notes or similar debt instruments issued by the Company or any of its subsidiaries in the future that are secured by the Collateral and are subject to the

Intercreditor Agreement) will be entitled to vote on the resolution, with series of notes denominated in different currencies each voting separately as a class. The Indenture will provide that, within each voting class, abstentions will be deemed to have voted either in favor of or against the resolution on a *pro rata* basis in the same proportion as the aggregate principal amount with respect to which votes were actually cast in favor of the resolution and against the resolution, respectively, bears to the total principal amount with respect to which votes were actually cast. The Trustee (and any trustee for notes issued in the future that become subject to the Intercreditor Agreement) will report to the Security Trustee the aggregate principal amount of notes of each currency that voted (or are deemed under the relevant indenture to have voted) in favor of the resolution and the aggregate principal amount of notes of each currency that voted (or are deemed under the relevant indenture to have voted) against the resolution.

Lenders under the Parent Guarantor Group Facilities Agreement (and under future facilities agreements that become subject to the Intercreditor Agreement) will be entitled to vote on the resolution in accordance with the provisions of the relevant facilities agreement. The facility agent under the relevant facilities agreement will report to the Security Trustee the aggregate amount of commitments under the respective facilities agreement that voted (or are deemed under the relevant facilities agreement to have voted) in favor of the resolution and the aggregate amount of commitments that voted (or are deemed under the relevant facilities agreement to have voted) against the resolution.

The Security Trustee will determine the euro-equivalent total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of and against the resolution.

The resolution will be passed if the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and amount of commitments under facilities agreements that voted (or are deemed to have voted) against the resolution, in each case on a euro-equivalent basis.

The Intercreditor Agreement refers to any resolution passed in the foregoing manner as a decision or resolution of the "Instructing Group" (the "**Instructing Group**").

Upon completion of the offering and the application of the proceeds therefrom, the total principal amount of the Notes will represent approximately 39.4% of the total principal amount of notes and commitments under facilities agreements subject to the Intercreditor Agreement. Holders may need to rely on other secured creditors, whose interests may differ from those of the Holders, to direct the Security Trustee to take enforcement action with respect to the Collateral. For a description of security enforcement and other intercreditor provisions, please see "*Description of other indebtedness—Intercreditor Agreement*."

The Security Trustee will agree to any release of the Liens created by the Security Documents that is in accordance with the Indenture and the Intercreditor Agreement without requiring any consent of the Holders or the Trustee.

Release

The Issuer and the Parent Guarantor will be entitled to the release of the Liens created by the relevant Security Documents under any one or more of the following circumstances and as follows:

(1) in connection with any sale, assignment, transfer, conveyance or other disposition of such property or assets (including, for the avoidance of doubt, any Unrestricted Continental Shares) to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or any Restricted Subsidiary, if the sale or other disposition is not prohibited by the "Asset Sale" provisions of the Indenture;

(2) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets of such Restricted Subsidiary;

(3) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" and "*—Satisfaction and discharge*;"

(5) in connection with an enforcement sale pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement, or as otherwise provided for under the Intercreditor Agreement or any Additional Intercreditor Agreement;

(6) in connection with the pledge of Parent Guarantor Group Unrestricted Continental Shares to secure any Indebtedness of the Parent Guarantor or any of its Restricted Subsidiaries permitted to be incurred under the covenant described under "*Certain covenants—Limitation on Indebtedness*" (other than Indebtedness under the Parent Guarantor Group Facilities Agreement)(the "Other Debt"), the release of such Parent Guarantor Group Unrestricted Continental Shares; provided that no Default or Event of Default has occurred and is continuing; and provided further that the Liens released pursuant to this clause (6) shall be reinstated promptly upon the release of all Liens securing the Other Debt, unless at that time (x) at least two of the following ratings having been assigned: (i) a long-term corporate family rating of Baa2 (or the equivalent) or higher assigned to the Company (or to the Company and its Subsidiaries) by Moody's, (ii) a long-term corporate credit rating of BBB (or the equivalent) or higher assigned to the Company by S&P and (iii) the equivalent type of rating of BBB (or the equivalent) or higher assigned to the Company by Fitch and (y) the Parent Guarantor holds, directly or indirectly through one or more Restricted Subsidiaries, shares of Capital Stock of the Company and IBH representing more than 50% of the voting power of the Company's and IBH's Voting Stock;

(7) in connection with the sale or transfer of Parent Guarantor Group Unrestricted Continental Shares and Pre-Designated Unrestricted Continental Shares to the Company or any of its Restricted Subsidiaries, the release of such Parent Guarantor Group Unrestricted Continental Shares or Pre-Designated Unrestricted Continental Shares, as the case may be; provided that no Default or Event of Default has occurred and is continuing; and provided further that the Liens on Pre-Designated Unrestricted Continental Shares released pursuant to this clause (7) shall be reinstated promptly if by the 20th Business Day following such release the respective conditions under clause (1), (2) or (3) of the definition of "Parent Guarantor Group Unrestricted Continental Shares" to such shares being Parent Guarantor Group Unrestricted Continental Shares have not been satisfied (for purposes of determining under this proviso whether the respective conditions under clause (1) or (2) of the definition of "Parent Guarantor Group Unrestricted Continental Shares" have been satisfied, (i) such Pre-Designated Unrestricted Continental Shares shall be deemed to be held by the Parent Guarantor, (ii) clause (a) of the proviso to the definition of the term "Parent Guarantor Group Unrestricted Continental Shares" shall be disregarded and (iii) Leverage and Total Debt in clause (1) or (2), as applicable, of the definition of "Parent Guarantor Group Unrestricted Continental Shares" shall be calculated by giving pro forma effect to the effects of the transaction in the context of which the relevant disposal of such Pre-Designated Unrestricted Continental Shares is made, as if they had occurred at the dates as of which Leverage and Total Debt are required to be calculated under such clauses);

(8) in connection with the issuance by any member of the Parent Guarantor Group of bonds or notes exchangeable into shares of Capital Stock of Continental (the "**Exchangeable Securities**") to Persons that are not the Parent Guarantor or any Restricted Subsidiary, the release of the number of shares of Capital Stock of Continental into which such Exchangeable

Securities are then exchangeable; provided that (i) no Default or Event of Default has occurred and is continuing, (ii) the issuance of such Exchangeable Securities is permitted under the covenant described under "*Certain covenants—Limitation on Indebtedness*", (iii) the relevant member of the Parent Guarantor Group receives cash proceeds from the issuance of such Exchangeable Securities at the time of such issuance at least equal to the Fair Market Value of the shares of Capital Stock of Continental released pursuant to this clause (8), and (iv) upon issuance of such Exchangeable Securities the aggregate amount of such cash proceeds (net of direct costs relating to the issuance of such Exchangeable Securities, including legal, accounting and investment banking fees) are applied to (x) prepay or repay Pari Passu Indebtedness of the Parent Guarantor or the Issuer that is secured by a Lien on the Collateral (and, in case the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto), or (y) to repurchase or redeem the Notes pursuant to an offer to all holders of the Notes at a purchase or redemption price equal to at least 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any; and provided further that, the Liens on shares of Capital Stock of Continental released pursuant to this clause (8) shall be reinstated promptly upon repayment, redemption or repurchase of such Exchangeable Securities that is effected other than by way of delivery of shares of Capital Stock of Continental, unless at that time (x) at least two of the following ratings having been assigned: (i) a long-term corporate family rating of Baa2 (or the equivalent) or higher assigned to the Company (or to the Company and its Subsidiaries) by Moody's, (ii) a long-term corporate credit rating of BBB (or the equivalent) or higher assigned to the Company by S&P and (iii) the equivalent type of rating of BBB (or the equivalent) or higher assigned to the Company by Fitch and (y) the Parent Guarantor holds, directly or indirectly through one or more Restricted Subsidiaries, shares of Capital Stock of the Company and IBH representing more than 50% of the voting power of the Company's and IBH's Voting Stock;

(9) in connection with the sale or disposal of subscription rights for shares of Capital Stock of Continental in the course of an Opération Blanche, the release of such subscription rights; provided that no Default or Event of Default has occurred and is continuing; or

(10) as described under "*—Amendment, supplement and waiver*."

In addition, the Liens created by the Security Documents will be released as may be permitted by the covenant described under "*Certain covenants—Impairment of Security Interest*."

Subject to receipt of an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for in the Indenture relating to such release have been complied with, the Security Trustee and the Trustee will take all necessary action required to effectuate any release of Collateral securing the Notes and the Note Guarantee, in accordance with the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document. Each of the releases set forth above shall be effected by the Security Trustee without the consent of the Holder or any action on the part of the Trustee.

Intercreditor Agreement; Turnover

On the Issue Date, the Trustee will accede to the Intercreditor Agreement, as described under "*Description of other indebtedness—Intercreditor Agreement*." The terms of the Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantee.

The Indenture, the Intercreditor Agreement and any Additional Intercreditor Agreement will contain provisions providing that, if at any time prior to the Senior Discharge Date (as defined in the Intercreditor Agreement) a payment or distribution is made to the Trustee or to the holders of Notes that, due to the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement should not have been made to them, subject to certain knowledge exceptions, the Trustee or the holders of Notes are required to hold it in trust for the Security Trustee and pay the payment or distribution over to the Security Trustee for application in accordance with the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement.

Optional redemption

Euro Notes

At any time prior to August 15, 2014, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Euro Notes issued under the Indenture, upon not less than 30 nor more than 60 days' notice to Holders, at a redemption price equal to 106.875% of the principal amount of the Euro Notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to (but not including) the date of redemption (subject to the rights of Holders on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of an Equity Offering of (i) the Company; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Parent Guarantor's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Parent Guarantor as consideration for the issuance of ordinary shares of the Parent Guarantor or are loaned to the Parent Guarantor as Subordinated Shareholder Debt; *provided* that:

(1) at least 60% of the aggregate principal amount of the Euro Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding Euro Notes held by the Parent Guarantor and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

In addition, at any time prior to August 15, 2014 the Issuer may on any one or more occasions redeem all or a part of the Euro Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Euro Notes redeemed, plus the Applicable Premium as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption, subject to the rights of holders of the Euro Notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs and except pursuant to "*—Redemption for changes in taxes*," the Euro Notes will not be redeemable at the Issuer's option prior to August 15, 2014.

On or after August 15, 2014, the Issuer may on any one or more occasions redeem all or a part of the Euro Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, on the Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on August 15 of the years indicated below, subject to the rights of holders of the Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price Euro Notes
2014	105.156%
2015	103.438%
2016	101.719%
2017 and thereafter	100.000%

Dollar Notes

At any time prior to August 15, 2014, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Dollar Notes issued under the Indenture, upon not less than 30 nor more than 60 days' notice to Holders, at a redemption price equal to 106.875% of the principal amount of the Dollar Notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to (but not including) the date of redemption (subject to the rights of Holders on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of an Equity Offering of (i) the Company; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Parent Guarantor's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Parent Guarantor as consideration for the issuance of ordinary shares of the Parent Guarantor or are loaned to the Parent Guarantor as Subordinated Shareholder Debt; *provided* that:

(1) at least 60% of the aggregate principal amount of the Dollar Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding Dollar Notes held by the Parent Guarantor and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

In addition, at any time prior to August 15, 2014 the Issuer may on any one or more occasions redeem all or a part of the Dollar Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Dollar Notes redeemed, plus the Applicable Premium as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption, subject to the rights of holders of the Dollar Notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs and except pursuant to "*—Redemption for changes in taxes*," the Dollar Notes will not be redeemable at the Issuer's option prior to August 15, 2014.

On or after August 15, 2014 the Issuer may on any one or more occasions redeem all or a part of the Dollar Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, on the Dollar Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on August 15 of the years indicated below, subject to the rights of holders of the Dollar Notes on the relevant record date to receive interest on the relevant interest payment date:

	Redemption Price
Year	**Dollar Notes**
2014	105.156%
2015	103.438%
2016	101.719%
2017 and thereafter	100.000%

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the respective Notes or portions thereof called for redemption on the applicable redemption date.

Any redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

Redemption for changes in taxes

The Issuer may redeem the Euro Notes and/or the Dollar Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the Holders (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and notice*"), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a "**Tax Redemption Date**") and all Additional Amounts (if any) then due or which will become due by the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer is or would be required to pay Additional Amounts or the Parent Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself the Parent Guarantor would be required to pay Additional Amounts, and the Issuer or the Parent Guarantor, as applicable, cannot avoid any such payment obligation by taking reasonable measures available, and the requirement arises as a result of:

(1) any amendment to, or change in, the laws, treaties or any regulations or rulings promulgated thereunder of a relevant Tax Jurisdiction which change or amendment has not been publicly announced before and which becomes effective on or after the date of this Offering Memorandum (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the date of this Offering Memorandum, such later date); or

(2) any amendment to, or change in, an official written interpretation or application of such laws, treaties, regulations or rulings (including by virtue of a holding, judgment, order by a court of competent jurisdiction or a change in published administrative practice) which amendment or change has not been publicly announced before and which becomes effective on or after the date of this Offering Memorandum (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the date of this Offering Memorandum, such later date) (each of the foregoing clauses (1) and (2), a "**Change in Tax Law**").

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer or the Parent Guarantor, as applicable, would be obligated to make such payment or withholding if a payment in respect of the Notes were then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld)) to the effect that there has been such Change in Tax Law which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officer's Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by the Issuer taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

Mandatory redemption

Except for any Mandatory Excess PIK Interest Redemption as set forth under "*—Interest*", the Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Repurchase at the option of Holders

Change of Control

If a Change of Control occurs, each holder of the Euro Notes and/or the Dollar Notes will have the right to require the Issuer to repurchase all or any part (in denominations of €100,000 and in integral multiples of €1 in excess thereof, in the case of the Euro Notes, and in denominations of $200,000 and in integral multiples of $1 in excess thereof, in the case of the Dollar Notes) of that holder's Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased to the date of purchase (the "Change of Control Payment"), subject to the rights of Holders on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will mail a notice to each Holder at such Holder's registered address or otherwise deliver a notice in accordance with the procedures described under "*—Selection and Notice*," stating that a Change of Control Offer is being made and offering to repurchase Notes on the date (the "**Change of Control Payment Date**") specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with any applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The Paying Agents will as soon as reasonably practicable mail (or cause to be delivered) to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee (or its authenticating agent) will as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer; or (2) a notice of redemption has been given pursuant to the Indenture as described above under the caption "*—Optional redemption*," unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer's ability to repurchase the Notes pursuant to the Change of Control Offer may be limited by a number of factors. The occurrence of certain of the events that constitute a Change of Control would require a mandatory prepayment of Indebtedness under the Schaeffler Group Senior Facilities Agreement, the Parent Guarantor Group Facilities Agreement and the Existing Notes. In addition, certain events that may constitute a change of control under the Schaeffler Group Senior Facilities Agreement, the Parent Guarantor Group Facilities Agreement and the Existing Notes and require a mandatory prepayment of Indebtedness or offer to purchase such notes may not constitute a Change of Control under the Indenture. Future Indebtedness of the Parent Guarantor or its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. The ability of the Issuer to pay cash to the Holders following the occurrence of a Change of Control may also be limited by the Parent Guarantor's and the Restricted Subsidiaries' then existing financial resources, and sufficient funds may not be available when necessary to make any required repurchases. Certain agreements governing Indebtedness of the Company and its Subsidiaries, including the indentures governing the Existing Notes and the Schaeffler Group Senior Facilities Agreement, contain provisions that may prohibit the upstreaming of funds to the Parent Guarantor and the Issuer necessary to repurchase or repay the Notes upon a Change of Control. If a Change of Control occurs at a time when the Company and its Subsidiaries are prohibited from providing funds to the Parent Guarantor and the Issuer, the Company and/or its Subsidiaries may seek the consent of the creditors under such Indebtedness to allow the repurchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. The Parent Guarantor and the Issuer expect that they would require third party financing to make an offer to repurchase the Notes upon a Change of Control. The Parent Guarantor and the Issuer cannot assure you that they would be able to obtain such financing or that the Company and its Subsidiaries would be able to obtain the consent of their creditors to provide funds to the Parent Guarantor or the Issuer to allow them to repurchase the Notes. Any failure by the Issuer to offer or consummate an offer to purchase Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under the Parent Guarantor Group Facilities Agreement. Please see "*Risk factors—Risks related to the Notes—The Issuer may not be able to repurchase the Notes upon a change of control and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain corporate events*."

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the Holders of a majority in principal amount of the Notes prior to the occurrence of the Change of Control.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer in a leading daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Asset Sales

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

(1) the Parent Guarantor (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by the Parent Guarantor or such Restricted Subsidiary is in the form of cash or Cash Equivalents; *provided* that if the Asset Sale is a Parent Guarantor Group Asset Sale, at least 90% of the consideration received in such Asset Sale must be in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

   (a) any liabilities, as recorded on the balance sheet of the Parent Guarantor or any Restricted Subsidiary (or, in case of a Parent Guarantor Group Asset Sale, the Parent Guarantor or the Issuer) (other than contingent and subordinated liabilities), that are assumed by the transferee of any such assets (or that are otherwise canceled or discharged) and as a result of which the Parent Guarantor and its Restricted Subsidiaries (or, in case of a Parent Guarantor Group Asset Sale, the Parent Guarantor or the Issuer) are no longer obligated with respect to such liabilities or are indemnified against further liabilities;

   (b) any securities, notes or other obligations received by the Parent Guarantor or any such Restricted Subsidiary from such transferee that are converted by the Parent Guarantor or such Restricted Subsidiary into cash or Cash Equivalents within 90 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

   (c) in any Asset Sale other than a Parent Guarantor Group Asset Sale, any Capital Stock or assets of the kind referred to in clauses (1)(d), (e) or (f) of the next paragraph of this covenant; and

   (d) in any Asset Sale other than a Parent Guarantor Group Asset Sale, Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Parent Guarantor and each other Restricted Subsidiary are released from any guarantee of such Indebtedness in connection with such Asset Sale;

provided that, in case of the issuance, sale or other disposal of assets or Equity Interests upon and in connection with the exercise of exchange or conversion rights under Indebtedness of the Parent Guarantor or any of its Restricted Subsidiaries that is exchangeable or convertible into such assets or Equity Interests, (i) for purposes of this Asset Sale covenant (but not for purposes of clause (1) of the first paragraph under Security Release) such issuance, sale or other disposal shall be deemed to occur at the time of incurrence of such exchangeable or convertible Indebtedness by the Parent Guarantor or such Restricted Subsidiary and (ii) the consideration received for such assets or Equity Interests issued or sold or otherwise disposed of shall be deemed to be the proceeds received by the Parent Guarantor or any of its Restricted Subsidiaries as a result of the incurrence of such exchangeable or convertible Indebtedness and (iii) for purposes of clause (1) above, the Parent Guarantor or any of its Restricted Subsidiaries shall be deemed to have received consideration at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of, if the Fair Market Value of the proceeds referred to in the foregoing clause (ii) are at least equal to the Fair Market Value of such exchangeable or convertible Indebtedness.

Within 365 days (or, in case of a Parent Guarantor Group Asset Sale, within 2 Business Days) after the receipt of any Net Proceeds from an Asset Sale, the Parent Guarantor (or the applicable Restricted Subsidiary, as the case may be) may:

(1) apply such Net Proceeds (at the option of the Parent Guarantor or Restricted Subsidiary):

  (a) to purchase the Notes in an offer to all holders of Notes at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (a "**Notes Offer**");

  (b) to prepay or repay Pari Passu Indebtedness of the Issuer or the Parent Guarantor under a Credit Facility that is secured by a Permitted Collateral Lien that ranks equal to or in priority to any Lien on such assets securing the Notes or the Note Guarantee and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

  (c) to purchase or permanently prepay or redeem or repay (i) any Indebtedness that is secured by a Lien on assets or property of the Parent Guarantor or any Restricted Subsidiary which do not constitute Collateral, or (ii) any Indebtedness of the Company or any of its Restricted Subsidiaries not owed to any Restricted Subsidiary, and, in each case, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

  (d) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary;

  (e) to make a capital expenditure;

  (f) to acquire other assets (other than Capital Stock) not classified as current assets under IFRS that are used or useful in a Permitted Business; or

  (g) any combination of the foregoing; or

(2) enter into a binding commitment to apply the Net Proceeds pursuant to clause (d), (e) or (f) of paragraph (1) above; *provided* that such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date on which such acquisition or expenditure is consummated, and (y) the 180th day following the expiration of the aforementioned 365 day period;

provided that the Net Proceeds of a Parent Guarantor Group Asset Sale may only be applied (i) in accordance with clause (1)(a) of this paragraph, (ii) to purchase or permanently prepay or redeem or repay any Pari Passu Indebtedness of the Parent Guarantor or the Issuer that is secured by a Permitted Collateral Lien (provided that if the Indebtedness repaid is revolving credit Indebtedness, the commitments with respect thereto are correspondingly reduced) or (iii) any combination of the foregoing clauses (i) and (ii).

Pending the final application of any Net Proceeds, the Parent Guarantor (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "**Excess Proceeds**." When the aggregate amount of Excess Proceeds exceeds €35.0 million, within ten Business Days thereof, the Parent Guarantor will make an offer (an "**Asset Sale Offer**") to all holders of Notes and, to the extent the Parent Guarantor elects, to all holders of other Pari Passu Indebtedness, to purchase, prepay or redeem the maximum principal amount of Notes and such other Pari Passu Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price for the Notes in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Parent Guarantor and its Restricted Subsidiaries may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other Pari Passu Indebtedness tendered into (or to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds or if the aggregate amount of Notes tendered pursuant to a Notes Offer exceeds the amount of the Net Proceeds so applied, the Trustee will select the Notes and such other Pari Passu Indebtedness, if applicable, to be purchased on a pro rata basis (or in the manner described under "*—Selection and notice*"), based on the amounts tendered or required to be prepaid or redeemed. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

To the extent that any portion of Net Proceeds payable in respect of the Notes is denominated in a currency other than euro, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in euro that is actually received by the Parent Guarantor upon converting such portion of the Net Proceeds into euro.

The Parent Guarantor will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to a Change of Control Offer, an Asset Sale Offer or a Notes Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control, Asset Sale or Notes Offer provisions of the Indenture, the Parent Guarantor will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Parent Guarantor will not, and will not cause any other member of the Parent Guarantor Group to sell, lease, convey or otherwise dispose of any shares of Capital Stock of Continental (other than Unrestricted Continental Shares) or the Company to any Person (including to the Company and any of its Subsidiaries) other than in a transaction that constitutes an Asset Sale and complies with the covenant set forth above, except that shares of Capital Stock of Continental that constitute Pre-Designated Unrestricted Continental Shares may be sold or otherwise disposed of to the Company or any of its Restricted Subsidiaries; provided that upon such sale or disposal of Pre-Designated Continental Shares, the Parent Guarantor shall cause the Company and its Restricted Subsidiaries to (a) sell such shares in a transaction constituting an Asset Sale and complying with the covenant set forth above (provided that for purposes of such compliance only, such shares shall be deemed to be Parent Guarantor Group Unrestricted Continental Shares) and apply the net proceeds of such Asset Sale towards repayment of Indebtedness of the Company or any of its Restricted Subsidiaries or (b) until such shares are sold pursuant to clause (a), use such shares as collateral to secure Indebtedness of the Company or any of its Subsidiaries.

Selection and notice

Notices of redemption may be made subject to conditions precedent.

If less than all of the Notes are to be redeemed at any time, the Trustee or the applicable Registrar will select Notes for redemption on a *pro rata* basis (or, in the case of Notes issued in global form as discussed under "*—Book-entry, delivery and form*," based on a method that most nearly approximates a *pro rata* selection (or, in the case of Notes clearing through DTC, by lot) as the Trustee or the applicable Registrar deems fair and appropriate in accordance with DTC's, Euroclear's and Clearstream's procedures), unless otherwise required by law or applicable stock exchange or depository requirements. Neither the Trustee nor the applicable Registrars shall be liable for selections made by it in accordance with this paragraph.

Except in the case of a Mandatory Excess PIK Interest Redemption, no Notes of €100,000 or $200,000, as the case may be, or less can be redeemed in part and only Notes in integral multiples of €1 or $1, as the case may be, will be redeemed. In case of a Mandatory Excess PIK Interest Redemption, only Notes of €1 or $1, as the case may be, will be redeemed. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder upon cancellation of the original Note. In case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For Notes which are represented by Global Notes held on behalf of DTC, Euroclear or Clearstream, notices may be given by delivery of the relevant notices to DTC, Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, any such notice to the holders of the relevant Notes shall also be published in a newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*) and, in connection with any redemption, the Issuer will notify the Luxembourg Stock Exchange of any change in the principal amount of Notes outstanding.

Certain covenants

Limitation on Indebtedness

Subject to the exceptions set forth below, the Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, incur, create, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt); *provided* that (i) the Parent Guarantor and the Issuer may incur Indebtedness if, on the date of the incurrence of such Indebtedness, after giving effect to the incurrence of such Indebtedness and the application of the proceeds therefrom, on a *pro forma* basis, as if the additional Indebtedness had been incurred at the beginning of such four quarter period, (x) the Combined Leverage Ratio would be less than 4.25 to 1.0 and (y) the Combined Coverage Ratio would be at least 2.0 to 1.0, and (ii) the Company and any of its Restricted Subsidiaries may incur Indebtedness if, on the date of the incurrence of such Indebtedness, after giving effect to the incurrence of such Indebtedness and the application of the proceeds therefrom, on a *pro forma* basis, as if the additional Indebtedness had been incurred at the beginning of such four quarter period, the Combined Coverage Ratio would be at least 2.0 to 1.0.

The first paragraph of this covenant will not prohibit the incurrence by the Parent Guarantor and its Restricted Subsidiaries of any of the following Indebtedness:

(1) Indebtedness of the Parent Guarantor and the Issuer under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed an amount equal to

€2,375.0 million, plus any Indebtedness issued from time to time in payment of accrued interest on Indebtedness incurred pursuant to this clause (1) and having substantially identical terms as such Indebtedness, less the Net Proceeds from Asset Sales since the Issue Date applied by the Parent Guarantor or any Restricted Subsidiary pursuant to the covenant described under the caption entitled "*—Repurchase at the option of Holders—Asset Sales*" to repay any Indebtedness under any Credit Facility incurred pursuant to this clause (1) (and in respect of any revolving credit facility, to permanently reduce commitments thereunder);

(2) Indebtedness of the Company or any of its Restricted Subsidiaries under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed an amount equal to €5,650.0 million, less the Net Proceeds from Asset Sales since the Issue Date applied by the Company or any of its Restricted Subsidiaries pursuant to the covenant described under the caption entitled "*—Repurchase at the option of Holders—Asset Sales*" to repay any Indebtedness under any Credit Facility incurred pursuant to this clause (2) (and in respect of any revolving credit facility, to permanently reduce commitments thereunder);

(3) Indebtedness of the Parent Guarantor owing to any of its Restricted Subsidiaries or Indebtedness of any of its Restricted Subsidiaries owing to the Parent Guarantor or any other Restricted Subsidiary; *provided* that: (a) if the Issuer or the Parent Guarantor is the obligor on such Indebtedness and the lender is not the Issuer or the Parent Guarantor, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes, in the case of the Issuer or the Note Guarantee, in the case of the Parent Guarantor, and (b)(i) any disposition or transfer of any such Indebtedness to a Person (other than a disposition or transfer to the Parent Guarantor or a Restricted Subsidiary) and (ii) any subsequent issuance or transfer of any Capital Stock that results in any such Indebtedness being held by a Person other than the Parent Guarantor or a Restricted Subsidiary, will, in each case, be deemed to be an incurrence of such Indebtedness not permitted by this clause (3);

(4) (a) Indebtedness under the Notes and the Note Guarantee issued on the Issue Date, (b) any Additional Notes (including the related Note Guarantee) issued from time to time in payment of accrued interest or Additional Amounts on the Notes (as such may be increased as a result of the issuance of Additional Notes issued from time to time in payment of accrued interest or Additional Amounts on the Notes) and (c) the parallel debt obligations for the benefit of the Security Trustee under the Intercreditor Agreement relating to the Indebtedness described in clauses (a) and (b) of this clause (4);

(5) Indebtedness of the Company and its Restricted Subsidiaries (other than the Indebtedness described in clauses (2) and (3) of this covenant) outstanding on the Issue Date;

(6) Indebtedness of the Company and its Restricted Subsidiaries represented by Capital Lease Obligations, mortgage financings, purchase money obligations or other similar indebtedness with respect to assets or property in an aggregate principal amount not to exceed the greater of €300.0 million and 2.5% of Total Assets at any one time outstanding;

(7) Indebtedness of the Company and its Restricted Subsidiaries incurred in respect of worker's compensation claims, self-insurance obligations, performance, surety and similar bonds, completion guarantees and customs, VAT and other tax guarantees provided by the Company and its Restricted Subsidiaries in the ordinary course of business;

(8) Indebtedness of the Company and its Restricted Subsidiaries providing for indemnification, adjustment of purchase price or similar obligations in connection with the acquisition or disposition of any business, assets or Capital Stock of any Subsidiary of the Company after the Issue Date; provided that the maximum liability of the Company and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Company and its Restricted Subsidiaries in connection with such disposition;

(9) Indebtedness arising from honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds or credit lines in the ordinary course of business, provided that such Indebtedness is disbursed within 15 Business Days of incurrence;

(10) Indebtedness of the Company and its Restricted Subsidiaries represented by customer deposits and advance payments received from customers for goods and services purchased in the ordinary course of business;

(11) (a) Indebtedness of the Company and its Restricted Subsidiaries under cash management, cash pooling or netting or setting off arrangements in the ordinary course of business and (b) Indebtedness of the Parent Guarantor and its Restricted Subsidiaries represented by Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes as determined in good faith by the Parent Guarantor;

(12) (a) Indebtedness of the Company and its Restricted Subsidiaries in an aggregate principal amount not to exceed €500.0 million at any one time outstanding and (b) Indebtedness of the Parent Guarantor and the Issuer in an aggregate principal amount not to exceed €200.0 million at any one time outstanding;

(13) any Permitted Refinancing Indebtedness incurred by the Parent Guarantor or any of its Restricted Subsidiaries with respect to the renewing, replacing, defeasing, discharging or refinancing of any Indebtedness that was permitted by the Indenture to be incurred under the first paragraph of this covenant or under clauses (4), (5), (13) or (14);

(14) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary of the Company or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any of its Restricted Subsidiaries (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary of the Company or was otherwise acquired by the Company or any of its Restricted Subsidiaries); provided, however, with respect to this clause (14), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Company would have been able to incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (14); or (y) the Combined Coverage Ratio would not be less than it was immediately prior to giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (14);

(15) the Guarantee by the Company or any of its Restricted Subsidiaries of Indebtedness of the Company or any of its Restricted Subsidiaries to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; and

(16) Indebtedness of the Company or any of its Restricted Subsidiaries incurred in any Qualified Securitization Financing not to exceed an aggregate principal amount of €300.0 million at any one time outstanding.

For purposes of determining compliance with the first two paragraphs of this covenant, in the event that an item of Indebtedness meets the criteria of more than one of clauses (1) through (16) of the second paragraph of this covenant, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Parent Guarantor will be permitted to divide and classify such item of Indebtedness on the date of its incurrence in any manner that complies with this covenant; *provided* that Indebtedness under the Parent Guarantor Group Facilities Agreement and the Schaeffler Group Senior Facilities Agreement outstanding on the Issue Date will be deemed to have been incurred on such date in reliance on the exception provided by clauses (1) and (2), respectively, of the second paragraph of this covenant. In addition, any item of Indebtedness initially classified as incurred pursuant to one or more of clauses (3) through

(16) of the second paragraph of this covenant, or entitled to be incurred pursuant to the first paragraph of this covenant, may later be reclassified by the Parent Guarantor such that it will be deemed as having been incurred pursuant to such other clause of the second paragraph of this covenant or pursuant to the first paragraph of this covenant to the extent that such reclassified Indebtedness could be incurred pursuant to such other clause of the second paragraph of this covenant or the first paragraph of this covenant at the time of such reclassification.

For the avoidance of doubt, any Acquired Debt of any Person that becomes a Restricted Subsidiary of the Parent Guarantor (including, for the avoidance of doubt, by way of transfer of shares in such Person or in any of its direct or indirect shareholders to, or merger or other amalgamation of a shareholder of such Person with or into, the Parent Guarantor or any of its Restricted Subsidiaries) or that is merged or otherwise amalgamated with or into (or any other reorganization transaction having a similar effect) the Parent Guarantor or any of its Restricted Subsidiaries shall be deemed to be incurred by the Parent Guarantor or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary of the Parent Guarantor or such merger or other amalgamation becomes legally effective, as the case may be.

For purposes of determining compliance with any euro-denominated restriction on the incurrence of Indebtedness, the euro equivalent of the principal amount of Indebtedness denominated in another currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred; *provided* that (1) if such Indebtedness is incurred to refinance other Indebtedness denominated in a currency other than euro, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; (2) the euro equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date will be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (3) if and for so long as any such Indebtedness is subject to an agreement intended to protect against fluctuations in currency exchange rates with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euro, will be the amount of the principal payment required to be made under such currency agreement and, otherwise, the euro equivalent of such amount plus the euro equivalent of any premium which is at such time due and payable but is not covered by such currency agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent Guarantor or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be (1) in the case of any Indebtedness issued with original issue discount, the amount of the liability in respect thereof determined in accordance with IFRS and (2) the principal amount of the Indebtedness, in the case of any other indebtedness.

Limitation on Restricted Payments

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, make any Restricted Payment.

Notwithstanding the foregoing paragraph, the Parent Guarantor or any of its Restricted Subsidiaries may make a Restricted Investment (other than an Investment in a Parent Entity or any Affiliate of a Parent Entity (other than a Person who is an Affiliate of a Parent Entity solely because the Parent Guarantor or one of its Restricted Subsidiaries owns any Equity Interest in such Person)) if, at the time of such Restricted Investment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Investment;

(2) the Company, at the time of such Restricted Investment and after giving *pro forma* effect thereto as if such Restricted Investment had been made at the beginning of the applicable four-quarter period, would have been permitted to incur at least €1.00 of additional Indebtedness pursuant to the Combined Coverage Ratio test set forth in clause (ii) of the first paragraph of the covenant described under the caption "—*Limitation on Indebtedness*;" and

(3) such Restricted Investment, together with the aggregate amount of all other Restricted Investments declared or made after the Issue Date, and after giving effect to any reductions required by the last paragraph of this covenant, does not exceed the sum of:

(a) 50% of the aggregate Consolidated Net Income of the Company on a cumulative basis during the period beginning on April 1, 2013 and ending on the last day of the Company's last fiscal quarter ending prior to the date of such proposed Restricted Investment for which consolidated financial statements of the Company are available (or, if such Consolidated Net Income of the Company for such period is a deficit, less 100% of such deficit); *plus*

(b) 100% of the aggregate net cash proceeds and the Fair Market Value of marketable securities received by the Parent Guarantor after the Issue Date as equity capital contributions or from the issuance or sale (other than to any Subsidiary of the Parent Guarantor) of the Parent Guarantor's Qualified Capital Stock (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase the Parent Guarantor's Qualified Capital Stock (excluding the net cash proceeds from the issuance of the Parent Guarantor's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Parent Guarantor or any of its Subsidiaries until and to the extent such borrowing is repaid) or from the issuance or sale of Subordinated Shareholder Debt (other than an issuance or sale to a Subsidiary of the Parent Guarantor); plus

(c) (i) the amount by which the Parent Guarantor's Indebtedness or Indebtedness of any Restricted Subsidiary is reduced on the Parent Guarantor's balance sheet after the Issue Date upon the conversion or exchange (other than by a Subsidiary of the Parent Guarantor) of such Indebtedness into the Parent Guarantor's Qualified Capital Stock; and

(ii) the aggregate net cash proceeds received after the Issue Date by the Parent Guarantor from the issuance or sale (other than to any Subsidiary of the Parent Guarantor) of Redeemable Capital Stock that has been converted into or exchanged for the Parent Guarantor's Qualified Capital Stock, to the extent such Redeemable Capital Stock was originally sold for cash or Cash Equivalents,

together with, in the case of both clauses (i) and (ii), the aggregate net cash proceeds received by the Parent Guarantor at the time of such conversion or exchange (excluding the net cash proceeds from the issuance of the Parent Guarantor's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Parent Guarantor or any Restricted Subsidiary of the Parent Guarantor until and to the extent such borrowing is repaid); *plus*

(d) to the extent any Restricted Investment that was made after the Issue Date is (a) sold, disposed of or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of the property or assets or marketable securities received by the Company or its Restricted Subsidiaries (other than from the Parent Guarantor or a Restricted Subsidiary); or (b) made in an entity that subsequently becomes a Restricted Subsidiary of the Company, 100% of the Fair Market Value of the Restricted Investment of the Company and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*

(e) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or if an Unrestricted Subsidiary is merged or consolidated into the Company or any of its Restricted Subsidiaries or the assets of an Unrestricted Subsidiary are transferred to the Company or its Restricted Subsidiaries (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Investment), the Fair Market Value of assets received by the Company or Restricted Subsidiary or the Company's interest in such Subsidiary as of the date of such designation or at the time of such merger, consolidation or transfer of assets; provided that such amount will not exceed the amount of the Restricted Investment deemed made at the time that the Subsidiary was designated as an Unrestricted Subsidiary; plus

(f) 100% of any cash dividends or distributions received by the Company or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Company for such period.

Notwithstanding the first two paragraphs above, the Parent Guarantor and any of its Restricted Subsidiaries may take the following actions so long as (with respect to clauses (3) through (15) below) no Default or Event of Default of the type specified in clauses (1), (2), (3), (6) or (10) under "*—Events of Default and Remedies*" has occurred and is continuing:

(1) the payment of any dividend within 60 days after (i) if the relevant dividend is paid by a Person other than a German stock corporation, the date of its declaration; or (ii) if the relevant dividend is paid by a German stock corporation, the date on which the invitation to such corporation's shareholders' meeting containing the proposal for a shareholders' resolution on the payment of the dividend is published, in each case if at such date of declaration or publication, as the case may be, such payment would have been permitted by the provisions of this covenant;

(2) payments of cash, dividends, distributions, advances or other Restricted Payments to allow for cash payments in lieu of issuing fractional shares pursuant to the (i) exercise of options or warrants; or (ii) exchange or conversion of any exchangeable or convertible securities;

(3) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Parent Guarantor or any Restricted Subsidiary held by any current or former officer, director or employee of the Parent Guarantor or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed €10.0 million in any twelve-month period (with unused amounts being carried over to succeeding twelve-month periods subject to a maximum of €10.0 million in any twelve-month period); provided, further, that such amount in any twelve-month period may be increased by an amount not to exceed the net cash proceeds from the sale of Capital Stock of the Parent Guarantor or a Restricted Subsidiary received by the Parent Guarantor or a Restricted Subsidiary during such twelve-month period, in each case to members of management or directors of the Parent Guarantor, any of its Restricted Subsidiaries or any Parent Entity; provided, further, that the amount of any such net cash proceeds that are utilized for such repurchase, redemption or other acquisition or retirement for value of any Capital Stock will be excluded from the calculation of amounts under clause 3(b) of the second paragraph of this covenant and clause (4) of this paragraph;

(4) the making of any Restricted Investment in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the net cash proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary of the Parent Guarantor) of, the Parent Guarantor's Qualified Capital Stock or options, warrants or other rights to acquire such Qualified Capital Stock or Subordinated Shareholder Debt or from the

substantially concurrent contribution of common equity capital to the Parent Guarantor; provided that the amount of any such net cash proceeds that are utilized for any such Restricted Investment will be excluded from the calculation of amounts under clause (3)(b) of the second paragraph of this covenant and clause (3) of this paragraph;

(5) the purchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Debt (other than Redeemable Capital Stock) in exchange for, or out of the net cash proceeds from, an incurrence of Permitted Refinancing Indebtedness;

(6) the declaration or payment of any dividend to all holders of Capital Stock of a Restricted Subsidiary of the Parent Guarantor on a *pro rata* basis or on a basis that results in the receipt by the Parent Guarantor or any of its Restricted Subsidiaries of dividends or distributions of greater value than the Parent Guarantor or such Restricted Subsidiary would receive on a *pro rata* basis;

(7) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;

(8) the making of Permitted Upstream Payments; provided that the aggregate amount of all Permitted Upstream Payments made under this clause (8) in a calendar year does not exceed (a) an amount in such calendar year, which amount shall be equal to (i) €60.0 million in 2013, (ii) €75.0 million in 2014, (iii) €100.0 million in 2015, (iv) €115.0 million in 2016 and (5) €120.0 million in 2017 and any calendar year thereafter, plus (b) 50% of any Interest Differential Amount for such calendar year, plus (c) any Continental Dividend Excess Amount for such calendar year, less (d) the aggregate amount of tax advisory costs and other administration costs or expenses incurred and due and owing and/or payable by any member of the Parent Guarantor Group in such calendar year (other than transaction costs and expenses (including fees) incurred in connection with or in relation to the issuance of the Notes issued on the Issue Date and the arrangement of, entry into and drawings under the Parent Guarantor Group Facilities Agreement); provided further that any Continental Dividend Excess Amount utilized for the making of any such Permitted Upstream Payment will be excluded from the calculation of Consolidated Net Income for purposes of determining amounts under clause (3)(a) of the second paragraph of this covenant and from the calculation of amounts under clause (3)(d)(a) of the second paragraph of this covenant; and provided further that any unused amounts for any calendar year may be carried forward to subsequent calendar years;

(9) the making of Restricted Payments to any Restricted Person for the purpose of the payment of Taxes by a Restricted Person; provided that the aggregate amount of all Restricted Payments made under this clause (9) does not exceed (i) €200.0 million during calendar years 2014 and 2015 and (ii) €200.0 million during calendar years 2016 and 2017;

(10) *Reserved*.

(11) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Redeemable Capital Stock of the Parent Guarantor or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date in accordance with the covenant described under the caption "*—Limitation on Indebtedness*;"

(12) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Issuer or any Guarantor that is subordinated in right of payment to the Notes or the Note Guarantee (other than any Indebtedness so subordinated and held by Affiliates of the Parent Guarantor) upon a Change of Control or Asset Sale to the extent required by the agreements governing such Indebtedness at a purchase price not greater than 101% of the principal amount of such Indebtedness in the case of a Change of Control, and 100% in the case of an Asset Sale, but only if the Issuer has complied with its obligations under the covenant described under the caption "*—Repurchase at the option of*

Holders—Change of Control" and "*—Asset Sale*" and the Issuer repurchased all Notes tendered pursuant to the offer required by such covenants prior to offering to purchase, purchasing or repaying such Indebtedness;

(13) the payment of any Securitization Fees and purchases of Securitization Assets and related assets pursuant to a Securitization Repurchase Obligation in connection with a Qualified Securitization Financing;

(14) the purchase of Capital Stock of Continental (a) upon the exercise of subscription rights held by the Company or any of its Restricted Subsidiaries with the purpose or effect of avoiding dilution in the Capital Stock of Continental held by the Company or such Restricted Subsidiary in connection with any rights offering; provided that the Company, on the date of such transaction after giving *pro forma* effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, would have been able to incur €1.00 of additional Indebtedness pursuant to clause (ii) of the first paragraph of the covenant described under the caption "*—Limitation on Indebtedness*" or (b) if such purchase is made by way of exercise of any subscription rights arising for the benefit of any member of the Parent Guarantor Group from its then existing shareholding in Continental in the context of a capital increase by Continental (in which subscription rights are offered to all shareholders of Continental) in order to avoid or mitigate a dilution of the Parent Guarantor's (direct or indirect) shareholding in Continental, provided that the purchase is effected by way of an Opération Blanche and, promptly upon such purchase, the Notes and the Note Guarantee are secured by the shares so acquired; and

(15) other Restricted Investments (other than an Investment in a Parent Entity or any Affiliate of a Parent Entity (other than a Person who is an Affiliate of a Parent Entity solely because the Parent Guarantor or one of its Restricted Subsidiaries owns any Equity Interest in such Person)); provided that the aggregate amount of all Restricted Investments made under this clause (15) does not exceed €200.0 million since the Issue Date.

The actions described in clauses (1), (3), (6), (8), (9), (11), (12), (14) and (15) will reduce the amount that would otherwise be available for Restricted Investments under clause (3) of the second paragraph of this covenant.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Parent Guarantor or any Restricted Subsidiary, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Parent Guarantor or any Restricted Subsidiary;

(2) make loans or advances to the Parent Guarantor or any Restricted Subsidiary; or

(3) sell, lease or transfer any of its properties or assets to the Parent Guarantor or any Restricted Subsidiary, provided that (x) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill period to) loans or advances made to the Parent Guarantor or any Restricted Subsidiary to other indebtedness incurred by the Parent Guarantor or any Restricted Subsidiary, in each case, shall not be deemed to constitute such an encumbrance or restriction.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Indebtedness and Credit Facilities in effect on the Issue Date, including the Parent Guarantor Group Facilities Agreement, the Intercreditor Agreement,

the Security Documents, the Existing Notes (and the indentures governing the Existing Notes), the Schaeffler Group Senior Facilities Agreement, the Schaeffler Group Security Documents and the Schaeffler Group Security Pooling and Intercreditor Agreement, in each case as in effect on the Issue Date, and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(2) the Indenture, the Notes, the Note Guarantee, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents;

(3) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than (i) the encumbrances and restrictions contained in the Parent Guarantor Group Facilities Agreement, the Intercreditor Agreement, the Security Documents, the Existing Notes (and the indentures governing the Existing Notes), the Schaeffler Group Senior Facilities Agreement, the Schaeffler Group Security Documents and the Schaeffler Group Security Pooling and Intercreditor Agreement, in each case, as in effect on the Issue Date (as determined in good faith by the Parent Guarantor) or (ii) is customary in comparable financings (as determined in good faith by the Parent Guarantor), provided that the Parent Guarantor determines in good faith that such restrictions will not materially adversely impact the ability of the Issuer and the Parent Guarantor to make required principal and interest payments on the Notes and the Note Guarantee;

(4) applicable law, rule, regulation or order or the terms of any license, authorization, concession or permit;

(5) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;

(6) customary non-assignment and similar provisions in contracts, leases and licenses entered into in the ordinary course of business;

(7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;

(8) any agreement for the sale or other disposition of the Capital Stock or all or substantially all of the property and assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(9) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(10) Liens permitted to be incurred under the provisions of the covenant described under the caption "*—Limitation on Liens*" that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) customary provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements in the ordinary course of business (including agreements entered into in connection with a Restricted Investment), which limitation is applicable only to the assets that are the subject of such agreements;

(12) restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case, under contracts entered into in the ordinary course of business;

(13) encumbrances or restrictions with respect to any Qualified Securitization Financing;

(14) restrictions on the real property securing Indebtedness under any mortgage financing or mortgage refinancing permitted to be incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*"; and

(15) any encumbrance or restriction existing under any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (1) through (14), or in this clause (15); provided that the terms and conditions of any such encumbrances or restrictions are no more restrictive in any material respect than those under or pursuant to the agreement so extended, renewed, refinanced or replaced.

Transactions with Affiliates

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Parent Guarantor (each, an "**Affiliate Transaction**") involving aggregate payments or consideration in excess of €10.0 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Parent Guarantor or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent Guarantor or such Restricted Subsidiary with an unrelated Person; and

(2) the Parent Guarantor delivers to the Trustee:

    (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €25.0 million, a resolution of the Board of Directors of the Parent Guarantor set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Parent Guarantor; and, in addition,

    (b) with respect to (i) any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €50.0 million or (ii) any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €25.0 million in which there are no disinterested members of the Board of Directors of the Parent Guarantor, an opinion of an accounting, appraisal or investment banking firm of international standing, or other recognized independent expert of international standing with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of related transactions is (i) fair from a financial point of view taking into account all relevant circumstances or (ii) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, collective bargaining agreement, consultant agreement, employee benefit arrangements with any employee, consultant, officer or director of the Parent Guarantor or any Restricted Subsidiary, including under any stock option, stock appreciation rights, stock incentive or similar plans, entered into in the ordinary course of business;

(2) transactions between or among the Parent Guarantor and any Restricted Subsidiary, or between or among Restricted Subsidiaries;

(3) transactions in the ordinary course of business with a Person (other than an Unrestricted Subsidiary of the Parent Guarantor) that is an Affiliate of the Parent Guarantor solely because the Parent Guarantor owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of the Parent Guarantor or any of its Restricted Subsidiaries;

(5) any issuance of Equity Interests (other than Redeemable Capital Stock) of the Parent Guarantor or Subordinated Shareholder Debt to Affiliates of the Parent Guarantor;

(6) any Investment (other than a Permitted Investment) or other Restricted Payment, in either case, that does not violate the provisions of the Indenture described above under the caption "*—Limitation on Restricted Payments*";

(7) any Permitted Investments (other than Permitted Investments described in clause (a) of the definition thereof);

(8) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not more disadvantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date;

(9) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services or providers of employees or other labor, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture that are fair to the Parent Guarantor or the Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of the Parent Guarantor or the senior management thereof, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person;

(10) any transactions in the ordinary course of business between the Parent Guarantor or any of its Restricted Subsidiaries and any Person that is an Affiliate of the Parent Guarantor solely because a director of such Person is also a director of the Parent Guarantor or any direct or indirect parent of the Parent Guarantor; provided that such director abstains from voting as a director of the Parent Guarantor or such direct or indirect parent, as the case may be, on any matter involving such Person;

(11) any payments or other transactions pursuant to a tax sharing agreement between the Parent Guarantor and any other Person or a Restricted Subsidiary of the Parent Guarantor and any other Person with which the Parent Guarantor or any of its Restricted Subsidiaries files a consolidated tax return or with which the Parent Guarantor or any of its Restricted Subsidiaries is part of a group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation; provided, however, that any such tax sharing agreement does not permit or require payments in excess of the amounts of tax that would be payable by the Parent Guarantor and its Restricted Subsidiaries on a stand-alone basis; and

(12) any transaction effected as part of a Qualified Securitization Financing.

Limitation on Liens

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist, any Lien (the "**Initial Lien**") securing Indebtedness, except for Permitted Liens, upon or with respect to any of their property or assets, now owned or hereafter acquired, unless all payments due under the Indenture, the Notes and the Note Guarantee are secured on an equal and ratable basis (or in the case of Indebtedness which is subordinated in right of payment to the Notes or the Note Guarantee, on a priority or senior basis, with the same relative priority as the Notes or the Note Guarantee, as applicable, shall have with respect to such subordinated Indebtedness) with the obligations so secured.

With respect to the whole or any part of the Collateral, the Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist, any Lien securing Indebtedness, except for Permitted Collateral Liens.

Any Lien created for the benefit of the Holders pursuant to this covenant will provide by its terms that such Lien will be automatically and unconditionally released and discharged (a) upon the release and discharge of the Initial Lien other than as a consequence of an enforcement action with respect to the assets subject to such Lien; or (b) as set forth under the heading "*—Security.*"

Merger, Consolidation or Sale of Assets

The Parent Guarantor will not, in a single transaction or through a series of transactions, (i) merge, amalgamate or consolidate with or into any other Person; or (ii) sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all of the properties and assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole to any other Person or Persons unless:

(1) immediately after giving effect to any such transaction or series of transactions either (a) the Parent Guarantor will be the surviving corporation; or (b) the Person formed by or surviving any such merger, amalgamation or other combination or to which such sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Parent Guarantor and its Restricted Subsidiaries on a consolidated basis has been made (A) is a corporation duly incorporated and validly existing under the laws of any member state of the Pre-Expansion European Union, Switzerland, the United States of America, any State thereof or the District of Columbia; and (B) expressly assumes all of the Parent Guarantor's obligations under the Indenture, the Note Guarantee, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which it is a party (to the extent such assumption is not effected by operation of law);

(2) immediately after giving effect to such transaction, no Default or Event of Default exists;

(3) a Restricted Subsidiary (other than the Issuer) or the Person formed by or surviving any such consolidation or merger (if other than the Parent Guarantor), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least €1.00 of additional Indebtedness pursuant to the Combined Coverage Ratio test set forth in the first paragraph of the covenant described under the caption "*Limitation on Indebtedness*;" or (ii) the Combined Coverage Ratio would be no less than it was immediately prior to giving effect to such transaction; and

(4) the Parent Guarantor delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this covenant; and that the Notes, the supplemental indenture and the Indenture constitute the Parent Guarantor's (or persons formed by or surviving any such consolidation or merger) legal, valid and binding obligations,

enforceable in accordance with their terms; provided that in giving such opinion of counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clauses (2) and (3) above.

The Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person unless:

(1) immediately after giving effect to any such transaction or series of transactions either (a) the Issuer will be the surviving corporation; or (b) the Person formed by or surviving any such merger, amalgamation or other combination (if other than the Issuer) or to which such sale, assignment, conveyance, transfer, lease or disposition has been made (A) complies with the covenant described under the caption "*—Limitation on Issuer activities*;" (B) is a corporation duly incorporated and validly existing under the laws of any member state of the Pre-Expansion European Union, Switzerland, the United States of America, any State thereof or the District of Columbia; and (C) expressly assumes all of the Issuer's obligations under the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which it is a party (to the extent such assumption is not effected by operation of law);

(2) immediately after giving effect to such transaction, no Default or Event of Default exists; and

(3) the Parent Guarantor delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this covenant; and that the Notes, the supplemental indenture and the indenture constitute the Parent Guarantor's (or persons formed by or surviving any such consolidation or merger) legal, valid and binding obligations, enforceable in accordance with their terms; provided that in giving such opinion of counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clause (2) above.

Clause (3) of the first paragraph of this "*Merger, Consolidation or Sale of Assets*" covenant will not apply to any sale or other disposition of all or substantially all of the assets or merger or consolidation of the Parent Guarantor with or into an Affiliate solely for the purpose of reincorporating the Parent Guarantor in another jurisdiction for tax reasons. Clause (2) of the second paragraph of this "*Merger, Consolidate or Sale of Assets*" covenant will not apply to any consolidation or merger among the Issuer and the Parent Guarantor.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Parent Guarantor may designate any Restricted Subsidiary (other than the Issuer and the Company) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Parent Guarantor and the Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Investments under the covenant described under the caption "*—Limitation on Restricted Payments*" or under one or more clauses of the definition of Permitted Investments, as determined by the Parent Guarantor. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Parent Guarantor may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if that designation would not cause a Default.

Any designation of a Subsidiary of the Parent Guarantor as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a copy of a resolution of the Board of

Directors giving effect to such designation and an Officer's Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described under the caption "*—Limitation on Restricted Payments*." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Parent Guarantor as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "*—Limitation on Indebtedness*," the Parent Guarantor will be in default of such covenant. The Board of Directors of the Parent Guarantor may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "*—Limitation on Indebtedness*," calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

Maintenance of listing

The Issuer will use its reasonable best efforts to maintain the listing of the Notes on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market for so long as such Notes are outstanding; *provided* that if at any time the Issuer determines that it will not maintain such listing, it will use its reasonable best efforts to maintain a listing of such Notes on another recognized stock exchange.

Lines of business

The Parent Guarantor will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Permitted Business, except to such extent as would not be material to the Parent Guarantor and its Restricted Subsidiaries, taken as a whole.

Limitation on activities

The Parent Guarantor will not, and will not cause or permit any other member of the Parent Guarantor Group to, engage in any business activity or undertake any other activity, own any assets or incur any liability except for (i) any activity reasonably relating to the offering, sale, issuance and servicing, purchase, redemption, refinancing or retirement of the Notes or the incurrence of other Indebtedness permitted by the terms of the Indenture, including Indebtedness under the Parent Guarantor Group Facilities Agreement, and distributing, lending or otherwise advancing funds to the Issuer or any other Restricted Subsidiary; (ii) any activity undertaken with the purpose of fulfilling any other obligations under the Indenture, the Notes Guarantee, the Note Proceeds Loans, other Indebtedness permitted by the terms of the Indenture (including Indebtedness under the Parent Guarantor Group Facilities Agreement), any Security Document to which it is a party or the Intercreditor Agreement; (iii) any activity involving the provision of administrative services (including, for the avoidance of doubt, the granting of loans permitted to be granted under the Indenture to any of its respective Subsidiaries customarily provided by a holding company to its Subsidiaries; (iv) the delivery of services to the Parent Guarantor, any of its Subsidiaries or Restricted Persons (including IT services and general business services (including management, corporate accounting, controlling, finance, tax, legal and quality services and internal audits)) customarily provided or obtained by a holding company; (v) acting as in-house bank entity for the Parent Guarantor Group, including the granting of loans to, providing and arranging hedging for or borrowing from, or providing guarantees for obligations of, other members of the Parent Guarantor Group; (vi) the ownership of shares in its Subsidiaries, shares in Continental, intra-group debit balances, intra-group credit balances and other credit balances in bank accounts, Investments in cash and Cash Equivalents, (vii) the incurrence and payment of professional fees and administration costs in the ordinary course of business as a management holding company; (viii) all other activities necessary to perform the functions of a holding company; (ix) anything required in order to facilitate any payment or distribution permitted under the covenant described under the caption "*—Restricted payments*"; (x) anything required in order to maintain a permanent establishment (*Betriebsstätte*) for German tax purposes in relation to any member of the Parent Guarantor Group and, as the case may be, Schaeffler Holding GmbH & Co. KG; and (xi) other activities not specifically enumerated above that are *de minimis* in nature.

The Parent Guarantor will not, and will not cause or permit any member of the Parent Guarantor Group to, use any payments or amounts received from the Company, any of its Restricted Subsidiaries or on or with respect to the Capital Stock of Continental, for any purpose other than (i) to make any Restricted Payment in compliance with the covenant described under the caption "*—Restricted Payments*", (ii) to make any payments of interest or principal on any Indebtedness of the Issuer and the Parent Guarantor that was incurred in compliance with the covenant described under the caption "*—Limitation on Indebtedness*", or to repurchase, redeem, otherwise acquire or retire for value of any such Indebtedness, (iii) for the payment of Taxes and Tax Advisory Costs of any member of the Parent Guarantor Group, and (iv) for the payment of operational costs, including general corporate overhead expenses and costs in connection with complying with reporting and similar obligations (including all professional fees and expenses relating to any of the foregoing) of any member of the Parent Guarantor Group.

The Issuer will at all times remain a wholly-owned Restricted Subsidiary of the Parent Guarantor. The Issuer will not (1) merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Issuer is the surviving corporation); or (2) other than in connection with the incurrence of a Permitted Collateral Lien, sell, assign, transfer, lease, convey or otherwise dispose of any material property or assets to any Person in one or more related transactions, in each case except in accordance with the covenant described under the caption "*Merger, Consolidation or Sale of Assets*."

For so long as any Notes are outstanding, none of the Parent Guarantor or any of its Restricted Subsidiaries will commence or take any action or facilitate a winding-up, liquidation or other analogous proceeding in respect of the Issuer.

Limitation on Issuances of Guarantees of Indebtedness

The Parent Guarantor will not cause or permit any Restricted Subsidiary (other than the Issuer), directly or indirectly, to guarantee the payment of, assume or in any manner become liable with respect to any other indebtedness of the Issuer or the Parent Guarantor unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for a Guarantee of the payment of the Notes by such Restricted Subsidiary, which Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other indebtedness.

Each additional Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

The first paragraph of this covenant will not be applicable to any Guarantees of any Restricted Subsidiary given to a bank or trust company having combined capital and surplus and undivided profits of not less than €250.0 million, whose debt has a rating, at the time such guarantee was given, of at least A or the equivalent thereof by S&P and at least A2 or the equivalent thereof by Moody's, in connection with the operation of cash management programs established in the ordinary course of business for the benefit of the Parent Guarantor or any of the Restricted Subsidiaries.

Notwithstanding the foregoing, the Parent Guarantor shall not be obligated to cause such Restricted Subsidiary to Guarantee the Notes to the extent that such Guarantee by such

Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law or any liability for the officers, directors or shareholders of such Restricted Subsidiary that, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Parent Guarantor or the Restricted Subsidiary.

Impairment of Security Interest

The Parent Guarantor will not, and will not cause or permit any Restricted Subsidiary to, take or knowingly or negligently omit to take, any action, which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the incurrence of Liens on the Collateral permitted by the definition of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Parent Guarantor will not, and will not cause or permit any Restricted Subsidiary to, grant to any Person other than the Security Trustee, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Security Documents and the Intercreditor Agreement, any interest whatsoever in any of the Collateral; *provided* that (a) nothing in this provision shall restrict the discharge, release or replacement of the Collateral in accordance with the Indenture, the Security Documents and the Intercreditor Agreement and (b) the Parent Guarantor and the Restricted Subsidiaries may incur Permitted Collateral Liens; and *provided*, *further*, that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified, replaced or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification, replacement or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), the Parent Guarantor delivers to the Trustee either (1) a solvency opinion from an internationally recognized investment bank or accounting firm, in form and substance reasonably satisfactory to the Trustee, confirming the solvency of the Parent Guarantor and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking; or (2) a certificate from the Board of Directors or chief financial officer of the relevant Person (acting in good faith) that confirms the solvency of the Person granting such Lien after giving effect to any transactions related to such amendment, extension, renewal, restatement, replacement, supplement, modification or release and retaking; or (3) an opinion of counsel, in form and substance reasonably satisfactory to the Trustee (subject to customary exceptions and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking, the Lien or Liens securing the Notes created under the Security Documents so amended, extended, renewed, restated, supplemented, modified, replaced or released and retaken are valid and perfected Liens not otherwise subject to any limitation imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking.

At the direction of the Parent Guarantor and without the consent of the Holders, the Security Trustee may from time to time enter into one or more amendments to the Security Documents to: (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) subject to compliance with the first paragraph above, provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the rights of the Holders in any material respect.

In the event that the Parent Guarantor complies with this covenant, the Trustee and the Security Trustee shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification, replacement or release with no need for instructions from the Holders.

Collateral

The Parent Guarantor shall, and shall procure that each Restricted Subsidiary and each of its other Affiliates holding any of the Collateral shall, at its own expense, execute and do all such acts and things and provide such assurances as the Security Trustee may reasonably require (i) for registering any Security Documents in any required register and for perfecting or protecting the security intended to be afforded by such Security Documents; and (ii) if such Security Documents have become enforceable, for facilitating the realization of all or any part of the assets which are subject to such Security Documents and for facilitating the exercise of all powers, authorities and discretions vested in the Security Trustee or in any receiver of all or any part of those assets. The Parent Guarantor shall, and shall procure that each Restricted Subsidiary and each of its other Affiliates holding any of the Collateral shall, execute all transfers, conveyances, assignments and releases of that property whether to the Security Trustee or to their respective nominees and give all notices, orders and directions which the Security Trustee may reasonably request.

Additional Intercreditor Agreements

At the request of the Issuer, without the consent of Holders, and at the time of, or prior to, the incurrence by the Issuer or the Parent Guarantor of Indebtedness that is permitted to share the Collateral pursuant to clause (ii), (iii) or (iv) of the definition of "Permitted Collateral Liens," the Issuer or the Parent Guarantor, the Trustee and the Security Trustee shall enter into with the holders of such Indebtedness (or their duly authorized representatives) an Intercreditor Agreement (an "**Additional Intercreditor Agreement**") on substantially the same terms as the Intercreditor Agreement, including terms with respect to the limitation on enforcement and release of guarantees and priority as set forth in the Intercreditor Agreement (or on terms more favorable to the Holders); *provided*, that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or any Security Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or any Security Trustee under the Indenture or the Intercreditor Agreement.

At the request of the Issuer, without the consent of Holders, and at the time of, or prior to, the incurrence by the Issuer or the Parent Guarantor of Indebtedness permitted to be incurred pursuant to the preceding paragraph, the Issuer or the Parent Guarantor, the Trustee and the Security Trustee shall enter into one or more amendments to any Intercreditor Agreement or Additional Intercreditor Agreement to: (1) cure defects, resolve ambiguities or reflect changes, in each case, of a minor, technical or administrative nature; (2) increase the amount or types of Indebtedness covered by any Intercreditor Agreement or Additional Intercreditor Agreement that may be incurred by the Issuer or the Parent Guarantor that is subject to any Intercreditor Agreement or Additional Intercreditor Agreement (including the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes); (3) add new guarantors to the Intercreditor Agreement or an Additional Intercreditor Agreement; (4) further secure the Notes; (5) make provision for the security securing Additional Notes to rank *pari passu* with the Collateral; (6) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof; or (7) make any other change to any such Intercreditor Agreement or an Additional Intercreditor Agreement that does not adversely affect the rights of Holders in any material respect.

The Issuer shall not otherwise direct the Trustee or any Security Trustee to enter into any amendment to the Intercreditor Agreement or any Additional Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted by the provisions under "Amendment, supplement and waiver" and the Issuer may only direct the Trustee and the Security Trustee to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or any Security Trustee under the Indenture, the Intercreditor Agreement or such Additional Intercreditor Agreement.

In relation to the Intercreditor Agreement or, to the extent applicable, an Additional Intercreditor Agreement, the Trustee shall be deemed to have consented on behalf of the Holders to any payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided* that such transaction would comply with the covenant described under the caption "*—Limitation on Restricted Payments*."

Each Holder shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have consented to and directed the Trustee and the Security Trustee to enter into any Additional Intercreditor Agreement or any amendment of the Intercreditor Agreement or any Additional Intercreditor Agreement which complies with the foregoing provision and the conditions contained therein.

Suspension of covenants when Notes rated investment grade

During any period of time that (i) the Notes have received an Investment Grade Rating from both Rating Agencies; and (ii) no Default has occurred and is continuing under the Indenture (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a "**Covenant Suspension Event**" and the date thereof being referred to as the "**Suspension Date**") then, the Issuer will notify the Trustee of such Covenant Suspension Event and the covenants specifically listed under the following captions in this "*Description of the Notes*" section of this Offering Memorandum will not be applicable to the Notes (collectively, the "**Suspended Covenants**"):

(1) "*—Repurchase at the option of Holders—Asset Sales*;"

(2) "*—Limitation on Indebtedness*;"

(3) "*—Limitation on Restricted Payments*;"

(4) "*—Dividend and other payment restrictions affecting Restricted Subsidiaries*;"

(5) "*—Transactions with Affiliates*;"

(6) clause (3) of the first paragraph of "*—Merger, Consolidation or Sale of Assets*;"

(7) "*—Lines of business*;" and

(8) "*—Limitation on issuances of Guarantees of Indebtedness*."

During any period that the foregoing covenants have been suspended, neither the Parent Guarantor nor any Restricted Subsidiary may designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the definition of Unrestricted Subsidiary.

If and while the Parent Guarantor and the Restricted Subsidiaries are not subject to the Suspended Covenants, the Notes will be entitled to substantially less covenant protection. In the event that the Parent Guarantor and the Restricted Subsidiaries are not subject to the Suspended Covenants under the Indenture for any period of time as a result of the foregoing, and on any subsequent date (the "**Reversion Date**") one or both of the Rating Agencies withdraw their Investment Grade Rating or downgrade the rating assigned to the Notes below an Investment Grade Rating, then the Parent Guarantor and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants under the Indenture unless and until the Notes subsequently again attain an Investment Grade Rating from both Rating Agencies. The period of time between the Suspension Date and the Reversion Date is referred to in this Description of the Notes as the "**Suspension Period**."

Notwithstanding the foregoing, in the event of any such reinstatement, no action taken or omitted to be taken by the Parent Guarantor or any Restricted Subsidiary prior to such reinstatement will give rise to a Default or Event of Default under the Indenture with respect to the Notes; *provided* that (i) with respect to Restricted Payments made after such reinstatement, the amount available to be made as Restricted Investments will be calculated as though the covenant described under the caption "*—Limitation on Restricted Payments*" had been in effect prior to, but not during, the Suspension Period; (ii) all Indebtedness incurred, or Redeemable Capital Stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (5) of the second paragraph of the covenant described under the caption "*—Limitation on Indebtedness*;" and (iii) no Restricted Subsidiary shall be required to comply with the covenant described under the caption "*—Limitation on issuances of Guarantees of Indebtedness*" after such reinstatement with respect to any guarantee entered into by such Restricted Subsidiary during any Suspension Period.

There can be no assurance that the Notes will achieve or maintain an Investment Grade Rating.

Reports

For so long as any Notes are outstanding, the Issuer will furnish to the Trustee the following reports in electronic form:

(1) within 120 days after the end of the Company's fiscal year beginning with the fiscal year ending December 31, 2013, annual reports containing the following information with a level of detail that is substantially comparable and similar in scope to this Offering Memorandum: (a) audited consolidated balance sheet of the Company as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Company for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) *pro forma* income statement and balance sheet information of the Company (which need not comply with Article 11 of Regulation S-X under the Exchange Act), together with any explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates (unless such *pro forma* information has been provided in a previous report pursuant to clause (2) or (3) below); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations (including a discussion by business segment), financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; (d) a description of the business, management and shareholders of the Company, all material affiliate transactions, Indebtedness and material financing arrangements and a description of all material contractual arrangements, including material debt instruments; (e) material recent developments; (f) audited unconsolidated balance sheet of the Parent Guarantor as of the end of the of the two most recent fiscal years and audited unconsolidated income statements of the Company for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; and (g) a brief description of the material differences in the financial condition and results of operations between (i) the Parent Guarantor and its Subsidiaries and (ii) the Company and its Subsidiaries.

(2) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of the Company beginning with the fiscal quarter ending March 31, 2013, quarterly reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the quarterly and year to date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Company, together with condensed footnote disclosure; (b) *pro forma* income statement and balance sheet information of the Company (which need not comply with Article 11 of Regulation S-X under the Exchange Act), together with any explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal quarter as to which such quarterly report relates (unless such *pro forma* information has been provided in a previous report pursuant to clause (1) above

or (3) below); (c) an operating and financial review of the unaudited financial statements (including a discussion by business segment), including a discussion of the consolidated financial condition and results of operations of the Company and any material change between the current quarterly period and the corresponding period of the prior year; (d) material developments in the business of the Parent Guarantor and its Subsidiaries; and (e) a brief description of the material differences in the financial condition and results of operations between (i) the Parent Guarantor and its Subsidiaries and (ii) the Company and its Subsidiaries; and

(3) promptly after the occurrence of (a) a material acquisition, disposition or restructuring; (b) any changes of the chief executive officer or chief financial officer of the Company or in the auditors of the Company; (c) the entering into an agreement that will result in a Change of Control; or (d) any material events that the Parent Guarantor or the Company announces publicly, in each case, a report containing a description of such events.

If the Parent Guarantor has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and the Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Parent Guarantor.

All financial statements shall be prepared in accordance with IFRS, except that the financial statements required by clause 1(f) above may be prepared in accordance with generally accepted accounting principles in Germany (*Grundsätze ordnungsgemäßer Buchführung*) under the German Commercial Code (*Handelsgesetzbuch*) as in effect from time to time. Except as provided for above, no report need include separate financial statements for the Parent Guarantor or Subsidiaries of the Parent Guarantor or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum.

The Issuer may satisfy its obligations under clauses (1) and (2) of the first paragraph of this covenant with respect to historical periods ending on or prior to December 31, 2012 by delivering the corresponding annual and quarterly reports of the Company and its consolidated subsidiaries if such annual and quarterly reports contain at least the information required by this covenant.

In addition, for so long as any Notes remain outstanding and during any period during which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Issuer has agreed that it will, furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

So long as any Notes are outstanding, the Parent Guarantor will also:

(a) within 10 Business Days after furnishing to the Trustee the annual and quarterly reports required by clauses (1) and (2) of the first paragraph of this covenant, cause the Company to hold a conference call to discuss such reports and the results of operations for the relevant reporting period; and

(b) issue (or cause the Company to issue) a press release to an internationally recognized wire service no fewer than three Business Days prior to the date of the conference call required by the foregoing clause (a) of this paragraph, announcing the time and date of such conference call and either including all information necessary to access the call or directing Holders, prospective investors, broker dealers and securities analysts to contact the appropriate person at the Company to obtain such information.

The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of the covenant (i) on the Company's website; and (ii) if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, at the specified office of the paying agent in Luxembourg or to the extent and in the manner required by such rules, post such reports on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Payments for consent

The Parent Guarantor will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement or any Security Document unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Parent Guarantor and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement or any Security Document, to exclude Holders in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an offer to purchase for cash; or (ii) the payment of the consideration therefor would require the Parent Guarantor or any of its Restricted Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the Parent Guarantor in its sole discretion determines (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction); or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Events of Default and Remedies

Each of the following is an "**Event of Default**:"

(1) default in the payment when due (at maturity, upon redemption, required repurchase or otherwise) of the principal of, or premium, if any, on the Notes; or

(2) default for 30 days in the payment when due of Cash Interest or PIK Interest or Additional Amounts, if any, with respect to the Notes; or

(3) failure by the Issuer or the Parent Guarantor to (i) comply with the provisions set forth under "*—Certain covenants—Merger, Consolidation or Sale of Assets*", (ii) make or consummate an Asset Sale Offer in accordance with the provisions of "*—Repurchase at the option of Holders—Asset Sales*" or (iii) effect a Mandatory Excess PIK Interest Redemption in accordance with the provisions set forth under "*—Interest;*" or

(4) failure by the Parent Guarantor to cause Liens over shares of Pre-Designated Unrestricted Continental Shares that were released pursuant to clause (7) of the first paragraph of "*Security—Release*" to be reinstated as and when required pursuant the proviso to such clause; or

(5) failure by the Issuer or the Parent Guarantor for 30 Business Days after written notice to the Issuer by the Trustee or Holders of at least 25% in aggregate principal amount of Notes then outstanding, voting as a single class, to comply with any of the agreements in the Indenture, the Notes, the Note Guarantee, the Intercreditor Agreement, any Additional

Intercreditor Agreement or the Security Documents (other than a default in performance, or breach, of a covenant or agreement which is specifically dealt with in clauses (1), (2), (3) or (4)); or

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Parent Guarantor or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Parent Guarantor or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

   (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness at the Stated Maturity thereof prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "**Payment Default**"); or

   (b) results in the acceleration of such Indebtedness prior to its express maturity,

   and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates €50.0 million or more (or its equivalent in any other currency or currencies);

(7) failure by the Parent Guarantor or any Restricted Subsidiary to pay final and enforceable judgments and/or orders entered by a court of competent jurisdiction aggregating in excess (individually or when aggregated with other judgment(s) and/or order(s)) of €50.0 million (or its equivalent in the applicable currency) (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments or orders shall not have been discharged or waived and there shall have been a period of 45 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal, waiver or otherwise, shall not have been in effect; or

(8) except as permitted by the Indenture, if (A) the Note Guarantee is by judicial decision declared to be unenforceable or invalid or ceases for any reason to be in full force and effect; or (B) the Parent Guarantor, or any Person acting on behalf of the Parent Guarantor, denies or disaffirms its obligations under its Note Guarantee; or

(9) with respect to any Collateral having a Fair Market Value in excess of €3.0 million, individually or in the aggregate, (A) the Liens with respect to such Collateral purported to be created under any Security Document, after they are in full force and effect, at any time cease to be in full force and effect and constitute valid and (where applicable) perfected Liens with the priority required by the applicable Security Documents for any reason other than the satisfaction in full of all obligations under the Notes or the release of such Liens in accordance with the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement; or (B) the Liens with respect to such Collateral purported to be created under any Security Document, are by final and enforceable judicial decision declared invalid or unenforceable; or

(10) certain events of bankruptcy or insolvency described in the Indenture with respect to the Parent Guarantor, the Issuer or any Restricted Subsidiaries that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together (as of the date of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary.

In the case of an Event of Default specified in clause (10) of the preceding paragraph, with respect to the Issuer, the Parent Guarantor, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may, and the Trustee, upon request of such holders, shall, declare all the Notes to be due and payable immediately.

Subject to certain limitations, Holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense. Except (subject to the provisions described under "*—Amendment, Supplement and Waiver*") to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) Holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The Holders of not less than a majority in aggregate principal amount of the Notes outstanding may, on behalf of the Holders, waive any existing or past default under the Indenture and its consequences, except a continuing default in the payment of the principal of, premium, if any, any Additional Amounts or interest on any Note held by a non-consenting Holder (which may only be waived with the consent of each Holder affected).

The Parent Guarantor is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or the Parent Guarantor, as such, will have any liability for any obligations of the Issuer or the Parent Guarantor under the Notes, the Indenture, the Note Guarantee, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Security Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under applicable securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officer's Certificate, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Parent Guarantor discharged with respect to its Note Guarantee ("**Legal Defeasance**") except for:

(1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts) or premium, if any, on, such Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Parent Guarantor's obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Parent Guarantor released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture ("**Covenant Defeasance**") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, all Events of Default described under "*—Events of Default and remedies*" (except those relating to payments on the Notes or, bankruptcy or insolvency events) will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee (or such entity appointed by the Trustee for this purpose), in trust, for the benefit of the Holders, cash in euro, euro-denominated European Government Obligations or a combination thereof (in the case of the Euro Notes) and cash in U.S. dollars, non-callable U.S. Government Securities, or a combination of cash in U.S. dollars and non-callable U.S. Government Securities (in the case of the Dollar Notes) in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest (including Additional Amounts and premium, if any) on the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to the Trustee of United States counsel confirming that (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to the Trustee of United States counsel confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) the Issuer must deliver to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over the other creditors of the Issuer or the Parent Guarantor with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer, the Parent Guarantor or others; and

(5) the Issuer must deliver to the Trustee an Officer's Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, supplement and waiver

Except as provided otherwise in the succeeding paragraphs, the Indenture, the Notes, the Note Guarantee, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement may be amended or supplemented with the consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture, the Notes, the Note Guarantee, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement may be waived with the consent of the Holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

The Intercreditor Agreement provides that certain amendments to the Security Documents may be made with the prior written consent of the Instructing Group.

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), an amendment, supplement or waiver may not:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption "—*Repurchase at the option of Holders*");

(3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;

(4) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes or the Note Guarantee in respect thereof;

(5) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration);

(6) make any Note payable in money other than that stated in the Notes;

(7) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes;

(8) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described above under the caption "—*Repurchase at the Option of Holders*");

(9) release the Parent Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Intercreditor Agreement;

(10) release all or substantially all of the Liens on the Collateral granted for the benefit of the Holders, except in accordance with the terms of the Indenture or the relevant Security Document and the Intercreditor Agreement; or

(11) make any change in the preceding amendment and waiver provisions.

Any amendment, supplement or waiver consented to by at least 90% (subject to the proviso in the preceding sentence) of the aggregate principal amount of the then outstanding Notes will be binding against any non-consenting holders.

Notwithstanding the preceding, without the consent of any Holder, the Issuer, the Parent Guarantor, the Trustee and the Security Trustee may amend or supplement the Indenture, the Notes, the Note Guarantee, the Intercreditor Agreement or any Security Document:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(3) to provide for the assumption of the Issuer's or the Parent Guarantor's obligations to Holders in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or the Parent Guarantor's assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under the Indenture of any such Holder in any material respect;

(5) to conform the text of the Indenture, the Notes, the Note Guarantee, any Security Documents or the Intercreditor Agreement to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Note Guarantee, the Security Documents, or the Intercreditor Agreement;

(6) to enter into additional or supplemental Security Documents;

(7) to release the Note Guarantee in accordance with the terms of the Indenture and the Intercreditor Agreement;

(8) to release the Collateral in accordance with the terms of the Indenture, the Intercreditor Agreement and the Security Documents;

(9) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(10) to allow any Restricted Subsidiary to execute a supplemental indenture and/or a Guarantee with respect to the Notes;

(11) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(12) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture; or

(13) to add additional parties to the Intercreditor Agreement or any Security Document to the extent permitted hereunder and thereunder.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

In connection with its entry into any amendment, supplement or waiver, the Trustee shall be entitled to rely absolutely on such evidence as it deems appropriate, including an opinion of counsel and an Officer's Certificate.

For the purpose of calculating the aggregate principal amount of Notes that have consented to or voted in favor of any amendment, supplement or waiver, the Euro Equivalent of the principal amount of any Notes shall be as of the Issue Date. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg act dated August 10, 1915 on commercial companies, as amended, shall not apply in respect of the Notes.

Satisfaction and discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or the Parent Guarantor has irrevocably deposited or caused to be deposited with the Trustee (or an entity designated by the Trustee for such purpose) as trust funds in trust solely for the benefit of the Holders, with respect to the Euro Notes, cash, Cash Equivalents, European Government Obligations or a combination thereof, in each case, denominated in euro and, with respect to the Dollar Notes, cash, non-callable U.S. Government Securities, or a combination of cash and non-callable U.S. Government Securities, in each case, denominated in U.S. dollars, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank appraisal firm or firm of independent public accountants, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation of principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) the Issuer or the Parent Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(3) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

Judgment currency

The sole currency of account and payment for all sums payable by the Issuer or a Guarantor under the Indenture, the Notes and the Note Guarantee with respect to Euro Notes is euro and with respect to the Dollar Notes is U.S. dollars. Any amount received or recovered in a currency other than euro or U.S. dollars, as the case may be, in respect of the Notes (whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Parent Guarantor, any Subsidiary or otherwise) by the Holder or by the Trustee in respect of any sum expressed to be due to it from the Issuer or the Parent Guarantor will constitute a discharge of the Issuer and the Parent Guarantor only to the extent of the euro or U.S. dollar amount, as the case may be, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If that euro or U.S. dollar amount, as the case may be, is less than the euro or U.S. dollar amount, as the case may be, expressed to be due to the recipient under any Note, the Issuer and the Parent Guarantor will indemnify the recipient against any loss sustained by it as a result. In any event the Issuer and the Parent Guarantor will indemnify the recipient against the cost of making any such purchase.

For the purposes of this indemnity, it will be sufficient for the Holder or the Trustee to certify that it would have suffered a loss had an actual purchase of euro or U.S. dollars, as the case may be, been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro or U.S. dollars, as the case may be, on such date had not been practicable, on the first date on which it would have been practicable). These indemnities constitute a separate and independent obligation from the other obligations of the Issuer and the Parent Guarantor, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect to any sum due under any Note, any Guarantee or any other judgment or order.

Concerning the Trustee

The Issuer shall deliver written notice to the Trustee within thirty (30) days of becoming aware of the occurrence of a Default or an Event of Default. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee.

The Holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture will provide that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

The Issuer and the Parent Guarantor jointly and severally will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with its duties.

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market. The Issuer has initially designated Deutsche Bank Luxembourg S.A. as its agent for those purposes. The address of Deutsche Bank Luxembourg S.A. is 2, boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg.

Additional information

Anyone who receives this Offering Memorandum may, following the Issue Date, obtain a copy of the Indenture, the form of Note, the Security Documents, the Intercreditor Agreement and the Parent Guarantor Group Facilities Agreement without charge by writing to Schaeffler AG, Industriestraße 1-3, 91074 Herzogenaurach, Germany, in care of Investor Relations.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange shall so require, copies of the financial statements included in this Offering Memorandum may be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Luxembourg.

Governing law

The Indenture, the Note Guarantee and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Intercreditor Agreement will be governed by English law. The Security Documents will be governed by applicable local laws of the jurisdiction under which the Liens are granted.

Consent to jurisdiction and service of process

The Indenture will provide that the Issuer and the Parent Guarantor will appoint CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011, as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Note Guarantee brought in any U.S. federal or New York state court located in the City of New York and will submit to such jurisdiction.

Enforceability of judgments

Substantially all of the assets of the Issuer and the Parent Guarantor are outside the United States. As a result, any judgment obtained in the United States against the Issuer or the Parent Guarantor may not be collectable within the United States. See "*Enforcement of Judgments.*"

Prescription

Claims against the Issuer or the Parent Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or the Parent Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

Certain definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

"**Acquired Debt**" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"**Applicable Premium**" means, in the case of the Euro Notes, the Euro Applicable Premium, and, in the case of the Dollar Notes, the Dollar Applicable Premium. For the avoidance of doubt, calculation of the Applicable Premium shall not be a duty or obligation of the Trustee or the Paying Agents.

"**April 2013 Notes**" means the €600,000,000 senior secured notes due 2018 and the $850,000,000 senior secured notes due 2021 issued by Schaeffler Finance B.V. under a New York law indenture dated April 29, 2013.

"**Asset Sale**" means:

(1) the sale, lease, conveyance or other disposition of any assets by the Parent Guarantor or any of its Restricted Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "*—Repurchase at the option of Holders—Change of Control*" and/or the provisions described above under the caption "*—Certain covenants—Merger, Consolidation or Sale of Assets*" and not by the provisions described under the caption "*—Repurchase at the option of Holders—Asset Sales*"; and

(2) the issuance of Equity Interests by any Restricted Subsidiary or the sale by the Parent Guarantor or any of its Restricted Subsidiaries of Equity Interests in any of the Parent Guarantor's Subsidiaries (in each case, other than directors' qualifying shares).

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets (including Equity Interests) having a Fair Market Value of less than €25.0 million;

(2) a transfer of assets or Equity Interests between the Parent Guarantor and any Restricted Subsidiary or among any Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary to the Parent Guarantor or to a Restricted Subsidiary;

(4) the sale, lease or other transfer of products, services, equipment, accounts receivable, inventory, trading stock and other assets (including any real or personal property) in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Parent Guarantor, no longer economically practicable to maintain or useful in the conduct of the business of the Parent Guarantor and its Restricted Subsidiaries taken as a whole);

(5) licenses and sublicenses by the Parent Guarantor or any of its Restricted Subsidiaries of software or intellectual property in the ordinary course of business;

(6) any surrender or waiver of contract rights or the settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(7) the granting of Liens not prohibited by the covenant described above under the caption "*—Certain covenants—Limitation on Liens*";

(8) the sale or other disposition of cash or Cash Equivalents;

(9) a Restricted Payment that does not violate the covenant described above under the caption "*—Certain covenants—Limitation on Restricted Payments,*" a Permitted Investment or any transaction specifically excluded from the definition of Restricted Payment;

(10) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(12) any sale, transfer or other disposition of Securitization Assets and related assets in connection with any Qualified Securitization Financing;

(13) the sale, transfer or other disposition of any interest in any joint venture to the extent required by any customary buy/sell arrangement entered into in connection with the formation of such joint venture;

(14) the sale, transfer or other disposition of any S-Group Unrestricted Continental Shares;

(15) any unwinding or termination of Hedging Obligations not for speculative purposes; and

(16) the sale or other disposition of subscription rights for shares in Capital Stock of Continental in the course of an Opération Blanche.

"**Asset Sale Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**Average Available RCF Drawings**" means, with respect to any interest payment date, the average weekly balance of amounts available for drawing under the revolving credit facility of the Schaeffler Group Senior Facilities Agreement for the period starting on the 45th day preceding such interest payment date and ending on the 15th day preceding such interest payment date. The Average Available RCF Drawings shall be calculated by the chief financial officer of the Company. For the avoidance of doubt, such calculation shall not be a duty of the Trustee or any Paying Agent.

"**Average Cash Balance**" means, with respect to any interest payment date, the average weekly balance of the aggregate amount of cash and Cash Equivalents of the Parent Guarantor and its Restricted Subsidiaries (including, for the avoidance of doubt, any amounts deposited in the Interest Reserve Account (as defined below)) for the period starting on the 45th day preceding such interest payment date and ending on the 15th day preceding such interest payment date, determined to give *pro forma* effect to the payment of any Cash Interest payable on the Notes on such interest payment date and any cash interest payable under the Parent Guarantor Group Facilities Agreement on or prior to such interest payment date. The Average Cash Balance shall be calculated by the chief financial officer of the Parent Guarantor. For the avoidance of doubt, such calculation shall not be a duty of the Trustee or any Paying Agent.

"**Average Liquidity**" means, with respect to any interest payment date, the sum of (i) the Average Cash Balance with respect to such interest payment date and (ii) the Average Available RCF Drawings with respect to such interest payment date.

"**Beneficial Owner**" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"**Board of Directors**" means:

(1) with respect to the Parent Guarantor or any other corporation, the board of directors (or analogous governing body) of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to the Issuer or any other limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"**Bund Rate**" means, as of any redemption date, the rate per annum equal to the equivalent yield to maturity as of such redemption date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(1) "**Comparable German Bund Issue**" means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from

such redemption date to August 15, 2014, in the case of the Euro Notes and that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Euro Notes and of a maturity most nearly equal to August 15, 2014; provided, however, that, if the period from such redemption date to August 15, 2014, is less than one year, a fixed maturity of one year shall be used;

(2) "**Comparable German Bund Price**" means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Parent Guarantor obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) "**Reference German Bund Dealer**" means any dealer of German Bundesanleihe securities appointed by the Parent Guarantor in good faith; and

(4) "**Reference German Bund Dealer Quotations**" means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Parent Guarantor of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Parent Guarantor by such Reference German Bund Dealer at 3:30 p.m. Frankfurt am Main, Germany time on the third Business Day preceding the relevant date.

"**Business Day**" means a day other than a Saturday, Sunday or other day on which banking institutions in Frankfurt, London, Luxembourg or New York or a place of payment under the Indenture are authorized or required by law to close.

"**Capital Lease Obligation**" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet (excluding the footnotes thereto) prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"**Capital Stock**" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"**Cash Equivalents**" means:

(1) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the European Union or the United States of America, Switzerland or Canada, as the case may be;

(2) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by a bank or trust company which is organized under, or

authorized to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland or Canada; provided that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €250 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "A-1" or higher by Moody's or A+ or higher by S&P or the equivalent rating category of another internationally recognized rating agency;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and

(5) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (4) of this definition.

"**Change of Control**" means the occurrence of any of the following:

(1) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole to any "person" (as such term is used in Section 13(d)(3) of the Exchange Act) other than a Permitted Holder;

(2) the adoption by the stockholders of the Parent Guarantor or the Issuer of a plan or proposal for the liquidation or dissolution of the Parent Guarantor or the Issuer, other than a transaction permitted under "*Certain covenants—Merger, Consolidation or Sale of Assets;*"

(3) (i) prior to the consummation of an Initial Public Equity Offering of the Parent Guarantor or any Parent Entity, any event, the result of which is that the Family Shareholders cease to be the Beneficial Owners, directly or indirectly, of shares representing more than 50% of the voting power of the Parent Guarantor's Voting Stock;

(4) after the consummation of an Initial Public Equity Offering of the Parent Guarantor or any Parent Entity, (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder or Permitted Holders, is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of the voting power of the Parent Guarantor's outstanding Voting Stock, or (ii) any event, the result of which is that the Family Shareholders cease to be the Beneficial Owners, directly or indirectly, of shares representing more than 30% of the voting power of the Parent Guarantor's Voting Stock, or (iii) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder or Permitted Holders, is or becomes the Beneficial Owner, directly or indirectly, of a larger percentage of the voting power of the Parent Guarantor's outstanding Voting Stock than the Permitted Holders (for the purposes of this clause (4), such other person or group shall be deemed to beneficially own all Voting Stock of a specified entity directly held by a Parent Entity, if such other person or group becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of such Parent Entity and Permitted Holders do not Beneficially Own more than 50% of the Voting Stock of such Parent Entity);

(5) the Parent Guarantor ceases to own, directly or indirectly, shares representing more than 50% of the voting power of the Company's or IBH's Voting Stock; or

(6) the Parent Guarantor ceases to own, directly or indirectly, 100% of the issued and outstanding Voting Stock of the Issuer, other than director's qualifying shares and other shares required to be issued by law.

"**Change of Control Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**Collateral**" means the rights, property and assets securing the Notes and the Note Guarantee as described in the section entitled "*—Security*" and any rights, property or assets in which a Lien has been granted to secure the Obligations of the Issuer and the Parent Guarantor under the Notes, the Note Guarantee and the Indenture from time to time.

"**Combined Coverage Ratio**" means, as of any date of determination, the ratio of (1) an amount equal to the Ownership Percentage (as of such date of determination) of the aggregate amount of the Consolidated EBITDA of the Company for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements of the Company are in existence to (2) the sum of (i) the Ownership Percentage (as of such date of determination) of the aggregate amount of the Consolidated Net Interest of the Company for such four fiscal quarters and (ii) the the aggregate amount of the Combined Parent Guarantor Group Net Interest for such four fiscal quarters; *provided* that with respect to the calculation of the Combined Coverage Ratio:

(a) the Consolidated EBITDA of the Company, the Consolidated Net Interest of the Company and the Combined Parent Guarantor Group Net Interest shall be calculated for the relevant 12-month period by giving effect on a *pro forma* basis:

 (i) as if Indebtedness incurred by the Parent Guarantor or any of its Restricted Subsidiaries since the beginning of such period that remains outstanding on such date of determination and being still outstanding at the date of determination, had been incurred on the first day of the relevant 12-month period;

 (ii) if the transaction requiring the calculation of the Combined Coverage Ratio is an incurrence of Indebtedness, as if such Indebtedness to be incurred had been incurred on the first day of the relevant 12-month period (but not giving effect to any additional Indebtedness to be incurred on the date of determination as part of the same transaction or series of transactions pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness*"); and

 (iii) as if Indebtedness repaid, repurchased or otherwise discharged after the end of the last relevant quarter end date with the proceeds of the incurrence of the Indebtedness referred to under (i) and (ii), had been discharged on the first day of the relevant 12-month period;

(b) if any Indebtedness of the Parent Guarantor or any of its Restricted Subsidiaries has been repaid, repurchased, or otherwise discharged since the beginning of the relevant 12-month period so that is no longer outstanding on the relevant quarter end date (other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and the related commitment terminated), Consolidated EBITDA of the Company, Consolidated Net Interest of the Company and Combined Parent Guarantor Group Net Interest for such period will be calculated after giving effect on a *pro forma* basis to such discharge of such Indebtedness, including with the proceeds of new Indebtedness, as if such discharge had occurred on the first day of the relevant 12-month period;

(c) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries will have discontinued operations (as determined in accordance with IFRS) or made any disposal of assets:

 (i) the Consolidated EBITDA of the Company for such period will be reduced by an amount equal to the Consolidated EBITDA for the relevant 12-month period directly attributable to the discontinued operations (as determined in accordance with IFRS) or assets which are the subject of such disposal of assets for such period (or increased by such amount, if it was negative);

(ii) if such discontinued operations related to, or such asset disposal was made by, the Company or any of its Restricted Subsidiaries, Consolidated Net Interest of the Company for such period will be reduced by an amount equal to the Consolidated Net Interest of the Company for the relevant 12-month period directly attributable to any Indebtedness repaid, repurchased or otherwise discharged in connection with such discontinued operations (as determined in accordance with IFRS) or disposal of assets (or, if the shares of any Restricted Subsidiary of the Company are sold, the Consolidated Net Interest of the Company for the relevant 12-month period directly attributable to the Indebtedness of such Restricted Subsidiary if and to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale); and

(iii) if such discontinued operations related to, or such asset disposal was made by, any member of the Parent Guarantor Group, Combined Parent Guarantor Group Net Interest for such period will be reduced by an amount equal to the Combined Parent Guarantor Group Net Interest for the relevant 12-month period directly attributable to any Indebtedness repaid, repurchased or otherwise discharged in connection with such discontinued operations (as determined in accordance with IFRS) or disposal of assets (or, if the shares of any member of the Parent Guarantor Group (other than the Parent Guarantor) are sold, the Combined Parent Guarantor Group Net Interest for the relevant 12-month period directly attributable to the Indebtedness of such Person if and to the extent the continuing members of the Parent Guarantor Group are no longer liable for such Indebtedness after such sale);

(d) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries made an investment in any Restricted Subsidiary of the Parent Guarantor (or any Person which becomes a Restricted Subsidiary of or is merged with or into the Parent Guarantor) or an acquisition of assets which, taken as such, constitute an operating unit, division or line of business, Consolidated EBITDA of the Company, Consolidated Net Interest of the Company and Combined Parent Guarantor Group Net Interest for such period will be calculated after giving *pro forma* effect thereto (including the incurrence of any Indebtedness) (as determined in good faith by a responsible financial or accounting officer of the Parent Guarantor) as if such investment or acquisition had occurred on the first day of the relevant 12-month period.

Whenever a *pro forma* effect is to be given to any calculation, the *pro forma* calculations will be determined in good faith by a responsible financial or accounting officer of the Company or the Parent Guarantor, as the case may be. If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any interest rate hedging applicable to such Indebtedness). Any Person that is a Restricted Subsidiary of the Parent Guarantor on the date of determination will be deemed to have been a Restricted Subsidiary of the Parent Guarantor at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary of the Parent Guarantor on the date of determination will be deemed not to have been a Restricted Subsidiary of the Parent Guarantor at any time during such four-quarter period.

"**Combined Leverage Ratio**" means, as of any date of determination, the sum of (1) the ratio of (i) the aggregate outstanding Indebtedness of the Company and its Restricted Subsidiaries as of such date to (ii) the aggregate amount of the Consolidated EBITDA of the Company for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements of the Company are in existence and (2) the ratio of (i) the aggregate outstanding Indebtedness of the members of the Parent Guarantor Group as of such date to (ii) an amount equal to the Ownership Percentage (as of such date of determination) of the aggregate amount of the Consolidated EBITDA of the Company for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements of the Company are in existence; *provided* that with respect to the calculation of the Consolidated EBITDA of the Company:

(a) if since the beginning of the relevant 12-month period the Company or any of its Restricted Subsidiaries will have discontinued operations (as determined in accordance with IFRS) or made any disposal of assets, the Consolidated EBITDA of the Company for such period will be reduced by an amount equal to the Combined EBITDA for the relevant 12-month period directly attributable to the discontinued operations (as determined in accordance with IFRS) or assets which are the subject of such disposal of assets for such period (or increased by such amount, if it was negative); and

(b) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries made an investment in any Restricted Subsidiary of the Parent Guarantor (or any Person which becomes a Restricted Subsidiary of or is merged with or into the Parent Guarantor) or an acquisition of assets which, taken as such, constitute an operating unit, division or line of business, Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto (including the incurrence of any Indebtedness) (as determined in good faith by a responsible financial or accounting officer of the Parent Guarantor) as if such investment or acquisition had occurred on the first day of the relevant 12-month period.

Whenever a *pro forma* effect is to be given to any calculation, the *pro forma* calculations will be determined in good faith by a responsible financial or accounting officer of the Parent Guarantor. Any Person that is a Restricted Subsidiary of the Company on the date of determination will be deemed to have been a Restricted Subsidiary of the Company at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary of the Company on the date of determination will be deemed not to have been a Restricted Subsidiary of the Company at any time during such four-quarter period.

"**Combined Parent Guarantor Group Net Interest**" means, for any period, without duplication and in each case determined on a combined basis in accordance with IFRS, the sum of:

(1) the combined interest expense (net of interest income) of the members of the Parent Guarantor Group for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings; plus

(2) the combined interest expense (but excluding such interest on Subordinated Shareholder Debt) of the members of the Parent Guarantor Group that was capitalized during such period; plus

(3) any interest on Indebtedness of another Person that is guaranteed by any member of the Parent Guarantor Group or secured by a Lien on assets of any member of the Parent Guarantor Group; plus

(4) net payments and receipts (if any) by any member of the Parent Guarantor Group pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; plus

(5) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any member of the Parent Guarantor Group (other than the Parent Guarantor), other than dividends on Equity Interests payable to any member of the Parent Guarantor Group.

"**Company**" means Schaeffler AG or its successor.

"**Consolidated EBITDA**" means, with respect to any specified Person for any period, Consolidated Net Income of such specified Person for such period, plus the following, to the extent deducted in calculating such Consolidated Net Income for such period, without duplication:

(a) Consolidated Net Interest of such specified Person; plus

(b) provisions for taxes based on income or profits of such specified Person and its Restricted Subsidiaries; plus

(c) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees) and other non-cash charges and expenses (including, without limitation, write-downs and impairment of property, plant, equipment and intangibles) of such specified Person and its Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or a reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in any prior period); plus

(d) any income or charge of such specified Person and its Restricted Subsidiaries attributable to any post-employment benefit scheme other than the current service costs and any past service costs and any past service costs and curtailments and settlements attributable to such scheme; minus

(e) any non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (11) of the definition of Consolidated Net Income) other than any items which represent the reversal in such period of any accrual of, or reserve for, cash charges or expenses in a future period,

in each case on a consolidated basis and determined in accordance with IFRS.

"**Consolidated Net Income**" means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such specified Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiaries), determined in accordance with IFRS; *provided* that:

(1) (i) any extraordinary or exceptional gain, loss or charge; (ii) any asset impairments charges; or (iii) any non-cash charges or reserves in respect of any restructuring, redundancy, integration or severance, in each case, will be excluded;

(2) the net income (or loss) of any Person (other than such specified Person) that is not a Restricted Subsidiary of such specified Person or that is accounted for by the equity method of accounting will be excluded, except that equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to such specified Person or a Restricted Subsidiary of such specified Person as a dividend or other distribution;

(3) solely for the purpose of determining the amount available for Restricted Investments under clause (3)(a) of the second paragraph under the caption "*—Certain covenants—Limitation on Restricted Payments,*" any net income or loss of any Restricted Subsidiary of such specified Person will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to such specified Person by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released; (b) restrictions pursuant to the Notes or the Indenture; and (c) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole, are not materially less favorable

to the Holders than such restrictions in effect on the Issue Date) except that such specified Person's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to such specified Person or another Restricted Subsidiary of such specified Person as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(4) any net gain or loss realized upon the sale or other disposition of any asset or disposed operations of such specified Person or any of its Restricted Subsidiaries (including pursuant to any sale-leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Parent Guarantor) will be excluded;

(5) any one time non-cash charges or any amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of, or merger or consolidation with, another Person or business or resulting from any reorganization or restructuring involving such specified Person or its Subsidiaries will be excluded;

(6) the cumulative effect of a change in accounting principles will be excluded;

(7) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;

(8) any non-cash compensation charge or expenses arising from any grant of stock, stock options or other equity based awards will be excluded;

(9) any goodwill or other intangible asset impairment charges will be excluded;

(10) all deferred financing costs written off and premium paid in connection with any early extinguishment of Indebtedness and any net gain or loss from any write-off or forgiveness of Indebtedness will be excluded; and

(11) any capitalized interest on any Subordinated Shareholder Debt will be excluded.

"**Consolidated Net Interest**" means, with respect to any specified Person for any period, without duplication and in each case determined on a consolidated basis in accordance with IFRS, the sum of:

(1) the consolidated interest expense (net of interest income) of such specified Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings; plus

(2) the consolidated interest expense (but excluding such interest on Subordinated Shareholder Debt) of such specified Person and its Restricted Subsidiaries that was capitalized during such period; plus

(3) any interest on Indebtedness of another Person that is guaranteed such specified Person or one of its Restricted Subsidiaries or secured by a Liens on assets of such specified Person or one of its Restricted Subsidiaries; plus

(4) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; plus

(5) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary of such specified Person, other than dividends on Equity Interests payable to such specified Person or any of its Restricted Subsidiaries.

"**Continental**" means Continental Aktiengesellschaft or its successor.

"**Continental Dividend Excess Amount**" means, with respect to any calendar year, the amount of any cash dividend received by any member of the Parent Guarantor Group in such calendar year (or in case of 2013, after the Issue Date) with respect to shares of Capital Stock of Continental held by any member of the Parent Guarantor Group (net of any Taxes paid or reasonably estimated by the Parent Guarantor to be payable with respect to such dividend), less (i) the aggregate amount of Indebtedness of all members of the Parent Guarantor Group outstanding under any revolving credit facility on the date of receipt of such dividend and (ii) an amount equal to €50.0 million less the aggregate amount deposited in the Interest Reserve Account on such date.

"**Continental Group**" means Continental and any Subsidiary of Continental.

"**continuing**" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"**Credit Facilities**" means one or more debt facilities, instruments or arrangements incurred by the Parent Guarantor or any Restricted Subsidiary (including the Schaeffler Group Senior Facilities Agreement and the Parent Guarantor Group Facilities Agreement or commercial paper facilities or indentures or trust deeds or note purchase agreements, in each case, with banks, other institutions, funds or investors, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit, bonds, notes debentures or other corporate debt instruments or other indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks or institutions and whether provided under the Schaeffler Group Senior Facilities Agreement, the Parent Guarantor Group Facilities Agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, agreements, security agreements and collateral documents).

"**Default**" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"**Dollar Applicable Premium**" means, with respect to a Dollar Note at any redemption date, the excess of (A) the present value at such redemption date of (1) the redemption price of such Dollar Note on August 15, 2014 (such redemption price being described under "Optional redemption" exclusive of any accrued and unpaid interest); plus (2) all required remaining scheduled interest payments due on such Dollar Note through August 15, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate plus 50 basis points over (B) the principal amount of such Dollar Note on such redemption date.

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"**Equity Offering**" means an offering of Capital Stock (other than Redeemable Capital Stock) with respect to any Person pursuant to (x) a registration statement that has been declared effective by the U.S. Securities and Exchange Commission pursuant to the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to equity securities issuable under any employee benefit plan of the Parent Guarantor) or a public offering outside of the United States; or (y) Rule 144A and/or Regulation S or other private placement exemption under the U.S. Securities Act to professional market investors or similar persons.

"**Euro Applicable Premium**" means, with respect to a Euro Note at any redemption date, the excess of (A) the present value at such redemption date of (1) the redemption price of such Euro Note on August 15, 2014 (such redemption price being described under "*—Optional redemption*" exclusive of any accrued and unpaid interest); plus (2) all required remaining scheduled interest payments due on such Euro Note through August 15, 2014 (but in each case excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Bund Rate plus 50 basis points over (B) the principal amount of such Euro Note on such redemption date.

"**Euro Equivalent**" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Issuer or the Trustee, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in The *Financial Times* in the "*Currency rates*" section (or, if *The Financial Times* is no longer published, or if such information is no longer available in The *Financial Times,* such source as may be selected in good faith by the Issuer) on the date of such determination.

"**European Government Obligations**" means any security that is (1) a direct obligation of any country that is a member of the European Monetary Union on the date of the Indenture whose long-term debt is rated "Aa2" or higher by Moody's or "AA" by S&P or the equivalent rating category of another internationally recognized rating agency, for the payment of which the full faith and credit of such country is pledged; or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

"**Event of Default**" has the meaning assigned to such term in "*—Events of Default and Remedies.*"

"**Existing Notes**" means the February 2012 Notes, the July 2012 Notes and the 2013 April Notes.

"**Fair Market Value**" means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by the Parent Guarantor's managing directors or the Company's chief executive officer, chief financial officer or responsible accounting or financial officer of the Parent Guarantor or the Company or as otherwise specified in the Indenture.

"**Family Shareholders**" means Georg F. W. Schaeffler and Maria Elisabeth Schaeffler and in each case their respective legal or appointed heirs.

"**February 2012 Notes**" means the €800,000,000 senior secured notes due 2017, the $600,000,000 senior secured notes due 2017, the €400,000,000 senior secured notes due 2019 and the $500,000,000 senior secured notes due 2019 issued by Schaeffler Finance B.V. under a New York law governed indenture dated February 9, 2012.

"**Fitch**" means Fitch Ratings.

"**Guarantee**" means a guarantee other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business, of all or any part of any Indebtedness (whether arising by agreements to keep-well, to take or pay or to maintain financial statement conditions, pledges of assets or otherwise).

"**Hedging Obligations**" means, with respect to any specified Person, the obligations of such Person under:

(a) interest rate swap agreements, (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(b) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(c) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

"**IFRS**" means International Financial Reporting Standards as endorsed by the European Union and in effect as of the Issue Date; *provided* that for purposes of the covenant described under the caption "*—Certain covenants—Reports,*" "IFRS" means International Financial Reporting Standards as endorsed by the European Union and in effect from time to time.

"**IBH**" means INA Beteiligungsgesellschaft mit beschränkter Haftung or its successor.

"**Indebtedness**" means, with respect to any specified Person, any indebtedness of such Person (without double counting) (excluding accrued expenses and trade payables):

(a) in respect of moneys borrowed;

(b) evidenced by bonds, notes, debentures or similar instruments for which such Person is responsible or liable;

(c) representing Capital Lease Obligations;

(d) representing any Hedging Obligations;

(e) representing reimbursement obligations in respect of letters of credit, bankers' acceptances or similar instruments or in respect of receivables facilities or other similar facilities;

(f) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed;

(g) preferred stock of any Restricted Subsidiary; and

(h) Redeemable Capital Stock of such person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price plus accrued and unpaid dividends,

if and to the extent any of the preceding items (other than letters of credit, Hedging Obligations, preferred stock and Redeemable Capital Stock) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by the specified Person of any Indebtedness of any other Person to the extent guaranteed by such Person; *provided, however,* that in the case of Indebtedness secured by a Lien, the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Person. "Indebtedness" shall not include (i) Subordinated Shareholder Debt; (ii) any amounts that would otherwise be included in any of clauses (a) to (c), (e) or (f) (but not with respect to clause (d)) above, to the extent that such amounts would be included only as a result of the application of International Accounting Standard 39; (iii) in connection with the purchase by the Parent Guarantor or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided, however,* that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter; and (iv) for the avoidance of doubt, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes. The amount of Indebtedness under Hedging Obligations of a Person will be calculated by reference to the net liability of such Person thereunder (as determined in accordance with IFRS as of the date of the most recent financial statements available at the date of determination).

"**Initial Public Equity Offering**" means the first Public Equity Offering of common stock or common equity interests of the Company, the Parent Guarantor or any Parent Entity (each an "**IPO Entity**") following which there is a Public Market.

"**Intercreditor Agreement**" means the Security Pooling and Intercreditor Agreement, dated on or about July 19, 2013, among the Parent Guarantor, the Issuer, certain other Subsidiaries of the Parent Guarantor, the lenders under the Parent Guarantor Group Facilities Agreement and the Security Trustee, and the other parties named therein, as amended, restated or otherwise modified or varied from time to time.

"**Interest Differential Amount**" means, for the respective calendar year an amount not exceeding (i) €216.9 million in 2015, (ii) €228.0 million in 2016 and (iii) €236.5 million in 2017, in each case less the aggregate amount of cash interest paid in the respective preceding calendar year by the members of the Parent Guarantor Group to any Person (other than to any other member of the Parent Guarantor Group); provided that if the Issuer delivers a PIK Notice in any year, the Interest Differential Amount for such year and any subsequent calendar year until (but excluding) the calendar year following the calendar year in which payment of interest entirely in cash on all Notes has been resumed, shall be zero; and provided further that in no event shall the Interest Differential Amount for any calendar year be less than zero.

"**Interest Period**" means the period commencing on and including an interest payment date and ending on and including the day immediately preceding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the Issue Date and end on and include the day immediately preceding the first scheduled interest payment date.

"**Investment Grade Rating**" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, or an equivalent rating by any other Rating Agency.

"**Investments**" means, with respect to any Person, any direct or indirect advance, loan or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued or owned by, any other Person and all other items that would be classified as investments on a balance sheet prepared in accordance with IFRS. "Investment" excludes (x) commission, travel and similar advances to officers and employees made in the ordinary course of business; and (y) extensions of trade credit on commercially reasonable terms in accordance with normal trade practices. If the Parent Guarantor or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Parent Guarantor will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Parent Guarantor's Investments in such Restricted Subsidiary that were not sold or disposed of. The acquisition by the Parent Guarantor or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Parent Guarantor or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person. Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value and, to the extent applicable, shall be determined based on the equity value of such Investment.

"**Issue Date**" means July 24, 2013.

"**July 2012 Notes**" means the €300,000,000 6.75% senior secured notes due 2017 and the €25,979,000 6.75% senior secured notes due 2017 issued by Schaeffler Finance B.V. under a New York law governed indenture dated July 4, 2012.

"**Leverage**", as used in the section entitled "*—Interest*", has the meaning assigned to such term in the Schaeffler Group Senior Facilities Agreement as in effect from time to time (or any equivalent term defined in any Credit Facility that refinances or replaces the Schaeffler Group Senior Facilities Agreement). The Leverage shall be calculated by the chief financial officer of the Company. For the avoidance of doubt, such calculation shall not be a duty of the Trustee or any Paying Agent.

"**Lien**" means with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement or any lease in the nature thereof.

"**Moody's**" means Moody's Investors Service, Inc.

"**Net Proceeds**" means the aggregate cash proceeds received by the Parent Guarantor or any Restricted Subsidiary in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any consideration received in non-cash form or Cash Equivalents substantially concurrently received in any Asset Sale), net of the direct costs relating to such Asset Sale and the sale of such other consideration received in non-cash form, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale (in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements), and all distributions and other payments required to be made to minority interest holders (other than the Parent Guarantor or any of its Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Sale, and any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets established in accordance with IFRS.

"**Non-Recourse Debt**" means Indebtedness as to which neither the Parent Guarantor nor any Restricted Subsidiary (1) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness); or (2) is directly or indirectly liable as a guarantor or otherwise.

"**Note Guarantee**" means the Guarantee by the Parent Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

"**Obligations**" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"**Ownership Percentage**" means, as of any date of determination, the fraction, expressed as a percentage, the numerator of which is the number of shares of Capital Stock of IBH owned by the Parent Guarantor (directly or indirectly through one or more Restricted Subsidiaries) as of such date, and the denominator of which is the total number of shares of Capital Stock of IBH outstanding as of such date.

"**Officer**" means, with respect to any Person, the chairman or any executive director of the Board of Directors, the chief executive officer and the chief financial officer of such Person or a responsible accounting or financial officer of such Person.

"**Officer's Certificate**" means a certificate signed by an Officer.

"**Opération Blanche**" means, in the case of an increase of the share capital of Continental, the sale and disposal by the Parent Guarantor to a third party of a portion of the subscription rights

(*Bezugsrechte*) for shares of Capital Stock of Continental arising for its benefit as a result of such capital increase, and the direct and immediate use of the net proceeds of such sale and disposal towards the acquisition of additional shares of Capital Stock of Continental by the Parent Guarantor by exercising other subscription rights arising for its benefit as a result of that capital increase.

"**Parent Entity**" means any direct or indirect parent company or entity of the Parent Guarantor.

"**Parent Guarantor Group**" means the Parent Guarantor and its Restricted Subsidiaries, other than the Company and its Restricted Subsidiaries.

"**Parent Guarantor Group Asset Sale**" means any Asset Sale by any member of the Parent Guarantor Group, other than any Asset Sale of Unrestricted Continental Shares; provided that an Asset Sale shall not be a Parent Guarantor Group Asset Sale if, at the time of such Asset Sale, the Combined Leverage Ratio is less than 4.25 to 1.0.

"**Parent Guarantor Group Facilities Agreement**" means the €3,875,000,000 Syndicated Term Loan and Revolving Credit Facilities Agreement, dated July 16, 2013, among, inter alia, the Parent Guarantor, as borrower, the arrangers named therein, and Commerzbank Aktiengesellschaft, Filiale Luxembourg, as agent and security trustee, as amended, as amended, restated or otherwise modified or varied from time to time.

"**Parent Guarantor Group Unrestricted Continental Shares**" means:

(1) upon (i) Leverage having been reduced to 3.125 to 1.0 or less for the two most recent consecutive Testing Dates in respect of which Compliance Certificates have been delivered and (ii) the Total Debt of the members of the Parent Guarantor Group having been reduced to an amount of €2,200.0 million or less, a number of shares equal to 25% of shares of Capital Stock of Continental then held by any member of the Parent Guarantor Group and forming part of the Collateral (including for the purposes of this calculation any Pre-Designated Unrestricted Continental Shares previously sold or disposed of by such member of the Parent Guarantor Group);

(2) upon (i) Leverage having been reduced to 2.625 to 1.0 or less for the two most recent consecutive Testing Dates in respect of which Compliance Certificates have been delivered and (ii) the Total Debt of the members of the Parent Guarantor Group has been reduced to an amount of €1,500.0 million or less, an additional number of shares equal to 33% of shares of Capital Stock of Continental then held by any member of the Parent Guarantor Group and forming part of the Collateral (including for the purposes of this calculation any Pre-Designated Unrestricted Continental Shares previously sold or disposed of by such member of the Parent Guarantor Group, and not counting shares which previously became Parent Guarantor Group Unrestricted Continental Shares pursuant to the foregoing clause (1)); and

(3) upon at least two of the following ratings having been assigned: (i) a long-term corporate family rating of Baa3 (or the equivalent) or higher assigned to the Company (or to the Company and its Subsidiaries) by Moody's, (ii) a long-term corporate credit rating of BBB- (or the equivalent) or higher assigned to the Company by S&P and (iii) the equivalent type of rating of BBB- (or the equivalent) or higher assigned to the Company by Fitch, any remaining shares of Capital Stock of Continental then held by any member of the Parent Guarantor Group; provided, in case of this clause (3), that at such time the Parent Guarantor holds directly or indirectly through one or more Restricted Subsidiaries, shares of Capital Stock of the Company and IBH representing more than 50% of the voting power of the Company's and IBH's Voting Stock, respectively;

provided that:

(a) the respective number of shares of Capital Stock of Continental that constitute Parent Guarantor Group Unrestricted Continental Shares pursuant to clause (1) or (2) above shall be reduced by the number of Pre-Designated Unrestricted Continental Shares previously sold or disposed of by such member of the Parent Guarantor Group; and

(b) shares of Capital Stock of Continental acquired by a member of the Parent Guarantor Group in reliance on clause (14)(b) of the third paragraph of the covenant described under the caption "*Certain covenants—Limitation on Restricted Payments*" shall only constitute Parent Guarantor Group Unrestricted Continental Shares pursuant to clauses (2) or (3) above.

For purposes of clauses (1) and (2) of this definition of Parent Guarantor Group Unrestricted Continental Shares only, the terms "Total Debt", "Leverage", "Testing Date" and "Compliance Certificate" shall have the respective meanings given to such terms in the Schaeffler Group Senior Facilities Agreement as in effect on the Issue Date.

If any Parent Guarantor Group Unrestricted Continental Shares are sold, leased, conveyed or otherwise transferred to the Company or any of its Restricted Subsidiaries, such shares will continue to be Parent Guarantor Group Unrestricted Continental Shares for all purposes of the Indenture and will not in any event become Schaeffler Group Unrestricted Continental Shares.

"**Pari Passu Indebtedness**" means (i) any Indebtedness of the Issuer which is *pari passu* in right of payment with the Notes and (ii) with respect to the Note Guarantee, Indebtedness which is *pari passu* in right of payment with the Note Guarantee.

"**Permitted Business**" means (i) any business, services or activities engaged in by the Parent Guarantor or any of its Restricted Subsidiaries on the Issue Date; and (ii) any businesses, services and activities that are related, complementary, incidental, ancillary or similar to any of the foregoing, or are extensions or developments of any thereof.

"**Permitted Collateral Liens**" means the following types of Liens on the Collateral:

(i) Liens on the Collateral to secure the Notes and the Note Guarantee issued on the Issue Date and any Additional Notes (including the related Note Guarantee) issued from time to time in payment of accrued interest or Additional Amounts on the Notes;

(ii) Liens on the Collateral to secure Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace or discharge, any Indebtedness which is secured by a Lien on the Collateral pursuant to clause (i) above or this clause (ii); provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantee (x) on a senior or *pari passu* basis, if such Indebtedness is Pari Passu Indebtedness or (y) on a senior basis, if such Indebtedness is Subordinated Debt; provided, further, that each of the parties thereto will have entered into the Intercreditor Agreement;

(iii) Liens on the Collateral to secure Indebtedness of the Issuer and the Parent Guarantor permitted under clause (1) or (12)(b) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*" (other than Indebtedness exchangeable into shares of Capital Stock of Continental that have been released from the Collateral pursuant to clause (8) of the first paragraph under "*Security—Release*"); provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantee (x) on a senior or *pari passu* basis, if such Indebtedness is Pari Passu Indebtedness or (y) on a senior basis, if such Indebtedness is Subordinated Debt, except that in case of Indebtedness under revolving Credit Facilities incurred under clause (1) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*" and not exceeding a principal amount of €200.0 million, the security of the Notes and the Note Guarantee may rank junior with respect to distributions of proceeds of any enforcement of no more than 66⅓% of the aggregate number of shares of Capital Stock of the Company forming part of the Collateral (provided that such Indebtedness is not secured by, and is not entitled to receive any proceeds from any enforcement of, the remaining portion of shares of Capital Stock of the Company forming part of the Collateral); provided, further, that each of the parties thereto will have entered into the Intercreditor Agreement;

(iv) Liens securing the Parent Guarantor's or the Issuer's obligations under Hedging Obligations (other than Hedging Obligations in respect of commodity prices and only to the extent such Hedging Obligations relate to Indebtedness referred to in clauses (i) through (iii) above) permitted by clause (11)(b) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness;*" provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantee on a senior or *pari passu* basis; provided, further, that each of the parties thereto will have entered into the Intercreditor Agreement; and

(v) Liens of the type described in clauses (iii), (iv), (v), (vi), (vii), (viii)(B), (x), (xv), (xvii), (xviii), (xix), (xxi), (xxii), (xxiii), (xxvi), (xxviii) and (xxix) of the definition of Permitted Liens (without giving effect to the proviso to the definition of such term).

For the avoidance of doubt, for purposes of this definition of "Permitted Collateral Liens" a Lien with respect to any asset shall be deemed to be incurred in connection with any acquisition of the asset subject to such Lien (including by way of a merger or similar business combination) at the time such acquisition (or such merger or similar business combination) becomes effective.

"**Permitted Holders**" means the Family Shareholders and Related Parties. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"**Permitted Investment**" means any of the following:

(a) Investments in: (i) the Parent Guarantor or a Restricted Subsidiary; or (ii) another Person if as a result of such Investment such other Person becomes a Restricted Subsidiary or such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Parent Guarantor or a Restricted Subsidiary;

(b) expenses, loans or advances to cover payroll, travel entertainment, moving, other relocation and similar matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS;

(c) Investments existing on, or made pursuant to legally binding commitments in existence on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; provided that the amount of any such Investment may be increased (x) as required by the terms of such Investment as in existence on the Issue Date; or (y) as otherwise permitted under the Indenture;

(d) loans and advances (or guarantees to third party loans, but not any forgiveness of such loans or advances) to directors, officers or employees of the Parent Guarantor or any of its Subsidiaries made in the ordinary course of business and consistent with the Parent Guarantor's past practices or past practices of the Subsidiaries, as the case may be, in an amount outstanding not to exceed at any one time €15.0 million;

(e) Investments in a Person to the extent that the consideration therefor consists of the net proceeds of the substantially concurrent issue and sale (other than to any Subsidiary of the Parent Guarantor) of shares of the Parent Guarantor's Qualified Capital Stock; provided that the net proceeds of such sale have been excluded from, and shall not have been included in, the calculation of the amount determined under clause (3)(b) of the second paragraph of the covenant described under the caption "*—Limitation on Restricted Payments;*"

(f) (i) stock, obligations or securities received in satisfaction of judgments, foreclosure of liens or settlement of debts; and (ii) any Investments received in compromise or resolution of (x) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Parent Guarantor or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (y) litigation, arbitration or other disputes;

(g) Investments resulting from the acquisition of a Person that at the time of such acquisition held instruments constituting Investments that were not acquired in contemplation of the acquisition of such Person;

(h) Investments in joint ventures (other than an Investment in a Parent Entity or any Affiliate of a Parent Entity (other than a Person who is an Affiliate of a Parent Entity solely because the Parent Guarantor or one of its Restricted Subsidiaries owns any Equity Interest in such Person) having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value) not to exceed, when taken together with all other Investments made pursuant to this clause (h) that are at the time outstanding, the greater of (i) €600.0 million; and (ii) 5.0% of Total Assets; provided, however, that if any Investment pursuant to this clause is made in a Person that is not a Restricted Subsidiary at the date of the making of such Investment and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under the caption "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries,*" such Investment shall thereafter be deemed to have been made pursuant to clause (a) of the definition of "Permitted Investments" and not this clause (h);

(i) Investments in cash or Cash Equivalents;

(j) Investments in the Notes (including any Additional Notes) and any other indebtedness of the Parent Guarantor or any Restricted Subsidiary;

(k) Investments represented by Hedging Obligations permitted by clause (11)(b) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*";

(l) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business; or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "*—Certain covenants—Limitation on Liens;*"

(m) any Investments in connection with a Qualified Securitization Financing, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Securitization Financing or any related Indebtedness;

(n) Investments in receivables owing to the Parent Guarantor or any Restricted Subsidiary created or acquired in the ordinary course of business;

(o) any guarantee of Indebtedness permitted to be incurred by the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness;*"

(p) any Investment to the extent made using as consideration Qualified Capital Stock of the Parent Guarantor, Subordinated Shareholder Debt or Capital Stock of any Parent Entity;

(q) other Investments in any Person (other than an Investment in a Parent Entity or any Affiliate of a Parent Entity (other than a Person who is an Affiliate of a Parent Entity solely because the Parent Guarantor or one of its Restricted Subsidiaries owns any Equity Interest in such Person)) having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (q) that are at the time outstanding not to exceed the greater of €600.0 million and 5.0% of Total Assets;

provided, however, that if any Investment pursuant to this clause is made in a Person that is not a Restricted Subsidiary at the date of the making of such Investment and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under the caption "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries,*" such Investment shall thereafter be deemed to have been made pursuant to clause (a) of the definition of "Permitted Investments" and not this clause (q); and

(r) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "*—Repurchase at the option of Holders—Asset Sales.*"

"**Permitted Liens**" means:

(i) any Lien securing the Notes (including any Additional Notes) and/or the Note Guarantee;

(ii) any Lien existing on the Issue Date;

(iii) any Lien imposed by law, such as carriers', warehousemen's, landlord's and mechanic's Liens, in each case included in the ordinary course of business;

(iv) any Lien on property at the time the Parent Guarantor or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Company or any Restricted Subsidiary of the Company; provided that such Lien is not created, incurred or assumed in connection with, or in contemplation of, such acquisition and does not extend to any other property owned by the Parent Guarantor or any Restricted Subsidiary;

(v) any Lien on property (including Capital Stock) of a Person existing at the time such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company or any Restricted Subsidiary of the Company; provided that such Lien was in existence prior to the contemplation of such Person becoming a Restricted Subsidiary of the Company or such merger or consolidation, was not incurred in contemplation thereof and does not extend to any assets other than those of the person that becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company or any Restricted Subsidiary of the Company;

(vi) any Lien arising in connection with conditional sale, retention of title, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(vii) any Lien arising under general business conditions in the ordinary course of business other than as a result of a default, including without limitation the general business conditions of any bank or financial institution with whom the Parent Guarantor or any of its Restricted Subsidiaries maintains a banking relationship in the ordinary course of business (but, for the avoidance of doubt, other than any Lien in respect of borrowed money);

(viii) any Lien to secure (A) Indebtedness under Hedging Obligations and (B) cash management arrangements, in each case permitted to be incurred by clause (11) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*":

(ix) any Lien in favor of the Parent Guarantor or any Restricted Subsidiary;

(x) any Lien securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(xi) any Lien on Securitization Assets and related assets incurred in connection with any Qualified Securitization Financing (including Liens encumbering cash deposits in bank accounts established in connection with a Qualified Securitization Financing and Liens encumbering cash and Cash Equivalents collected from receivables that are part of or subject to a Qualified Securitization Financing);

(xii) any Lien created or subsisting in order to comply with the requirements of Section 8a of the German Altersteilzeitgesetz and of section 7e of the German Social Security Code (*Sozialgesetzbuch IV*) or any comparable non-German law legal requirement;

(xiii) any Lien to secure Indebtedness permitted by clause (6) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*" covering only the assets acquired with such Indebtedness;

(xiv) any Lien on any proceeds loan made by the Parent Guarantor or any Restricted Subsidiary in connection with any future incurrence of Indebtedness permitted to be incurred under the Indenture and securing that Indebtedness;

(xv) any bankers' Liens, rights of set off or similar rights and remedies as to deposit accounts (including any Lien created or subsisting over any asset held in any securities depositary or any clearing house pursuant to the standard terms and procedures of the relevant securities depositary or clearing house applicable in the normal course of trading), any Lien arising out of judgments or awards not constituting an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(xvi) any Lien created or subsisting over any assets of, shares in, or debts or other obligations of, a Project Company or special purpose company securing Indebtedness incurred by that Project Company or special purpose company in order to finance a project or asset (provided the incurrence of such Indebtedness is permitted under the Indenture and the Fair Market Value of any assets (including cash) made available by the Parent Guarantor and its Restricted Subsidiaries to such Project Companies or special purpose companies does not in the aggregate exceed €100 million at any time);

(xvii) Liens to secure the performance of statutory obligations, trade contracts, insurance, surety or appeal bonds, workers' compensation obligations, leases, performance bonds, guarantees, bankers' acceptances or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations);

(xviii) Liens for taxes, assessments or government charges or claims not yet due or payable or subject to penalties for non-payment or which are being contested in good faith and for which a reserve or other appropriate provision, if any, as will be required in conformity with IFRS will have been made;

(xix) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(xx) leases, licenses, subleases and sublicenses of assets in the ordinary course of business;

(xxi) survey exceptions, encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, utility agreements, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(xxii) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Parent Guarantor or any Restricted Subsidiary has easement rights or on any real property leased by the Parent Guarantor or any Restricted Subsidiary and subordination or similar agreements relating thereto and (b) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(xxiii) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(xxiv) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(xxv) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;

(xxvi) any interest or title of a lessor under any operating lease;

(xxvii) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(xxviii) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(xxix) Liens arising from U.S. Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Person in the ordinary course of business

(xxx) Permitted Collateral Liens;

(xxxi) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (i) through (xxx) and the following clauses (xxxii) and (xxxiv); provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured the Indebtedness being refinanced or is in respect of property that is the security for a Permitted Lien hereunder;

(xxxii) any Lien over assets of the Company or any of its Restricted Subsidiaries securing obligations (including Indebtedness) of the Company or any of its Restricted Subsidiaries; provided that, at the time of incurrence and after giving *pro forma* effect thereto, the aggregate amount of obligations (including Indebtedness) outstanding secured by such Liens pursuant to this clause (xxxii) does not exceed 5.0% of Total Assets;

(xxxiii) Liens on Unrestricted Continental Shares securing Indebtedness permitted to be incurred under the Indenture;

(xxxiv) any Lien created or subsisting over any assets of any Restricted Subsidiary of the Company incorporated in Brazil, China, India or South Korea securing Indebtedness permitted to be incurred under the Indenture;

(xxxv) Liens on the assets of the Company and its Restricted Subsidiaries to secure Indebtedness of the Company and its Restricted Subsidiaries; and

(xxxvi) Liens on shares of Capital Stock of Continental released from the Collateral pursuant to clause (8) of the first paragraph under "*Security—Release*" securing Exchangeable Securities;

provided, in each case, that any Lien securing Indebtedness under the Parent Guarantor Group Facilities Agreement or (other than Liens described in clauses (xxxiii) and (xxxvi)) securing Indebtedness incurred under Credit Facilities to refinance such Indebtedness shall not be a Permitted Lien.

For the avoidance of doubt, for purposes of this definition of "Permitted Liens" a Lien with respect to any asset shall be deemed to be "incurred" in connection with any acquisition of the asset subject to such Lien (including by way of a merger or similar business combination) at the time such acquisition (or such merger or similar business combination) becomes effective.

"**Permitted Refinancing Indebtedness**" means any Indebtedness of the Parent Guarantor or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, exchange, defease or discharge other indebtedness of the Parent Guarantor or any Restricted Subsidiary (other than intercompany Indebtedness (other than any proceeds loan)); *provided* that:

(1) the aggregate principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has (a) a final maturity date that is either (i) no earlier than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; or (ii) after the final maturity date of the Notes; and (b) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;

(3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is expressly contractually subordinated in right of payment to the Notes or the Note Guarantee, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantee, as the case may be, on terms at least as favorable to the Holders or the Note Guarantee, as the case may be, as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged;

(4) such Indebtedness is incurred either by the Issuer or the Parent Guarantor if the Issuer or the Parent Guarantor was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and

(5) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is Indebtedness of the Company or any Restricted Subsidiary of the Company, such Indebtedness is incurred only by the Company or a Restricted Subsidiary of the Company.

"**Permitted Upstream Payments**" means the declaration and payment of dividends or other distributions or the making of loans by the Parent Guarantor or its Restricted Subsidiaries or the making of payments of principal or interest on any Subordinated Shareholder Debt, in each case to any Restricted Person for the purposes of (1) the payment of taxes (including withholding taxes incurred in relation to a dividend or other distribution), interest, tax advisory costs, and other administration costs or expenses, in each case as incurred and due and owing and/or payable by INA-Holding Schaeffler GmbH & Co. KG or any of its Subsidiaries (other than the Parent Guarantor and its Subsidiaries or (other than with respect to payment of interest) any other Restricted Person, (2) to fund the payment of interest by a Restricted Person on any loan made available by the Parent Guarantor or any of its Restricted Subsidiaries to such Restricted Person, (3) the reimbursement for delivery or services by INA-Holding Schaeffler GmbH & Co. KG or any of its Subsidiaries (other than the Parent Guarantor and its Subsidiaries) to the Parent Guarantor or any of its Restricted Subsidiaries on terms that are no less favorable to the Parent Guarantor or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent Guarantor or such Restricted Subsidiary with an unrelated Person, or (4) the refinancing of any Indebtedness or other Obligation incurred by a Restricted Person for any of the purposes described in clause (1) or (3) above from sources other than a distribution or payment made by the Parent Guarantor or any of its Restricted Subsidiaries to any Restricted Person; provided that at the time a Permitted Upstream Payment is made the relevant payment obligation of the respective Restricted Person (i) is due and payable, (ii) was due and payable and paid from other sources than a distribution or payment made by the Parent Guarantor to the relevant Restricted Person, or (iii) is anticipated to become due and payable, provided that the aggregate amount of all advance payments made under this clause (iii) shall not exceed €10.0 million at any time.

The Parent Guarantor shall procure that the amount of any tax reimbursement received by any Restricted Person which relates to any tax payments which were funded from, or refinanced by, a Permitted Upstream Payment (including, for the avoidance of doubt, the payment of any withholding tax made by the Parent Guarantor with respect to any dividend declared to any Restricted Person) shall be paid to the Parent Guarantor without undue delay following receipt of such payment by a Restricted Person.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company or government or other entity.

"**Pre-Designated Unrestricted Continental Shares**" means those shares of Capital Stock of Continental held by any member of the Parent Guarantor Group that are designated by the Parent Guarantor as "Pre-Designated Unrestricted Continental Shares" by delivering to the Trustee an Officer's Certificate, signed by two managing directors of the Parent Guarantor (or one managing director, if such managing director has sole power of representation) and two members of the Board of Directors of the Company, certifying that:

(i) no Default or Event of Default has occurred and is continuing;

(ii) no later than 20 Business Days following the date the Lien created by the Security Documents over the Pre-Designated Unrestricted Continental Shares is released, the respective conditions under clause (1), (2) or (3) of the definition of "Parent Guarantor Group Unrestricted Continental Shares" will be satisfied so that by the end of such period the relevant Pre-Designated Unrestricted Continental Shares would constitute Parent Guarantor Group Unrestricted Continental Shares if they were still held by the Parent Guarantor (provided that for the purposes of this clause, (x) clause (a) of the proviso to the definition of the term "Parent Guarantor Group Unrestricted Continental Shares" shall be disregarded and (y) Leverage and Total Debt in clause (1) or (2), as applicable, of the definition of "Parent Guarantor Group Unrestricted Continental Shares" shall be calculated by giving pro forma effect to the effects of the transaction in the context of which the relevant disposal of such Pre-Designated Unrestricted Continental Shares is made, as if they had occurred at the dates as of which Leverage and Total Debt is required to be calculated under such clauses); and

(iii) the Pre-Designated Unrestricted Continental Shares will be used in the manner set forth as required by the proviso to the final paragraph under the heading "*—Repurchase at the option of Holders—Asset Sales*";

provided that shares may be designated as Pre-Designated Unrestricted Continental Shares only if and to the extent that at the time of such designation the total number of shares of Capital Stock of Continental contemplated to be disposed of by any member of the Parent Guarantor Group exceeds the number of Parent Guarantor Group Unrestricted Continental Shares; and provided further that, at any time when a Default or Event of Default exists, none of the shares of Capital Stock of Continental shall be Pre-Designated Unrestricted Continental Shares.

"**Pre-Expansion European Union**" means the European Union as of January 1, 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after January 1, 2004; *provided* that "Pre-Expansion European Union" shall not include any country whose long-term debt does not have a long-term rating of at least "AA" by S&P or at least "Aa2" by Moody's or the equivalent rating category of another internationally recognized rating agency.

"**Project Company**" means any Restricted Subsidiary of the Company whose principal activity is or will be the ownership, development and/or operation of a specified project and whose creditors do not have recourse to, or the benefit of, any guarantee, indemnity, bond or security granted by the Parent Guarantor or any of its other Restricted Subsidiaries (other than in relation to shares in or obligations owed by such Project Company).

"**Projected Available RCF Drawings**" means, as of any date of determination, the projected average weekly balance of amounts available for drawing under the revolving credit facility of the Schaeffler Group Senior Facilities Agreement (and the revolving credit facility of any Credit Facility that refinances or replaces the Schaeffler Group Senior Facilities Agreement) for the three-month period commencing on the calendar day next following the relevant interest payment date. The Projected Available RCF Drawings shall be determined in good faith by the chief financial officer of the Company on the basis of the liquidity planning system of the Company. For the avoidance of doubt, such determination shall not be a duty of the Trustee or any Paying Agent.

"**Projected Cash Balance**" means, as of any date of determination, the projected average weekly balance of the aggregate amount of cash and Cash Equivalents of the Parent Guarantor and its Restricted Subsidiaries (including, for the avoidance of doubt, any amounts deposited in the Interest Reserve Account (as defined below)) for the three-month period commencing on the calendar day next following the relevant interest payment date. The Projected Cash Balance shall be determined in good faith by the chief financial officer of each of the Parent Guarantor and the Company on the basis of the liquidity planning system of the Parent Guarantor and the Company and shall give *pro forma* effect to the payment of any Cash Interest payable on the Notes and any cash interest payable under the Parent Guarantor Group Facilities Agreement during the relevant period. For the avoidance of doubt, such determination shall not be a duty of the Trustee or any Paying Agent.

"**Projected Leverage**" means, as of any date of determination, Leverage projected by the Company to exist on the Relevant Testing Date. Projected Leverage shall be determined in good faith by the chief financial officer of the Company on the basis of consolidated financial data and budgets of the Company that are available as of such date of determination and shall give *pro forma* effect to the distribution (by way of dividend, loan or otherwise) by the Company to the Parent Guarantor or the Issuer of cash in an amount required to pay any Cash Interest payable on the Notes and any cash interest payable under the Parent Guarantor Group Facilities Agreement during the relevant period. For the avoidance of doubt, such determination shall not be a duty of the Trustee or any Paying Agent.

"**Projected Liquidity**" means, as of any date of determination, the sum of (i) the Projected Cash Balance as of such date and (ii) the Projected Available RCF Drawings as of such date.

"**Public Equity Offering**" means, with respect to any Person, a bona fide underwritten primary public offering of the shares of common stock or common equity interests of such Person, either:

(1) pursuant to a listing on the regulated market of the Frankfurt Stock Exchange or any other nationally recognized regulated stock exchange or listing authority in a member state of the Pre-Expansion European Union; or

(2) pursuant to an effective registration statement under the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to Equity Interests issued or issuable under any employee benefit plan).

"**Public Market**" means, any time after:

(1) a Public Equity Offering of the IPO Entity has been consummated; and

(2) at least 20% of the total issued and shares of common stock or common equity interests of the IPO Entity has been distributed to investors other than the Permitted Holders (or any Subsidiary or immediate family member thereof or any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a 50% or more controlling interest of which consists of any one or more Permitted Holders or such Subsidiary or family shareholder thereof) or any other direct or indirect shareholders of the Company as of the Issue Date.

"**Qualified Capital Stock**" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

"**Qualified Securitization Financing**" means any financing pursuant to which the Company or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to any other Person or grant a security interest in, any Securitization Assets (and related assets) in any aggregate principal amount equivalent to the Fair Market Value of such Securitization Assets (and related assets) of the Company or any of its Restricted Subsidiaries; *provided* that (a) the covenants, events of default and other provisions applicable to such financing shall be on market terms (as determined in good faith by the Company's Board of Directors or senior management) at the time such financing is entered into; (b) the interest rate applicable to such financing shall be a market interest rate (as determined in good faith by the Company's Board of Directors or senior management) at the time such financing is entered into; and (c) such financing shall be non-recourse to the Parent Guarantor or any of its Restricted Subsidiaries except to a limited extent customary for such transactions (as determined in good faith by the Parent Guarantor's Board of Directors or senior management).

"**Rating Agencies**" means Moody's and S&P; *provided* that if S&P, Moody's or any Successor Rating Agency (as defined below) shall cease to be in the business of providing rating services for debt securities generally, the Issuer shall be entitled to replace any such Rating Agency or Successor Rating Agency, as the case may be, which has ceased to be in the business of providing rating services for debt securities generally, with (i) Fitch, if Fitch is then in the business of providing rating services for debt securities generally, or (ii) if Fitch is then not in the business of providing rating services for debt securities generally or Fitch is already a Successor Rating Agency, any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Issuer as a replacement agency (any such rating agency pursuant to clause (i) or (ii), as the case may be, a "**Successor Rating Agency**").

"**Redeemable Capital Stock**" means any class or series of Capital Stock that, either by its terms, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, matures or is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the Notes or is redeemable at the option of the holder thereof at any time prior to such final Stated Maturity (other than upon a change of control of the Parent Guarantor in circumstances in which the Holders would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity; *provided* that any Capital Stock that would constitute Qualified Capital Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of any "change of control" or "asset sale" occurring prior to the Stated Maturity of the Notes will not constitute Redeemable Capital Stock if the "change of control" or "asset sale" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "*—Repurchase of the Option of the Holders—Change of Control*" and "*—Repurchase of the Option of the Holders—Asset Sales*" and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Notes as are required to be repurchased pursuant to "*—Repurchase of the Option of the Holders—Change of Control*" and "*—Repurchase of the Option of the Holders—Asset Sales*".

"**Related Party**" means:

(1) any controlling stockholder, partner or member, or any 50% (or more) owned Subsidiary, or immediate family member (in the case of an individual), of any Family Shareholder; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a 50% or more controlling interest of which consist of any one or more Family Shareholders and/or such other Persons referred to in the immediately preceding clause.

"**Relevant Testing Date**" means, with respect to any interest payment date, the Testing Date next following such interest payment date.

"**Restricted Investment**" means an Investment other than a Permitted Investment.

"**Restricted Payment**" means any of the following:

(a) to declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Capital Stock of the Parent Guarantor or any of its Restricted Subsidiaries (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other combination involving the Parent Guarantor or any Restricted Subsidiary and including any distribution by way of payment of withholding tax with respect to dividends declared) (other than to the Parent Guarantor or any Restricted Subsidiary) except for dividends or distributions payable solely in the Parent Guarantor's Qualified Capital Stock or in options, warrants or other rights to acquire Qualified Capital Stock or in Subordinated Shareholder Debt;

(b) to purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other combination), directly or indirectly, any Capital Stock of the Parent Guarantor or any Parent Entity;

(c) to make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Debt (other than intercompany Indebtedness between the Parent Guarantor and any of its Restricted Subsidiaries or among Restricted Subsidiaries of the Parent Guarantor) except (i) a payment of interest or principal at the Stated Maturity thereof; or (ii) the purchase, repurchase or other acquisition of Indebtedness purchased in anticipation of satisfying a scheduled sinking fund obligation, principal installment or scheduled maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition;

(d) to make any payment (whether made in cash, securities or other property, except for the Parent Guarantor's Qualified Capital Stock, options, warrants or other rights to acquire Qualified Capital Stock or Subordinated Shareholder Debt) on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt; or

(e) to make any Restricted Investment.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the Fair Market Value of the asset to be transferred as at the date of transfer.

"**Restricted Person**" means (i) any direct or indirect shareholder of the Parent Guarantor, (ii) any Subsidiary of any Person referred to in clause (i), any company or corporation in respect of which any company or entity referred to in clause (i) is a Subsidiary, and (iii) any other Subsidiary of any company or entity referred to in clause (ii), in each case other than the Parent Guarantor and its Subsidiaries.

"**Restricted Subsidiary**" means any Subsidiary of the Parent Guarantor that is not an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services.

"**Schaeffler Group Security Documents**" means the security agreements, the pledge agreements, the collateral assignments and other instruments and documents executed and delivered pursuant to the indentures governing the Existing Notes and under the Schaeffler Group Senior Facilities Agreement or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time.

"**Schaeffler Group Security Pooling and Intercreditor Agreement**" means the security pooling and Intercreditor agreement dated as of January 27, 2012 made between, among others, Schaeffler Finance B.V., the Company and certain Subsidiaries of the Company, the mandated lead arrangers under the Schaeffler Group Senior Facilities Agreement, the lenders under the Schaeffler Group Senior Facilities Agreement, Deutsche Bank Luxembourg, S.A., as general security trustee, Commerzbank Aktiengesellschaft, Luxembourg Branch, as Continental shares security trustees, the agent for the Schaeffler Group Senior Facilities Agreement, the trustees under the Existing Notes, certain hedging counterparties, the Parent Guarantor and the other parties named therein, as amended, restated or otherwise modified or varied from time to time.

"**Schaeffler Group Senior Facilities Agreement**" means the €4,475,000,000 and $1,500,000,000 syndicated senior term loan and revolving credit facilities agreement originally dated December 14, 2012, among, among others, the Company, IBH, certain of the Company's other subsidiaries, Barclays Bank PLC, Bayerische Landesbank, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, HSBC Bank plc., J.P. Morgan Limited, Landesbank Baden-Württemberg and UniCredit Bank AG, as arrangers, and Deutsche Bank Luxembourg S.A., as agent, as amended, restated or otherwise modified or varied from time to time.

"**Schaeffler Group Unrestricted Continental Shares**" means those shares of Capital Stock of Continental held by the Company or any of its Restricted Subsidiaries that are "Unrestricted Continental Shares" pursuant to the terms of the Schaeffler Group Senior Facilities Agreement (or, if the S- Group Senior Facilities Agreement has been replaced, including by way of a refinancing, by another syndicated credit facility agreement, pursuant to the terms of such agreement, as amended) from time to time; provided that (i) for purposes of the covenant described under the heading "*—Certain covenants—Limitation on Restricted Payments*" only, the specific type of Restricted Payments contemplated to be made in relation to such Schaeffler Group Unrestricted Continental Shares is then permitted pursuant to the terms of the Schaeffler Group Senior Facilities Agreement or such other agreement (including any amendment thereto), as the case may be, including by operation of a waiver obtained under such agreement and (ii) for purposes of the definition of the term "Asset Sale" only, the sale, lease, conveyance or other disposition of such Schaeffler Group Unrestricted Continental Shares is, at the relevant time, permitted pursuant to the terms of the Schaeffler Group Senior Facilities Agreement or such other agreement (including any amendment thereto), as the case may be, including by operation of a waiver obtained under such agreement, without the requirement of a mandatory repayment, prepayment or repurchase of any Indebtedness outstanding under such agreement. Upon transfer of any Schaeffler Group Unrestricted Continental Shares to any member of the Parent Guarantor Group, such shares will cease to be Schaeffler Group Unrestricted Continental Shares for all purposes of the Indenture.

"**Securitization Assets**" means any accounts receivable, inventory, royalty or revenue streams from sales of inventory.

"**Securitization Fees**" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not the Parent Guarantor or any of its Restricted Subsidiaries in connection with any Qualified Securitization Financing.

"**Securitization Repurchase Obligation**" means any obligation of a seller of Securitization Assets in a Qualified Securitization Financing to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"**Security Documents**" means the security agreements, the pledge agreements, the collateral assignments and other instruments and documents executed and delivered pursuant to the Indenture or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time and pursuant to which the Collateral is pledged, assigned or granted to or on behalf of the Security Trustee for the benefit of (among others) the Holders and the Trustee or notice of such pledge, assignment or grant is given.

"**Significant Subsidiary**" means, at the date of determination, any Restricted Subsidiary that together with its Subsidiaries that are Restricted Subsidiaries (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Company; or (ii) as of the end of the most recent fiscal year, was the owner of more than 10% of the consolidated assets of the Company.

"**Stated Maturity**" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"**Subordinated Debt**" means Indebtedness of the Issuer or the Parent Guarantor that is expressly subordinated in right of payment to the Notes or the Note Guarantee, as the case may be, pursuant to a written agreement.

"**Subordinated Shareholder Debt**" means, collectively, any debt provided to the Parent Guarantor by any Parent Entity or any Family Shareholder or Related Party, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Debt; *provided* that such Subordinated Shareholder Debt:

(1) does not (including upon the happening of any event) mature or require any amortization or other payment of principal prior to the first anniversary of the final maturity of the Notes (other than through conversion or exchange of any such security or instrument for Equity Interests of the Parent Guarantor (other than Redeemable Capital Stock) or for any other security or instrument meeting the requirements of the definition);

(2) does not (including upon the happening of any event) require the payment of cash interest prior to the first anniversary of the final maturity of the Notes;

(3) does not (including upon the happening of any event) provide for the acceleration of its maturity nor confers on its shareholders any right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, in each case, prior to the first anniversary of the final maturity of the Notes;

(4) is not secured by a lien on any assets of the Parent Guarantor or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Parent Guarantor;

(5) is subordinated in right of payment to the prior payment in full in cash of the Notes and the Note Guarantee in the event of any default, bankruptcy, reorganization, liquidation, winding up or other disposition of assets of the Issuer and the Parent Guarantor at least to the same extent as the "Parent Liabilities" (as defined in the Intercreditor Agreement) are subordinated to the Notes and the Note Guarantee under the Intercreditor Agreement;

(6) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or the Note Guarantee or compliance by the Issuer or the Parent Guarantor with their respective obligations under the Notes, the Note Guarantee and the Indenture;

(7) does not (including upon the happening of an event) constitute Voting Stock; and

(8) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Capital Stock (other than Redeemable Capital Stock) of the Parent Guarantor;

provided, however, that any event or circumstance that results in such Indebtedness ceasing to qualify as Subordinated Shareholder Debt, such Indebtedness shall constitute an incurrence of such Indebtedness by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the incurrence of such Indebtedness and any dividend payments made in the form of Subordinated Shareholder Debt since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"**Subsidiary**" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise; and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity,

provided that none of Continental and its Subsidiaries shall at any time or under any circumstances qualify or be treated as a Subsidiary of the Parent Guarantor or any of its Subsidiaries unless (a) a domination agreement (*Beherrschungsvertrag*), an integration (*Eingliederung*), a management agreement (*Betriebsführungsvertrag*), a business surrender agreement (*Betriebsüberlassungsvertrag*) or a business lease agreement (*Betriebspachtvertrag*), each as contemplated in sections 291, 292 and 319 of the German Stock Corporation Act (*Aktiengesetz*) has become effective between Continental and/or any of its Subsidiaries as dominated entity and the Parent Guarantor or any of its Restricted Subsidiaries as dominating entity (*provided, further* that neither the Parent Guarantor nor any of its Restricted Subsidiaries may enter into a profit and loss pooling agreement (*Gewinnabführungsvertrag*) with any member of Continental Group without a domination agreement with Continental being in place); or (b) Continental or its Subsidiaries would be required to be fully consolidated in consolidated financial statements of the Parent Guarantor or its Subsidiaries prepared in accordance with IFRS (and based on accounting interpretations thereof as in effect as of the Issue Date); and provided further that Schaeffler Beteiligungsholding GmbH & Co. KG and any other entity through which the Parent Guarantor or any of its Subsidiaries holds any shares in Continental from time to time and in which the Parent Guarantor or any of its Subsidiaries (directly or indirectly) holds any share or interest shall in any event be deemed to be a Subsidiary of the Parent Guarantor.

"**Tax**" means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other additions thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax)."**Taxes**" and "**Taxation**" shall be construed to have corresponding meanings.

"**Testing Date**", as used in the section entitled "*—Interest*", has the meaning assigned to such term in the Schaeffler Group Senior Facilities Agreement as in effect from time to time (or any equivalent term defined in any Credit Facility that refinances or replaces the Schaeffler Group Senior Facilities Agreement).

"**Total Assets**" means the total assets of the Company and its Restricted Subsidiaries as shown on the most recent balance sheet of the Company, determined on a consolidated basis in accordance with IFRS.

"**Treasury Rate**" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to August 15, 2014, in the case of the Dollar Notes; *provided, however,* that if the period from the redemption date to August 15, 2014, is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by a linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the period from the redemption date to August 15, 2014, is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

"**Unrestricted Continental Shares**" means the Schaeffler Group Unrestricted Continental Shares and the Parent Guarantor Group Unrestricted Continental Shares.

"**Unrestricted Subsidiary**" means any Subsidiary of the Parent Guarantor (other than the Issuer and the Company) that is designated by the Board of Directors of the Parent Guarantor as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by the covenant described above under the caption "*—Certain covenants—Transactions with Affiliates,*" is not party to any agreement, contract, arrangement or understanding with the Parent Guarantor or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Parent Guarantor or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Parent Guarantor; and

(3) is a Person with respect to which neither the Parent Guarantor nor any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests; or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results.

"**U.S. Government Securities**" means direct obligations of, or obligations guaranteed by, the United States of America, and the payment for which the United States pledges its full faith and credit.

"**Voting Stock**" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

Limitations on validity and enforceability of the Collateral and certain insolvency law considerations

The validity and enforceability of the Collateral will be subject to certain limitations on enforcement and may be limited under applicable law or subject to certain defenses that may limit its validity and enforceability. The following is a summary description of certain limitations on the validity and enforceability of the Collateral, and a summary of certain insolvency law considerations, in the jurisdictions in which the Issuer, the Parent Guarantor and the providers of Collateral are organized. In the event that any one or more of the Issuer, the Parent Guarantor and the providers of Collateral or any other of the Parent Guarantor's subsidiaries experienced financial difficulties, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or what the outcome of such proceedings would be. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer, the Parent Guarantor and the providers of the Collateral. The descriptions below are only a summary and do not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of Collateral. If additional Collateral is required to be granted pursuant to the Indenture in the future, such Collateral will also be subject to limitations on enforceability and validity, which may differ from those discussed below.

European Union

The Issuer, the Parent Guarantor and Schaeffler Vermögensverwaltungs GmbH are organized under the laws of member states of the European Union.

Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "**EU Insolvency Regulation**"), the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the member state (other than Denmark) where the company concerned has its "center of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its "center of main interests" is a question of fact on which the courts of the different member states may have differing and even conflicting views. Furthermore, "center of main interests" is not a static concept and may change from time to time. Although under Article 3(1) of the EU Insolvency Regulation there is a rebuttable presumption that a company would have its respective "center of main interests" in the member state in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "center" of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties". The European Court of Justice has ruled in a recent judgment that a debtor company's main center of interests must be determined by attaching greater importance to the place of the company's central administration, as may be established by objective factors which are ascertainable by third parties. Where the bodies responsible for the management and supervision of a company are in the same place as its registered office and the management decisions of the company are taken, in a manner that is ascertainable by third parties, in that place, the presumption, that the center of the company's main interests is located in that place, shall be irrebuttable. Where a company's central administration is, however, not in the same place as its registered office, the presence of company assets and existence of contracts for the financial exploitation of those assets in a member state other than that in which the registered office is situated cannot be regarded as sufficient factors to rebut the above mentioned presumption, unless a comprehensive assessment of all relevant factors makes it possible to establish, in a manner that is ascertainable by third parties, that the company's actual center of management and supervision and of the management of its interests is located in that other member state. The factors to be taken into account include, in particular, all places in which the debtor company pursues economic activities and all those in which it holds assets, in so far as they are ascertainable by third parties.

If the center of main interests of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation, with these proceedings governed by the *lex fori concursus, i.e.m* the local laws of the court opening such main insolvency proceeding. Insolvency proceedings opened in one member state under the EU Insolvency Regulation are to be recognized in the other member states (other than Denmark), although secondary proceedings may be opened in another member state. If the "center of main interests" of a debtor is in one member state (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another member state (other than Denmark) have jurisdiction to open "territorial proceedings" only in the event that such debtor has an "establishment" in the territory of such other member state. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other member state. If the company does not have an establishment in any other member state, no court of any other member state has jurisdiction to open territorial proceedings in respect of such company under the EU Insolvency Regulation.

Germany

Insolvency

In the event of insolvency of a provider of Collateral organized under the laws of Germany and/or having its center of main interests in Germany (other than the Parent Guarantor) (together, the "**German Subsidiary Providers**") or the Parent Guarantor subject to the statements made above under the heading "*European Union*," any main insolvency proceedings would most likely be initiated in Germany. Such proceedings would then be governed by German law. The insolvency laws of Germany and, in particular, the provisions of the German Insolvency Code (*Insolvenzordnung*) may not be as favorable to creditors as the insolvency laws of other jurisdictions, including, *inter alia*, in respect of priority of creditors, the ability to obtain post-petition interest as well as security interests and the duration of the insolvency proceedings, and hence may limit the ability of creditors to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the insolvency laws of Germany.

Under German insolvency law, insolvency proceedings are not initiated by the competent insolvency court *ex officio*, but require that the debtor and/or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings can be initiated either by the debtor or by a creditor in the event of over-indebtedness (*Überschuldung*) of the debtor or in the event of illiquidity (*Zahlungsunfähigkeit*), meaning that the debtor is unable to pay its debts as and when they fall due. A debtor is not considered over-indebted when its liabilities exceed the value of its assets if, given the circumstances, it is more likely than not that the debtor's business can survive as a going concern. If a limited liability company (*Gesellschaft mit beschränkter Haftung*), a stock corporation (*Aktiengesellschaft—AG*), a European law stock corporation based in Germany (*Societas Europaea—SE*), any other limited liability company or any company not having an individual as personally liable shareholder finds itself in a situation of illiquidity and/or over-indebtedness, the managing directors of such company are obliged to file for insolvency without delay but not later than three weeks after such illiquidity and/or over-indebtedness was established. In addition, only the debtor can file for the opening of insolvency proceedings in case of impending illiquidity (*drohende Zahlungsunfähigkeit*), if there is the imminent risk for the company of being unable to pay its debts as and when they fall due, whereas impending illiquidity does not give rise to an obligation for the management of the debtor to file for insolvency proceedings.

The insolvency proceedings are controlled by the competent insolvency court, which monitors the due performance of the proceedings. Upon receipt of the insolvency petition, the insolvency court may take preliminary protective measures to secure the property of the debtor during the preliminary proceedings (*Insolvenzeröffnungsverfahren*). The insolvency court may prohibit or suspend any measures taken to enforce individual claims against the debtor's assets during these preliminary proceedings as far as these protective measures are reasonable to protect the debtor's assets and/or to ensure the continuation of the debtor's business.

As part of such protective measures the court may appoint a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*). The rights and duties of the preliminary administrator depend on the decision of the court. The duties of the preliminary administrator may be, in particular, to safeguard and to preserve the debtor's property and to assess whether the debtor's net assets will be sufficient to cover the costs of the insolvency proceedings. Depending on the decision of the court, even the right to manage and dispose of the business and assets of the debtor may pass to the preliminary insolvency administrator.

During preliminary proceedings a "preliminary creditors' committee" (*vorläufiger Gläubigerausschuss*) can be set up if the debtor satisfies two of the following three requirements: a balance sheet total in excess of €4,840,000 (after deducting an equity shortfall if the debtor is over-indebted), revenues of at least €9,680,000 in the twelve months prior to the last balance sheet date and/or fifty or more employees. The preliminary creditor's committee will be able to participate in certain important insolvency court decisions. It will have, for example, the power to influence the following: the selection of a preliminary insolvency administrator or an insolvency administrator (*vorläufiger Insolvenzverwalter and insolvenzverwalter*), orders for "debtor in possession" proceedings (*Anordnung der Eigenverwaltung*), and appointments of preliminary trustees (*Sachwalter*).

The court orders the opening (*Eröffnungsbeschluss*) of main insolvency proceedings (*eröffnetes Insolvenzverfahren*) if certain requirements are met, in particular if (i) the debtor is in a situation of impending illiquidity (if the petition has been filed by the debtor) or illiquidity and/or over-indebted and (ii) there are sufficient assets to cover at least the cost of the insolvency proceedings. If the assets of the debtor are not expected to be sufficient, the insolvency court will only open main insolvency proceedings if third parties, for instance creditors, advance the costs themselves. In the absence of such advancement, the petition for opening of insolvency proceedings will usually be refused for insufficiency of assets.

Upon the opening of main insolvency proceedings, the right to manage and dispose of the business and assets of the debtor passes to the insolvency administrator (*Insolvenzverwalter*), who is appointed by the insolvency court unless debtor-in-possession (*Eigenverwaltung*) is ordered. In addition, the insolvency administrator may raise new financial indebtedness and incur other liabilities to continue the debtor's operations and satisfaction of these liabilities as preferential debts of the estate (*Masseschulden*) will be preferred to any insolvency claims of unsecured creditors (this also includes such portion of a, *in rem*, Secured Creditor's claim which exceeds the amount obtained through a disposal of the relevant collateral).

All creditors, whether secured or unsecured (unless they have a right to separate an asset from the insolvency estate (*Aussonderungsrecht*)), wishing to assert claims against the debtor in person need to participate in the insolvency proceedings. German insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims in the insolvency proceedings separately, but can instead only enforce them in compliance with the restrictions of the German Insolvency Act. Any judicial enforcement action brought against the debtor by any of its creditors is subject to an automatic stay once insolvency proceedings have been opened (and, if so ordered by a court, also between the time when an insolvency petition is filed and the time when insolvency proceedings commence). If, during the final month preceding the date of filing for insolvency proceedings, a creditor acquires through execution (*i.e.*, attachment) a security interest in part of the debtor's property that would normally form part of the insolvency estate, such security becomes null and void by operation of law upon opening of the insolvency proceedings. Accordingly, unsecured creditors may file their claims in the insolvency proceedings and will be paid on a *pro rata* basis from the insolvency estate (to the extent sufficient assets are available). Secured creditors are not entitled to enforce their security interests after an insolvency petition has been filed to the extent the Insolvency Code authorizes the insolvency administrator to dispose of the relevant collateral (though, between the time when an insolvency petition is filed and the time when insolvency proceedings comments, such stay on enforcement requires a court order) but have only certain preferential rights (*Absonderungsrechte*) in the insolvency proceedings. Whether or not, after the initiation of insolvency proceedings, a secured creditor remains entitled to enforce security granted to it by the relevant debtor depends on the type of security. However, even if the law vests the right of disposal regarding the relevant collateral in the insolvency administrator, the insolvent secured creditor retains a right of preferred satisfaction with regard to the disposal proceeds. As a consequence, the enforcement proceeds minus certain contributory charges for (i) assessing the value of the secured assets and (ii) realizing the secured assets are paid to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims.

Remaining amounts ("excess proceeds") are distributed among the unsecured creditors. If the Parent Guarantor or a German Subsidiary Provider grants security over its assets to other creditors than Holders, such security may result in a preferred satisfaction of such other creditors' secured claims (however, the preferential treatment would be limited to the proceeds obtained through the disposal of the relevant collateral). The excess proceeds resulting from the disposal of collateral provided to such other creditors may not be sufficient to satisfy the claims of the Holders against the Parent Guarantor under the Note Guarantee. In addition, it may take several years before proceeds from the liquidation of the insolvency estate, if any, are distributed to unsecured creditors. A different distribution of enforcement proceeds can be proposed in an insolvency plan (*Insolvenzplan*) that can be submitted by the debtor or the insolvency administrator and requires the consent of the debtor as well as the consent of each class of creditors in accordance with specific majority rules. Under German insolvency laws, it is possible to implement a debt equity swap through an insolvency plan. However, it will not be possible to force a creditor into a debt to equity conversion if it does not consent to such debt to equity swap.

If a company faces imminent illiquidity and/or over indebtedness it may also file for preliminary "debtor in possession" proceedings. In such a case und upon request of the debtor, the court will prohibit enforcement measures (other than with respect to immoveable assets) and may implement other preliminary measures to protect the debtor from creditor enforcement actions for up to three months. During such period, the debtor shall, together with its creditors and a preliminary trustee (*vorläufiger Sachwalter*), prepare an insolvency plan which ideally will be implemented in formal "debtor in possession" proceedings (*Eigenverwaltung*) after formal insolvency proceedings have been opened.

Under German insolvency law, there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In case of a group of companies, each entity has, from an insolvency law point of view, to be dealt with separately on an entity-by-entity basis (*i.e.*, there is no group insolvency concept under German insolvency law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather the claims of and vis-à-vis each entity have to be dealt with separately.

Other than secured and unsecured creditors, German insolvency law provides for certain creditors to be subordinated by law (in particular, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the return of funds or payment of a consideration), while claims of a person who becomes a creditor of the insolvency estate only after the opening of insolvency proceedings generally rank senior to the claims of regular, unsecured creditors.

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings. Certain executory contracts become unenforceable at such time unless and until the insolvency administrators opts for performance.

Limitation on enforcement

Schaeffler Vermögensverwaltungs GmbH is incorporated in the form of a GmbH (Limited Liability Company). Consequently, the grant of collateral by it is subject to certain provisions of the GmbH-Gesetz (Limited Liability Company Act).

As a general rule, sections 30 and 31 of the GmbH-Gesetz ("Sections 30 and 31") prohibit a GmbH from disbursing its assets to its shareholders to the extent that the amount of the GmbH's net assets (*i.e.*, assets minus liabilities and liability reserves) is already less or would fall below the amount of its stated share capital (*Stammkapital*). The granting of share pledges and other security by a GmbH in order to secure liabilities of a direct or indirect parent or sister company may be considered disbursements under Sections 30 and 31. Therefore, in order to enable German subsidiaries to create security interests to secure liabilities of a direct or indirect parent or sister company without the risk of violating Sections 30 and 31, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called "limitation language" in relation to subsidiaries in the legal form of a GmbH or a limited liability partnership with a GmbH as its sole general partner (GmbH & Co. KG) incorporated or established in Germany. Pursuant to such limitation language, the beneficiaries of the security interests agree, subject to certain exemptions, to enforce the security interests against the German subsidiary only to the extent that such enforcement does not result in the GmbH's (or, in case of a GmbH & Co. KG, its general partner's) net assets falling below its stated share capital or, as the case may be, if the net assets are already below the amount of its stated share capital, to cause such amount to be further reduced. Accordingly, the security documents relating to Collateral provided by German Subsidiary Providers will contain such limitation language and the relevant Collateral will be limited in the manner described.

German capital maintenance rules are subject to ongoing court decisions. Future court rulings may further limit the access of shareholders to assets of their subsidiaries constituted in the form of a GmbH or a GmbH & Co. KG, which can negatively affect the ability of the secured parties to enforce the Collateral.

Hardening periods and fraudulent transfer

In the event of insolvency proceedings with respect to the Parent Guarantor or a German Subsidiary Provider governed by the insolvency laws of Germany, the Collateral provided by that entity could be subject to potential challenges by an insolvency administrator (*Insolvenzverwalter*) under the rules of avoidance as set out in the German Insolvency Code (*Insolvenzordnung*).

Under these rules, an insolvency administrator may challenge (*anfechten*) acts (*Rechtshandlungen*) and transactions (*Rechtsgeschäfte*) that are deemed detrimental to insolvency creditors and were effected prior to the commencement of insolvency proceedings. Such transactions can include the payment of any amounts to the Holders as well as granting them any security interest. The administrator's right to challenge transactions can, depending on the circumstances, extend to transactions during the ten-year period prior to the filing of the petition for commencement of insolvency proceedings. In the event such a transaction is successfully avoided, the Security Trustee and the Holders would be under an obligation to repay the amounts received or to waive the benefit of the security interest.

In particular, a transaction (which term includes the provision of security and the repayment of debt) detrimental to the creditors of the debtor may be avoided according to the German Insolvency Act, *inter alia*, in the following cases:

- a transaction granting a creditor or enabling a creditor to obtain a security or satisfaction for a debt (*Befriedigung*) can be avoided if the transaction was effected (i) in the last three months prior to the filing of a petition for the commencement of insolvency proceedings, if at the time of the transaction the debtor was illiquid (*zahlungsunfähig*, *i.e.*, unable to pay its debt when due) and the creditor had knowledge thereof, or (ii) after a petition for the commencement of insolvency proceedings has been filed and the creditor had knowledge thereof or of the debtor being illiquid;

- a transaction granting a creditor or enabling a creditor to obtain a security or satisfaction for a debt to which such creditor had no right, no right at the respective time or no right as to the respective manner, can be avoided if the transaction was effected in the month prior to the filing of a petition for the commencement of insolvency proceedings or after such filing; if the transaction was effected in the second or third month prior to the filing, it can be avoided if at the time of the transaction (i) the debtor was illiquid, or (ii) the creditor knew that the transaction would be detrimental to the creditors of the debtor;
- a transaction effected by the debtor which is directly detrimental to the creditors of the debtor or by which the debtor loses a right or the ability to enforce a right or by which a proprietary claim against the debtor is obtained or becomes enforceable, can be avoided if the transaction was effected (i) in the last three months prior to the filing of a petition for the commencement of insolvency proceedings against the debtor, if at the time of the transaction the debtor was illiquid and the other party to the transaction had knowledge thereof or (ii) after a petition for the commencement of insolvency proceedings has been filed against the debtor and the other party to the transaction had knowledge thereof or of the debtor being illiquid;
- a transaction whereby a debtor grants a security interest for a third party debt might be regarded as having been granted gratuitously (*unentgeltlich*); a gratuitous transaction can be avoided if it was effected in the four years prior to the filing of a petition for the commencement of insolvency proceedings against the debtor;
- a transaction entered into by the grantor of the security interest in the last ten years prior to the filing of a petition for commencement of insolvency proceedings or thereafter with the intent to prejudice its creditors can be avoided if the beneficiary of the transaction had knowledge of such intent at the time of the transaction;
- a transaction with respect to the claim of a shareholder for repayment of a shareholder loan (*Gesellschafterdarlehen*) or an equivalent claim can be avoided (i) in the event it provided security, if the transaction was effected in the last ten years prior to the filing of a petition for commencement of insolvency proceedings or thereafter or (ii) in the event it resulted in satisfaction, if the transaction was effected in the last year prior to the filing of a petition for commencement of insolvency proceedings or thereafter; and
- a transaction whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party can be avoided if the transaction was effected in the last year prior to the filing of a petition for commencement of insolvency proceedings or thereafter and if a shareholder of the debtor had granted security or was liable as a guarantor or surety (*Garant* or *Bürge*) (in which case the shareholder has to compensate the debtor for the amounts paid (subject to further conditions)).

In this context, "knowledge" is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor (*e.g.*, a subsidiary subject to the German insolvency laws) was unable to pay its debts generally as they fell due, that a petition for the opening of insolvency proceedings has been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. A person is deemed to have knowledge of the debtor's intention to prejudice the insolvency creditors if it knew of the debtor's impending illiquidity and that the transaction prejudiced the debtor's creditors. With respect to a "related party," there is a general statutory presumption that such party had "knowledge." The term "related party" includes, subject to certain limitations, in the case of debtors that are corporate persons, members of the management or supervisory board, shareholders owning more than 25% of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and persons who are spouses, relatives or members of the household of any of the foregoing persons.

If any of the Collateral by the Parent Guarantor or any of the German Subsidiary Providers were avoided or held unenforceable for any reason, a holder of the Notes would cease to have any claim or benefit in respect thereof. Any amounts received from a transaction that had been avoided would have to be repaid to the insolvent estate.

Furthermore, even in the absence of an insolvency proceeding, a third-party creditor who has obtained an enforcement order but has failed to obtain satisfaction of its enforceable claims by a levy of execution, under certain circumstances, has the right to avoid certain transactions, such as the payment of debt and the granting of security pursuant to the German Act on Avoidance (*Anfechtungsgesetz*).

In addition, under German law, a creditor who provided additional, or extended existing, funding to a debtor or obtained security from a debtor may be liable in tort if such creditor was aware of the debtor's (impending) insolvency or of circumstances indicating such debtor's (impending) insolvency at the time such funding was provided or extended or such security was granted. The German Federal Supreme Court (*Bundesgerichtshof*) held that this could be the case if, for example, the creditor was to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of bonos mores (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the debtor as the grantor of the security was close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

Parallel debt

Under German law, certain "accessory" security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The Holders will not be party to the security documents relating to the Collateral. In order for the Holders to benefit from security under "accessory" Collateral, the S-Verwaltungs Group Security Pooling and Intercreditor Agreement will provide for the creation of a "parallel debt." Pursuant to the parallel debt, the Security Trustee becomes the holder of a claim equal to each amount payable by an obligor under the Notes and the Note Guarantee. The pledges governed by German law will directly secure the parallel debt. The parallel debt procedure has not been tested in court under German law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by German law.

The Netherlands

The Issuer is incorporated in the Netherlands. Any insolvency proceedings relating to the Issuer's obligations under the Notes would likely be based on Dutch insolvency law. Under certain circumstances, bankruptcy proceedings may also be opened in the Netherlands in accordance with Dutch law against companies that are not established under Dutch law provided that such company has an office in the Netherlands. The following is a brief description of certain aspects of Dutch insolvency law.

There are two primary insolvency regimes under Dutch law: the first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganization of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. In practice however, a moratorium of payments often serves as a gate to a bankruptcy, and in a bankruptcy, the receiver (*curator*) may continue the activities of the company before selling the company or parts of it. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. A general description of the principles of both insolvency regimes is set out below.

An application for a moratorium of payments can only be made by the debtor itself. Once the request for a moratorium of payments is filed, the court will immediately (*dadelijk*) grant a provisional moratorium and appoint an administrator (*bewindvoerder*). A meeting of creditors is required to decide on the definitive moratorium. If a draft composition (*ontwerp akkoord*) is filed simultaneously with the application for moratorium of payments, the court can order that the composition will be processed before a decision about a definitive moratorium. If the composition is accepted and subsequently confirmed by the court (*gehomologeerd*), the provisional moratorium ends as soon as the court's decision becomes final. The definitive moratorium will generally be granted unless a qualified minority (more than one-quarter in amount of claims held by creditors represented at the creditors' meeting or more than one-third in number of creditors represented at such creditors' meeting) of the unsecured non-preferential creditors withholds its consent. The moratorium of payments is only effective with regard to unsecured non-preferential creditors. Unlike Chapter 11 proceedings under U.S. bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims during a moratorium of payments, under Dutch law, secured and preferential creditors (including tax and social security authorities) may enforce their rights against assets of the company in moratorium of payments to satisfy their claims as if there were no moratorium of payments. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. The court may order a "cooling down period" (*afkoelingsperiode*) for a maximum period of four months during which enforcement actions by secured or preferential creditors are barred. Also in a definitive moratorium of payments, a composition (*akkoord*) may be offered to creditors. A composition will be generally binding on all unsecured and non-preferential creditors if it is (i) approved by a majority in number of the creditors recognized and admitted at the creditors' meeting, representing at least 50% of the amount of the claims that are admitted for voting purposes and (ii) subsequently ratified (*gehomologeerd*) by the court. Under certain conditions, the court or the judge commissioner (*rechter commissaris*) (as the case may be) may derogate from this procedure. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Notes to effect a restructuring. Interest payments that fall due after the date on which a moratorium of payments is granted cannot be claimed in a composition.

Under Dutch law, a debtor can be declared bankrupt when it is no longer able to pay its debts when due. The bankruptcy can be requested by a creditor of a claim that is due and payable but left unpaid when there is at least one other creditor. Under Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors in accordance with the respective rank and priority of their claims. The general principle of Dutch bankruptcy law is the so-called *paritas creditorum* (principle of equal treatment) which means that all creditors have an equal right to payment and that the proceeds of bankruptcy proceedings shall be distributed in proportion to the size of their claims. However, certain creditors (such as secured creditors and tax and social security authorities) will have special rights that take priority over the rights of other creditors. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of the holders of the Notes that were not due and payable by their terms on the date of a bankruptcy of the Issuer will be accelerated and become due and payable as of that date. Each of these claims will have to be submitted to the receiver to be verified. "Verification" under Dutch law means that the receiver determines the value of the claim and whether and to what extent it will be admitted in the bankruptcy proceedings for the purpose of the distribution of the proceeds. The valuation of claims that otherwise would not have been payable at the time of the bankruptcy proceedings may be based on a net present value analysis. Interest payments that fall due after the date of the bankruptcy cannot be verified. The existence, value and ranking of any claims submitted by the holders of the Notes may be challenged in the Dutch bankruptcy proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver, the insolvent debtor and all creditors who have submitted claims may dispute the claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors' meeting may be referred to separate court proceedings (*renvooi procedure*). These court procedures could cause holders of the Notes to recover less than the principal amount of their Notes or less than they could recover in a U.S. liquidation-Moreover, such procedures could also cause payments to the holders of the Notes to be delayed compared with holders of undisputed claims. As in moratorium of payments proceedings, in a bankruptcy a composition may be offered to creditors, which shall be binding on unsecured non-preferential creditors if it is (i) approved by a majority in number of the creditors recognized and admitted at the creditors' meeting, representing at least 50% of the amount of the claims that are admitted for voting purposes and (ii) subsequently ratified (*gehomologeerd*) by the court. Under certain conditions, the judge commissioner (*rechter commissaris*) may derogate from this procedure. The Dutch Bankruptcy Act does not in itself recognize the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a pro rata basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings. The actual effect depends largely on the way such subordination is construed.

Secured creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a "cooling down period" for a maximum of four months during which enforcement actions by secured creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a specified reasonable period of time, failing which the receiver will be entitled to sell the secured assets or collect the secured claims, if any, and the secured creditor will have to share in the bankruptcy costs and will have to await distribution by the receiver. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy, although a set-off prior to bankruptcy may be subject to clawback in case of fraudulent conveyance or bad faith when obtaining the claim or the debt used for set-off. Moreover, to the extent that Dutch law applies, a legal act performed by a debtor (including, without limitation, (i) an agreement pursuant to which it guarantees the performance of the obligations of a third party or pursuant to which it agrees to provide or provides security for any of its or a third party's obligations, (ii)additional agreements entered into by it benefiting from existing security and (iii) any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of its creditors and in bankruptcy by its receiver, if (i) it performed such acts without an obligation to do so (*onverplicht*), (ii) generally the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (iii) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards which it acted, knew or should have known that one or more of its creditors (existing or future) would be prejudiced. In addition, in the case of such a bankruptcy, the receiver may nullify the debtor's performance of any due and payable obligation (including (without limitation) an obligation to provide security for any of its or a third party's obligations) if (i) the payee (*hij die betaling ontving*) knew that a request for bankruptcy had been filed at the moment of payment, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

Under Dutch law, as soon as a debtor is declared bankrupt, all pending executions of judgments against such debtor, as well as all attachments on the debtor's assets (other than summary executions with respect to secured creditors), will be terminated by operation of law. Simultaneously with the opening of the bankruptcy, a Dutch receiver will be appointed. The proceeds resulting from the liquidation of the bankrupt estate may not be sufficient to satisfy unsecured creditors under the guarantees granted by a bankrupt guarantor after the secured and the preferential creditors have been satisfied. It is not uncommon that the proceeds are even insufficient to discharge the claims of preferential and secured creditors. Litigation pending on the date of the bankruptcy order is automatically stayed. Foreign creditors are, in general, not treated different from creditors that are incorporated or residing in the Netherlands.

Book-entry, delivery and form

General

Notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Rule 144A Global Note**"). Notes sold to non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**"). The Regulation S Global Note representing the Euro Notes (the "**Euro Regulation S Global Note**") will be deposited, on the closing date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream. The Regulation S Global Note representing the Dollar Notes (the "**Dollar Regulation S Global Note**") will be deposited upon issuance with the Deutsche Bank Trust Company Americas as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The 144A Global Note representing the Euro Notes (the "**Euro 144A Global Note**" and together with the Euro Regulation S Global Note, the "**Euro Global Notes**"), will be deposited, on the closing date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream. The 144A Global Note representing the Dollar Notes (the "**Dollar 144A Global Note**" and together with the Dollar Regulation S Global Note, the "**Dollar Global Notes**") will be deposited upon issuance with the Deutsche Bank Trust Company Americas as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of interests in the Rule 144A Global Note (the "**Rule 144A Book-Entry Interests**") and ownership of interests in the Regulation S Global Note (the "**Regulation S Book-Entry Interests**" and, together with the Rule 144A Book-Entry Interests, the "**Book-Entry Interests**") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream or persons that hold interests through such participants. DTC, Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, the Notes will not be issued in definitive form. While the Euro Notes may only be traded in denominations of €100,000 and integral multiple of €1 in excess thereof, for the purpose of Euroclear and Clearstream the denominations are considered as €1. For the avoidance of doubt, Euroclear and Clearstream are not required to monitor or enforce the minimum and integral multiple amounts.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, DTC, Euroclear and/or Clearstream (or their respective nominees), as applicable, will be considered the sole holders of the Global Notes for all purposes under the Indenture. Accordingly, participants must rely on the procedures of DTC, Euroclear and Clearstream, and indirect participants must rely on the procedures of DTC, Euroclear and Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

Neither the Issuer nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Action by owners of Book-Entry Interests

DTC, Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, DTC, Euroclear and Clearstream, at the request of the holders of the Notes, reserve the right to exchange the Global Notes for definitive registered Notes in certificated form (the "**Definitive Registered Notes**"), and to distribute such Definitive Registered Notes to their participants.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

(1) if DTC (with respect to the Dollar Global Notes), or Euroclear or Clearstream (with respect to the Euro Global Notes) notifies us that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days;

(2) if the owner of a Book-Entry Interest requests such exchange in writing delivered through DTC, Euroclear or Clearstream following an Event of Default under the Indenture.

DTC, Euroclear and Clearstream have advised us that upon request by an owner of a Book-Entry Interest described in the immediately preceding clause (2), their current procedure is to request that we issue or cause to be issued Notes in definitive registered form to all owners of Book-Entry Interests and not only to the owner who made the initial request.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of DTC, Euroclear, Clearstream or us, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend as provided in the Indenture, unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the relevant Paying Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the Notes.

We will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream.

Redemption of Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, DTC, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by them in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of DTC, Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, DTC, Euroclear and Clearstream will credit their participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate, provided, however, that no Book-Entry Interest of less than €100,000 or U.S.$200,000, as applicable, principal amount may be redeemed in part.

Payments on Global Notes

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional amounts, if any) to the Principal Paying Agent. The Principal Paying Agent will, in turn make said payments to the common depositary or its nominee for Euroclear and Clearstream (in case of the Euro Global Notes) and to the U.S. Paying Agent for further payment to DTC or its nominee (in the case of the Dollar Notes). Euroclear, Clearstream and DTC will distribute such payments to participants in accordance with their respective customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "*Description of the Notes—Additional Amounts*." If any such deduction or withholding is required to be made, then, to the extent described under "*Description of the Notes—Additional Amounts*" above, we will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, we, the Trustee and the Paying Agents will treat the registered holders of the Global Notes (*e.g.*, DTC, Euroclear or Clearstream (or their respective nominee)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of us, the Trustee and the Paying Agents or any of its agents has or will have any responsibility or liability for:

- any aspect of the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC, Euroclear or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- DTC, Euroclear, Clearstream or any participant or indirect participant.

Currency of payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests to such Notes through Euroclear or Clearstream in euro and through DTC in U.S. dollars.

Transfers

Transfers between participants in DTC, Euroclear or Clearstream will be effected in accordance with DTC, Euroclear and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of DTC, Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture governing the Notes.

The Global Notes will bear a legend to the effect set forth under "*Transfer restrictions*." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "*Transfer restrictions*."

Transfers of Rule 144A Book-Entry Interests to persons wishing to take delivery of Rule 144A Book-Entry Interests will at all times be subject to such transfer restrictions.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A under the U.S. Securities Act in a transaction meeting the requirements of Rule 144A under the U.S. Securities Act or otherwise in accordance with the transfer restrictions described under "*Transfer restrictions*" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "*Description of the Notes—Transfer and exchange*" and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "*Transfer restrictions*."

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Information concerning DTC, Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of DTC, Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of the settlement system are controlled by the settlement system and may be changed at any time. Neither we nor the Initial Purchasers are responsible for those operations or procedures.

We understand as follows with respect to DTC, Euroclear and Clearstream: DTC, Euroclear and Clearstream hold securities for participating organizations. They facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in the accounts of such participants. DTC, Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. DTC, Euroclear and Clearstream interface with domestic securities markets. DTC, Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to DTC, Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC, Euroclear and Clearstream participant, either directly or indirectly.

Because DTC, Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC, Euroclear and/or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC, Euroclear or Clearstream systems will receive distributions attributable to the Rule 144A Global Notes only through DTC, Euroclear or Clearstream participants.

Global clearance and settlement under the book-entry system

The Notes represented by the Global Notes are expected to be listed on the LxSE and admitted for trading on the Euro MTF. Transfers of interests in the Global Notes between participants in DTC, Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although DTC, Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of us, any Guarantor, the Trustee or the relevant Paying Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial settlement

Initial settlement for the Notes will be made in euro. Book-Entry Interests owned through DTC, Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of DTC, Euroclear and Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

Secondary market trading

The Book-Entry Interests will trade through participants of DTC, Euroclear and Clearstream and will settle in same day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

Taxation

Taxation in the Federal Republic of Germany

This tax section deals with the deduction of withholding tax to be made under German law from the proceeds of the investment in the Notes, and PIK Notes (as defined in the "*Description of the Notes*"). It is based on the laws in force on the date of this Offering Memorandum, of general nature only and neither intended as, nor to be understood as, legal or tax advice. Any information given hereafter reflects the opinion of the Issuer and must not be misunderstood as a representation or guarantee with regard to potential tax deductions. Further, the withholding tax consequences depend on the individual facts and circumstances at the level of the investor and may be subject to future changes in law which could potentially have retroactive effect. Unless the context requires otherwise, references in this "*Taxation in the Federal Republic of Germany*" to the Notes include any Additional Notes that are issued.

For German tax residents (*e.g.*, persons whose residence, habitual abode, statutory seat or place of management is located in Germany), Cash Interest payments on the Notes and, under certain conditions, also the PIK Interest are subject to withholding tax, provided that the Notes are held in custody with a German custodian, who is required to deduct the withholding tax from such interest payments (the "**Disbursing Agent**"). Disbursing Agents are German resident credit institutions, financial services institutions (including German permanent establishments of foreign institutions), securities trading companies or securities trading banks. The applicable withholding tax rate is 25% (plus 5.5% solidarity surcharge thereon plus church tax if applicable).

If Cash Interest claims are disposed of separately (i.e. without the Notes), the proceeds from the disposition are generally subject to withholding tax. The same applies to proceeds from the redemption payment of Cash Interest claims if the Notes have been disposed of separately and of PIK Interest claims, if the PIK Interest was not taxed as accrued.

The withholding tax regime should also apply to any gains from the sale or redemption of Notes and PIK Notes realized by private investors holding the Notes as private (and not as business) assets in custody with the same Disbursing Agent. The amount of capital gains on which the withholding tax charge is applied is generally levied on the difference between the proceeds received upon the disposition or redemption of the Notes (after the deduction of actual expenses directly related thereto) and the acquisition costs. If PIK Interest was taxed as accrued, the taxed amount should be recognized as acquisition costs of the PIK Notes or as additional acquisition costs of the Notes for taxation purposes. Where Notes are issued in a currency other than Euro any currency gains or losses are part of the capital gains. To the extent the Notes have not been kept in a custodial account with the same Disbursing Agent since the time of their acquisition, upon the disposition or redemption withholding tax applies at a rate of 26.375% (including solidarity surcharge, plus church tax, if applicable) on 30% of the disposal proceeds (plus interest accrued on the Notes, if any), unless the current Disbursing Agent has been notified of the actual acquisition costs of the Notes by the previous Disbursing Agent or by a statement of the previous bank or financial services institution within the European Economic Area or certain other countries in accordance with art. 17 para. 2 of the European Council Directive 2003/48/EC on the taxation of savings income (e.g. Switzerland or Andorra).

Pursuant to a tax decree issued by the German Federal Ministry of Finance dated October 9, 2012 a bad debt-loss (*Forderungsausfall*) and a waiver of a receivable (*Forderungsverzicht*), to the extent the waiver does not qualify as a hidden capital contribution, shall not be treated like a disposition. Accordingly, losses suffered upon such bad debt-loss or waiver shall not be tax-deductible. The same rules should be applicable according to the said tax decree, if the Notes expire worthless so that losses may not be tax-deductible at all. A disposition of the Notes will only be recognized according to the view of the tax authorities, if the received proceeds exceed the respective transaction costs.

The withholding tax is not applied if the total investment income of a private investor is not exceeding the lump sum deduction (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples filing jointly) provided that such private investor has filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent. However, such refrainment applies only to the extent that the investment income of such private investor does not exceed the respective available maximum lump sum deduction amount shown on the withholding exemption certificate. The Disbursing Agent may deduct from the basis of the withholding tax negative investment income realized by the private investor of the Notes via the Disbursing Agent (*e.g.* losses from sale of other securities with the exception of shares). It may also deduct accrued interest on the Notes or other securities paid separately upon the acquisition of the respective security via the Disbursing Agent. In addition, subject to certain requirements and restrictions, the Disbursing Agent may credit foreign withholding taxes levied on investment income in a given year regarding securities held by the private investor in the custodial account with the Disbursing Agent. However, expenses actually incurred are not deductible.

German resident corporate and other German resident business investors should in essence not be subject to the withholding tax on gains from the disposition, sale or redemption of the Notes (*i.e.*, for these investors only Cash Interest payments and, under certain conditions, PIK Interest, but not gains from the sale or redemption of the Notes are subject to the withholding tax regime). Deductions of foreign tax and capital losses incurred will not be made in these cases by the Disbursing Agent.

Interest payments (including accrued interest and PIK Interest) and capital gains from the disposition or redemption of the Notes held as business assets by German tax resident business investors are generally subject to German income tax or corporate income tax. Any withholding tax deducted from interest payments is, subject to certain requirements, creditable. To the extent the amount withheld exceeds the (corporate) income tax liability, the withholding tax will, as a rule, be refunded. The interest payments and capital gains will also be subject to trade tax, if the Notes are attributable to a trade or business.

Subject to further requirements, German tax non-residents should in essence not be subject to the German withholding tax regime with the interest payments (including PIK Interest) on and the gains from the sale or redemption of the Notes. This should as a rule hold true, even if the Notes are held in custody with a German custodian. Exceptions apply, *e.g.*, where the Notes are held as business assets of a German permanent establishment or a German permanent representative. If the income is subject to German taxation, such holder is subject to a tax treatment similar to that described above for German tax residents.

Where Notes are not kept in a custodial account with a Disbursing Agent and interest or proceeds from the disposition or redemption of a Note are paid by a Disbursing Agent to a non-resident investor upon delivery of the Notes or of the PIK Notes, withholding tax generally will also apply.

The withholding tax may be refunded based on an assessment to tax or under an applicable tax treaty, subject to further requirements and restrictions.

The Issuer of the Notes should under German law not be required to deduct withholding tax from the proceeds of the investment in the Notes.

Prospective investors are advised to consult their own tax advisors as to the individual tax consequences arising from the investment in the Notes.

Taxation in the Netherlands

General

The following summary outlines the principal Dutch tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Dutch tax considerations that may be relevant. For Dutch tax purposes, a holder of Notes may include an individual who or an entity that does not have the legal title of the Notes, but to whom nevertheless the Notes or the income thereof is attributed based on specific statutory provisions or on the basis of such individual or entity having a beneficial interest in the Notes or the income thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes.

This summary is based on Dutch tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Offering Memorandum, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Dutch tax consequences for:

(i) investment institutions (*fiscale beleggingsinstellingen*);

(ii) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other entities that are not subject to or exempt from Dutch corporate income tax;

(iii) holders of Notes holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in the Issuer and holders of Notes of whom a certain related person holds a substantial interest in the Issuer. Generally speaking, a substantial interest in the Issuer arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5% or more of the total issued capital of the Issuer or of 5% or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;

(iv) persons for whom the income or capital gains derived from the Notes are attributable to employment activities, the income from which is taxable in the Netherlands;

(v) persons to whom the Notes and the income from the Notes are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) and the Dutch Gift and Inheritance Tax Act 1956 (*Successiewet 1956*); and

(vi) entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba, to which permanent establishment or permanent representative the Notes are attributable.

Where this summary refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and to the legislation that is applicable in that part of the Kingdom of the Netherlands.

Withholding tax

All payments made by the Issuer under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

Corporate and individual income tax

Residents of the Netherlands

If a holder of Notes is a resident of the Netherlands, or deemed to be a resident of the Netherlands, for Dutch corporate income tax purposes and is fully subject to Dutch corporate income tax or is only subject to Dutch corporate income tax in respect of an enterprise to which the Notes are attributable, income derived from the Notes and gains realized upon the redemption, settlement or disposal of the Notes are generally taxable in the Netherlands (at up to a maximum rate of 25%).

If an individual is a resident of the Netherlands, or deemed to be a resident of the Netherlands, for Dutch individual income tax purposes or has opted to be treated as a resident of the Netherlands for individual income tax purposes, income derived from the Notes and gains realized upon the redemption, settlement or disposal of the Notes are taxable at the progressive rates (at up to a maximum rate of 52%) under the Dutch Income Tax Act 2001, if:

(i) the individual is an entrepreneur (*ondernemer*) and has an enterprise to which the Notes are attributable or the individual has, other than as an entrepreneur or a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Notes are attributable; or

(ii) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which includes activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies, an individual that holds the Notes, must determine its taxable income with regard to the Notes on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realized. This deemed return on income from savings and investments is fixed at a rate of 4% of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year (1 January), insofar as the individual's yield basis exceeds a certain threshold (*heffingvrij vermogen*). The individual's yield basis is determined as the fair market value of certain qualifying assets held by the individual less the fair market value of certain qualifying liabilities on 1 January. The fair market value of the Notes will be included as an asset in the individual's yield basis. The 4% deemed return on income from savings and investments is taxed at a rate of 30%.

Non-residents of the Netherlands

If a holder of Notes is not a resident of the Netherlands, nor is deemed to be a resident of the Netherlands, for Dutch corporate or individual income tax purposes, nor has opted to be treated as a resident of the Netherlands for individual income tax purposes, such person is not liable to Dutch income tax in respect of income derived from the Notes and gains realized upon the settlement, redemption or disposal of the Notes, unless:

(i) the person is not an individual and such person (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (2) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

This income is subject to Dutch corporate income tax at up to a maximum rate of 25%.

(ii) the person is an individual and such individual (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (2) realizes income or gains with respect to the Notes that qualify as income from miscellaneous activities in the Netherlands which includes activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*), or (3) is, other than by way of securities, entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

Income derived from the Notes as specified under (1) and (2) is subject to individual income tax at progressive rates up to a maximum rate of 52%. Income derived from a share in the profits of an enterprise as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under

"*Residents of the Netherlands*"). The fair market value of the share in the profits of the enterprise (which includes the Notes) will be part of the individual's Dutch yield basis.

Gift and inheritance tax

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder of Notes, unless:

(i) the holder of Notes is, or is deemed to be, resident in the Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who at the time of the gift or death is, or is deemed to be, resident in the Netherlands for the purpose of the relevant provisions.

Value added tax

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of a cash payment made under the Notes, or in respect of a transfer of Notes.

Other taxes and duties

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

EU savings directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EC Council Directive**"), member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The EC Council Directive also provides that no such withholding tax should be levied where the beneficial owner of the payment authorizes an exchange of information and/or where the beneficial owner presents a certificate, as described in the EC Council Directive, from the tax authority of the EU member state in which the beneficial owner is resident. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). Under the Austrian rules no withholding is imposed if information of the investor is provided in a qualified manner.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

U.S. Taxation

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE ("IRS") CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders and Non-U.S. Holders (each as defined below) acquiring, holding and disposing of Notes. This summary is based on the U.S. Internal Revenue Code of 1986 (the "**Code**"), final, temporary and proposed U.S. Treasury regulations and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organizations; (vii) partnerships, pass-through entities, or persons that hold Notes through pass-through entities; (viii) investors that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (ix) investors that have a functional currency other than the U.S. dollar; (x) U.S. expatriates and former long-term residents of the United States and (xi) holders that directly, indirectly or constructively own 10% or more of the total combined voting power of all classes of voting stock of the Issuer or the Parent Guarantor), each of whom may be subject to tax rules that differ significantly from those summarized below. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations or non-U.S., state or local tax considerations and does not address the U.S. federal income tax treatment of holders that do not acquire the Notes as part of the initial distribution at their issue price (generally, the first price to the public at which a substantial amount of Notes is sold for money). This summary assumes that investors will hold their Notes as capital assets (generally, property held for investment).

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation that is created in, or organized under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust, or if it has properly elected under applicable U.S. Treasury regulations to be treated as a U.S. person. A "**Non-U.S. Holder**" is a beneficial owner of Notes that is not a U.S. Holder and is not treated as a partnership for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that acquires, holds or disposes of the Notes will depend on the status of the partner and the activities of the partnership. Partnerships should consult their own tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of the Notes.

U.S. Holders

Characterization of the Notes

This summary is based on the assumption that the Notes will be issued at par or at a discount not large enough to affect the characterization of the Notes, which the Issuer expects to be the case.

As described under "*Description of the Notes*" and in more detail below, under certain circumstances the issuer may make additional payments on the Notes or have the option to make payments of interest as PIK Interest. Although not free from doubt, the Issuer intends to take the position that U.S. Holders should account for the Notes for U.S. federal income tax purposes using a payment schedule which assumes all interest payments on the Notes will be paid in cash in accordance with Treasury Regulation Section 1.1272-1(c), and which does not include such additional payments or payments of PIK Interest. However, these additional payments and/or payments of PIK Interest could be viewed by the IRS as causing the Notes to be treated as contingent payment debt instruments ("**CPDIs**"). If the Notes were to be treated as

CPDIs, U.S. Holders may be required to recognize income for U.S. federal income tax purposes at different times and in different amounts than described below, to treat any income realized on a taxable disposition of a Note as ordinary income rather than capital gain, and to suffer additional adverse U.S. federal income tax consequences. To the extent the Issuer is required to take a position, the Issuer intends to take the position that, for U.S. federal income tax purposes, the Notes should not be treated as CPDIs. No rulings have been or will be sought from the IRS on this matter. The Issuer's determination that the Notes should not be treated as CPDIs is binding on a holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations.

Prospective purchasers are urged to consult their tax advisers regarding the U.S. federal income tax consequences in the event the Notes are treated as CPDIs for U.S. federal income tax purposes.

Original Issue Discount

The Notes will be treated as being issued with original issue discount ("**OID**") for U.S. federal income tax purposes because their "stated redemption price at maturity" will exceed their "issue price" by more than a statutorily defined de minimis amount. The "stated redemption price at maturity" of the Notes will be equal to the sum of all payments due on the Notes other than "qualified stated interest". The "issue price" will be equal to the first price at which a substantial amount of the Notes is sold for money, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. Qualified stated interest on a debt instrument is stated interest that is "unconditionally payable" in cash or property (other than debt instruments of the Issuer) at least annually at a single fixed rate. Because interest on the Notes may, if certain conditions are satisfied, be payable at the option of the Issuer in PIK Interest, and the payment of PIK Interest is not a remote contingency, interest on the Notes (including any Cash Interest) will not be treated as unconditionally payable at least annually and will therefore not be treated as qualified stated interest. Accordingly, the Notes will be treated as being issued with OID for U.S. federal income tax purposes.

U.S. Holders of Notes will be required to include OID as ordinary income calculated on a constant yield method before the receipt of cash attributable to the income, regardless of such U.S. Holder's regular method of tax accounting, and will generally have to include in income increasingly greater amounts of OID over the life of the Notes. The amount of OID includible in income by a U.S. Holder is the sum of the daily portions of OID with respect to the Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period is determined by multiplying the "adjusted issue price" (as defined herein) of the Note at the beginning of the accrual period by the "yield to maturity" of such Note (determined on the basis of compounding at the close of each accrual period and properly adjusted to reflect the length of the accrual period). The "**adjusted issue price**" of a Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of all cash payments made with respect to such Note in all prior accrual periods. The "**yield to maturity**" of the Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note.

As discussed above, in certain circumstances the Issuer has the option to redeem all or a portion of the Notes on certain dates or upon certain events, as well as the option to pay interest as PIK Interest (see "*Description of the Notes—Optional redemption*", "*Description of the Notes—Redemption for changes in taxes*" and "*Description of the Notes—Interest*"). In addition, upon the occurrence of certain change in control events, a holder may be entitled to require the Issuer to repurchase the Notes at a premium (see "*Description of the Notes—Repurchase at the option of Holders—Change of Control*"). The U.S. Treasury regulations contain special rules for determining the payment schedule and the yield and maturity of a debt instrument in the event the debt instrument provides for a contingency that could, for example, result in the acceleration or deferral of one or more payments. For purposes of determining the yield and maturity of the Notes, it should be presumed, on the issue date, that the Issuer will not exercise its redemption option because such exercise would not reduce the yield of the Notes. In addition, for purposes of determining the yield and maturity of the Notes, it should be presumed, on the issue date, that the Issuer will not exercise its option to pay PIK Interest because the Notes are being issued at their face amount and, as such, exercising the option to pay PIK Interest would not reduce the yield of the Notes. Furthermore, the payment schedule of the Notes that does not take into account a holder's option to require the Issuer to repurchase the Notes at a premium upon certain change of control events should also be used for purposes of determining the yield and maturity of the Notes because such payment schedule is significantly more likely than not to occur and/or because such contingency should be viewed as remote or incidental.

If the Issuer, however, exercises its redemption option or its option to pay PIK Interest, if a holder exercises its option to require the Issuer to repurchase the Notes upon the occurrence of certain change of control events or if any other change in circumstances results in the payment of Additional Amounts, the yield and maturity of the Notes will be redetermined using the new payment schedule by treating the Notes (solely for purposes of redetermining the yield and maturity) as retired and reissued on the date the relevant option is exercised or the date of such other change in circumstances.

In the case of the Euro Notes, OID will be determined for any accrual period in euro and then translated into U.S. dollars. The U.S. dollar value of any accrued OID will be determined by translating such OID at the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the U.S. Holder's taxable year). A U.S. Holder may elect to translate accrued OID using the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the U.S. Holder's taxable year. Additionally, if the last day of an accrual period is within five business days of the last day of the date of receipt of the accrued OID, an electing U.S. Holder may instead translate the accrued OID into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

OID accrued with respect to the Notes should generally constitute income from sources outside the United States, subject to the rules regarding the U.S. foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon).

The tax rules relating to the determination of the amount of OID allocable by a U.S. Holder to each accrual period are complex. Prospective investors are urged to consult their own tax advisors regarding any tax consequences to them of our decision to exercise, or not exercise, the redemption option or the option to pay PIK Interest, including any deemed retirement and reissuance of the Notes upon the exercise of any such option.

Payments of Interest

In general, each payment made in cash under a Note will be treated first as a payment of any accrued OID and second as a payment of principal (which is not includible in income). A U.S. Holder generally will not be required to include separately in income cash payments received on a Note to the extent such payments constitute payments of previously accrued OID.

Non-U.S. withholding tax, if any, imposed on a U.S. Holder would, subject to limitations and conditions and at the election of such holder, be treated as foreign income tax eligible for credit against such holder's U.S. federal income tax liability or a deduction in computing taxable income, to the extent such tax is not otherwise refundable. Any Additional Amounts paid should generally constitute foreign source income.

In the case of the Euro Notes, upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or other disposition of a Note) denominated in euro, an accrual basis U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference, if any, between the amount received (translated into U.S. dollars at the exchange rate on the date of receipt) and the U.S. dollar value of the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. Exchange gain or loss generally will be treated as U.S.-source.

Sale, exchange and redemption of Notes

Generally, upon the sale, exchange or redemption of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, or redemption (less any amount attributable to accrued but unpaid interest not previously included in income as OID or otherwise, which will be taxable as such) and such U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note will generally equal the cost of such Note to such U.S. Holder increased by the amount of OID previously included in the U.S. Holder's income with respect to the Note and reduced by the amount of any cash payments made with respect to the Note. A U.S. Holder's tax basis in a Note will be determined by reference to the U.S. dollar cost of the Notes and the U.S. dollar value of any cash payments made with respect to the Note. The U.S. dollar cost of a Note purchased with a foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

Although not free from doubt, a U.S. Holder's adjusted tax basis in the Notes should be allocated between the original Notes and any Additional Notes issued upon the Issuer's exercise of the option to pay PIK Interest in proportion to their relative principal amounts.

Gain or loss recognized upon a sale, exchange or redemption generally will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or redemption the Note has been held by such U.S. Holder for more than one year, and will generally be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation.

Although not free from doubt, a U.S. Holder's holding period with respect to an Additional Note issued if the option to pay PIK Interest is exercised would likely be identical to its holding period for the original Note with respect to which the Additional Note was received.

The amount realized on a sale or other disposition of the Note for an amount in foreign currency will be the U.S. dollar value of the foreign currency on the date of sale or other disposition or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. In the case of a U.S. Holder that is an individual, estate or trust, the maximum federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Gain or loss recognized by a U.S. Holder on the sale or other disposition of a Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the sale or other disposition of the Note.

Disposition of foreign currency

Foreign currency received as interest on a Note or on the sale or other disposition of a Note will have a tax basis equal to its U.S. dollar value at the time the interest is received or at the time of the sale or other disposition. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or an exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Non-U.S. Holders

Subject to the discussion concerning information reporting and backup withholding below, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes and gain from the sale, redemption or other disposition of the Notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States; (ii) in the case of any gain realized on the sale or exchange of a Note by an individual Non-U.S. Holder, that Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain U.S. expatriates.

Information reporting and backup withholding

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain U.S. Holders (including, among others, corporations) are not subject to information reporting and backup withholding. A U.S. Holder can claim a credit against its U.S. federal income tax liability, or a refund, for amounts withheld under the backup withholding rules by timely filing appropriate U.S. tax returns.

A U.S. Holder must report a sale or other taxable disposition of a Note to the IRS if it recognizes a foreign currency exchange loss from a single transaction of at least U.S.$50,000 (in the case of an individual or trust) in a single taxable year, or in other cases, at various higher thresholds. U.S. Holders that recognize foreign currency exchange losses on the Notes are urged to consult their tax advisors.

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a Non-U.S. Holder by a U.S. paying agent or other U.S. intermediary will not be subject to backup withholding if appropriate certification (IRS Form W-8BEN or other appropriate form) is timely provided by the Non-U.S. Holder to the payer and the payer does not have actual knowledge that the certificate is false. Such payments, however, generally may be subject to information reporting requirements (unless the Non-U.S. Holder otherwise establishes an exemption).

Certain holders that own “specified foreign financial assets” with an aggregate value in excess of U.S.$50,000 on the last day of the taxable year (or an aggregate value in excess of U.S.$75,000 at any time during the taxable year) are generally required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following assets if held for investment (but only if they are not held in accounts maintained by financial institutions): (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. The Notes may be subject to these rules.

Certain ERISA considerations

The following is a summary of certain considerations associated with the purchase and holding of the Notes by employee benefit plans that are subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code, and entities whose underlying assets are considered to include "plan assets" of such employee benefit plans, plans, accounts or arrangements (pursuant to Section 3(42) of ERISA and regulations promulgated under ERISA by the U.S Department of Labor) (each, an "**ERISA Plan**"). Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to ERISA or Section 4975 of the Code; however, such plans may be subject to non-U.S., federal, state, or local laws or regulations that are substantially similar to Title I of ERISA or Section 4975 of the Code ("**Similar Laws**") or which otherwise affect their ability to invest in the Notes (together with ERISA Plans, "**Plans**"). Any fiduciary of such a governmental, church or non-U.S. plan considering an investment in the Notes should determine the need for, and, if necessary, the availability of, any exemptive relief under such laws or regulations.

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of an ERISA Plan and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation with respect to the assets of such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan. In considering an investment in the Notes, a Plan fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and ERISA, Section 4975 of the Code or any Similar Law.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest", within the meaning of ERISA, or "disqualified persons", within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition, holding and/or disposition of Notes by an ERISA Plan with respect to which we, the Initial Purchasers, the Trustee, the registrars, the agents, the lenders under the IHO Facilities Agreement and the S-Verwaltungs Group Facilities Agreement and our and their respective affiliates are considered a party in interest or disqualified person may constitute or result in a prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption.

Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption

("**PTCE**") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Notes.

Under a "look through rule" set forth in Section 3(42) of ERISA and United States Department of Labor Regulation 29 CFR Section 2510.3-101 (the "**Plan Assets Regulation**"), if a Plan invests in an "equity interest" of an entity and no other exception applies, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This rule will not apply where less than 25% of the value of any class of equity interest in the entity is held by Benefit Plan Investors immediately after the most recent acquisition of any equity interest in the entity (disregarding equity interests held by certain persons, other than Benefit Plan Investors, with discretionary authority or control over the assets of the entity or who provide investment advice with respect to such assets for a fee, directly or indirectly, or any affiliates (within the meaning of the Plan Assets Regulation) of such persons). An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. Under Section 3(42) of ERISA, a "**Benefit Plan Investor**" means (1) an "employee benefit plan" (as defined in Section 3(3) of ERISA) subject to the provisions of part 4 of subtitle B of Title I of ERISA, (2) a "plan" as defined in and to which Section 4975 of the Code applies, or (3) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity (to the extent of the percentage of the equity interests in such entity that are held by Benefit Plan Investors). Although there can be no assurance that the United States Department of Labor would agree, the Issuer intends to treat the Notes as debt for tax purposes, in which case the Plan Assets Regulation would not apply.

Because of the foregoing, the Notes should not be purchased or held by any person investing "plan assets" of any Plan, unless such acquisition, holding and subsequent disposition will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any Similar Laws. Accordingly, by acceptance of a Note, each purchaser and subsequent transferee will be deemed to have represented and agreed that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Notes or an interest therein constitutes assets of any Plan or (ii) the acquisition, holding and disposition by such purchaser or transferee of the Notes or an interest therein will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Notes (and holding the Notes) on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such transactions and whether an exemption would be applicable.

Plan of distribution

Under the terms and conditions contained in the Purchase Agreement entered into among the Issuer, the Parent Guarantor and the Initial Purchasers as of the date of this Offering Memorandum, the Issuer has agreed to sell the Euro Notes and the Dollar Notes to the Initial Purchasers and the Initial Purchasers have, severally and not jointly, agreed to purchase the principal amount of the Euro Notes and the Dollar Notes, respectively. The Initial Purchasers of the Euro Notes are Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, HSBC Bank plc and UniCredit Bank AG. The Initial Purchasers of the Dollar Notes are Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, BNP Paribas Securities Corp., Citigroup Global Markets Limited, Commerz Markets LLC, HSBC Securities (USA) Inc. and UniCredit Bank AG.

The Purchase Agreement provides that the obligation of the Initial Purchasers to purchase the Notes is subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if any are purchased.

The Issuer and the Parent Guarantor, severally and jointly, have agreed to indemnify the Initial Purchasers and their controlling persons against certain liabilities, including liabilities under the U.S. Securities Act. The Issuer has been advised that the Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this Offering Memorandum. The price at which the Notes are offered may be changed at any time without notice. Initial Purchasers that are not U.S. registered broker dealers will make offers and sales into the United States through their U.S. registered broker dealer affiliates.

Delivery of the Notes will be made against payment therefore on or about July 24, 2013 which will be the fourth business day following the date of pricing of the Notes (such settlement being referred to as "T+4"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing will be required, by virtue of the fact that the Notes will initially settle in T+4, to specify an alternate settlement cycle at the time of such trade to prevent failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing should consult their own advisors.

The Notes will constitute a new class of securities with no established trading market. Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF. However, the Issuer cannot assure you that the prices at which the Notes will sell in the market after the offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised the Issuer that they currently intend to make a market in the Notes. However, the Initial Purchasers are not obligated to do so, and they may discontinue any market making activities with respect to a tranche of Notes at any time without notice. In addition, market making activity will be subject to the limits imposed by the Exchange Act, and may be limited. Accordingly, the Issuer cannot make any assurance that a liquid market will develop for a tranche of Notes, that any purchaser will be able to sell its Notes at a particular time or that the prices that a purchasers receives when its sells will be favorable.

In connection with the offering, the Initial Purchasers are not acting for anyone other than the Issuer and the Parent Guarantor and will not be responsible to anyone other than the Issuer and the Parent Guarantor for providing the protections afforded to its clients nor for providing advice in relation to the offering.

Buyers of the Notes sold by the Initial Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the initial offering price set forth on the cover of this Offering Memorandum.

The Initial Purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the U.S. Exchange Act.

Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve Purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by that broker-dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

The Initial Purchasers and certain of their respective affiliates have performed and may perform in the future various financial advisory, investment banking and commercial banking services (including hedging transactions) from time to time for the Issuer, the Parent Guarantor and their respective affiliates. Those Initial Purchasers or their affiliates that are lenders under the IHO Debt Instruments will receive part of the net proceeds from the issuance of the Notes.

It is likely that certain Initial Purchasers and/or their affiliates will hedge their credit exposure. Typically, they would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby.

The Issuer reserves the right to withdraw this offering of the Notes at any time. It and the Initial Purchasers also reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Notes sought by it. The Initial Purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the Notes.

Transfer restrictions

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes, you will be deemed to have made the following acknowledgements, representations to and agreements with us and the Initial Purchasers:

(1) You acknowledge that:

   (a) the Notes have not been registered under the U.S. Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws; and

   (b) unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraphs 5 and 6 below.

(2) You acknowledge that this Offering Memorandum relates to an offering that is exempt from registration under the U.S. Securities Act and may not comply in important respects with SEC rules that would apply to an offering document relating to a public offering of securities.

(3) You represent that you are not an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, that you are not acting on our behalf and that either:

   (a) you are a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the Notes to you in reliance on Rule 144A; or

   (b) you are not a U.S. person (as defined in Regulation S under the U.S. Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

(4) You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes, other than the information contained in this Offering Memorandum. Accordingly, you acknowledge that no representation or warranty is made by the Initial Purchasers or any person representing the Initial Purchasers as to the accuracy or completeness of such materials. You represent that you are relying only on this Offering Memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us and the Initial Purchasers.

(5) You represent that you are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the U.S. Securities Act or any state securities laws, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the U.S. Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

   (a) to us, the Parent Guarantor or any of its subsidiaries;

(b) under a registration statement that has been declared effective under the U.S. Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S under the U.S. Securities Act;

(e) to an institutional accredited investor (within the meaning of Rule 501(a)(1), (2), (3) or (7) under the U.S. Securities Act) that is not a qualified institutional buyer and that is purchasing for its own account or for the account of another institutional accredited investor, in each case in a minimum principal amount of Notes of $250,000; or

(f) under any other available exemption from the registration requirements of the U.S. Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and to compliance with any applicable state securities laws and any applicable local laws and regulations.

You also acknowledge that to the extent that you hold the Notes through an interest in a global note, the Resale Restriction Period (as defined below) may continue until one year after the issuer, or any affiliate of the issuer, was the owner of such note or an interest in such global note, and so may continue indefinitely.

(6) You also acknowledge that:

(a) the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Rule 144A Notes) after the later of the closing date, the closing date of the issuance of any additional Notes and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes or 40 days (in the case of Regulation S Notes) after the later of the closing date and when the Notes or any predecessor of the Notes are first offered to persons other than distributors (as defined in Rule 902 of Regulation S) in reliance on Regulation S (the "**Resale Restriction Period**"), and will not apply after the applicable Resale Restriction Period ends;

(b) if a holder of Notes proposes to resell or transfer Notes under clause (e) above before the applicable Resale Restriction Period ends, the seller must deliver to us and the Trustee a letter from the purchaser in the form set forth in the Indenture which must provide, among other things, that the purchaser is an institutional accredited investor that is acquiring the Notes not for distribution in violation of the U.S. Securities Act;

(c) we and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d), (e) and (f) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the Trustee; and

(d) each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE THAT IS IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF, THE ORIGINAL ISSUE DATE OF THE ISSUANCE OF ANY ADDITIONAL NOTES AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF REGULATION S) IN RELIANCE ON REGULATION S, ONLY (A) TO THE ISSUER, THE PARENT GUARANTOR OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT ("**RULE 144A**"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE U.S. SECURITIES ACT THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER AND THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF SECURITIES OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THE HOLDER AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY SIMILAR TO THE EFFECT OF THIS LEGEND. IN THE CASE OF REGULATION S NOTES: BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT.

BY ITS ACQUISITION OF THIS SECURITY, THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (1) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE AND HOLD THIS SECURITY OR INTEREST THEREIN CONSTITUTES ASSETS OF ANY "EMPLOYEE BENEFIT PLAN" SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, ("**ERISA**"), ANY PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR ARRANGEMENT SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE "PLAN ASSETS" OF SUCH EMPLOYEE BENEFIT PLANS, PLANS, ACCOUNTS OR ARRANGEMENTS OR A GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN, SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON U.S. LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE (COLLECTIVELY, "**SIMILAR LAWS**") OR (2) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY OR INTEREST THEREIN WILL NOT CONSTITUTE OR RESULT IN A NONEXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(7) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of such Notes.

(8) You represent and warrant that either (i) no portion of the assets used by you to acquire and hold this security or interest therein constitutes assets of any "employee benefit plan" subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended, ("**ERISA**"), any plan, individual retirement account or arrangement subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"), an entity whose underlying assets are considered to include "plan assets" of such employee benefit plans, plans, accounts or arrangements or a governmental plan, church plan or non-U.S. plan, subject to any federal, state, local or non U.S. laws or regulations that are substantially similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**") or (ii) the acquisition, holding and disposition of this security or interest therein will not constitute or result in a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

(9) You acknowledge until 40 days following the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the U.S. Securities Act.

(10) You acknowledge that the Trustee will not be required to accept for registration or transfer any Notes acquired by you except upon presentation of evidence satisfactory to us and the Trustee that the restrictions set forth therein have been complied with.

(11) You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes are no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

(12) You understand that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required.

Legal Matters

Certain legal matters in connection with this offering will be passed upon for us by Allen & Overy LLP as to matters of German and United States federal, New York, UK and Dutch law.

Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Shearman & Sterling LLP as to matters of German and United States federal and New York law and by De Brown Blackstone Westbroeck N.V. as to Dutch law.

Certain legal matters in connection with this offering will be passed upon for the Trustee by Clifford Chance LLP.

Independent auditors

The independent auditors of the Company for the fiscal years ended December 31, 2010, 2011 and 2012 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany. KPMG AG Wirtschaftsprüfungsgesellschaft has audited our consolidated financial statements as of and for the fiscal years ended December 31, 2010, 2011 and 2012 which were prepared on the basis of IFRS as adopted by the EU and the financial statements of the Parent Guarantor as of and for the year ended December 31, 2012, which were prepared on the basis of German generally accepted accounting principles in accordance with the German commercial code (*HGB*). The consolidated financial statements and the financial statements mentioned above were each issued an unqualified audit opinion. The financial statements of the Parent Guarantor for the years ended December 31, 2010 and 2011 have been audited.

KMPG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

Service of process and enforcement of civil liabilities

The Parent Guarantor is a limited liability company organized under the laws of Germany. The Issuer is a private limited liability company organized under the laws of the Netherlands. Many of the directors and officers of the Issuer and the Parent Guarantor are non-residents of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or the Parent Guarantor or such persons, or to enforce against them judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws or otherwise despite the fact that, pursuant to the terms of the Indenture, the Issuer and the Parent Guarantor have appointed an agent for the service of process in New York, or to enforce, in original actions, liabilities against the Issuer and the Parent Guarantor based on those laws. In addition, as many of the Issuer's and the Parent Guarantor's assets and the assets of their directors and executive officers are located outside of the United States, Holders may be unable to enforce against them judgments obtained in the U.S. courts predicated on civil liability provisions of the federal securities laws of the United States.

If a judgment is obtained in a U.S. court against the Issuer or the Parent Guarantor, investors will need to enforce such judgment in jurisdictions where the relevant company has assets.

Even though the enforceability of U.S. court judgments outside the United States is described below for Germany and the Netherlands, investors should consult with their own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

Germany

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Germany.

Notwithstanding, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would generally be recognized by a German court upon all of the following:

(a) U.S. courts could take jurisdiction of the case in accordance with the principles on jurisdictional competence according to German law;

(b) the document introducing the proceedings was duly made known to the defendant in a timely manner that allowed for adequate defense;

(c) the judgment is not contrary to (i) any prior judgment which became *res judicata* rendered by a German court or (ii) any prior judgment which became res judicata rendered by a foreign court which is to be recognized in Germany and the procedure leading to the respective judgment is not in contradiction to any such prior judgment;

(d) the effects of its recognition will not be in conflict with material principles of German law, including, without limitation, fundamental rights under the constitution of Germany (*Grundrechte*). In this context, it should be noted that any component of a U.S. federal or state court civil judgment awarding punitive damages or any other damages which do not serve a compensatory purpose, such as treble damages, will not be enforced in Germany. They are regarded to be in conflict with material principles of German law;

(e) the reciprocity of enforcement of judgments is guaranteed; and

(f) the judgment became res judicata in accordance with the law of the place where it was pronounced.

Enforcement and foreclosure based on U.S. judgments may be sought against German defendants after having received an enforcement decision from a competent German court in accordance with the above principles. Subject to the foregoing, investors may be able to enforce judgments in Germany in civil and commercial matters obtained from U.S. federal or state courts. However, there can be no assurance that those judgments will be enforceable. In particular, the obligations need to be of a specific kind and type for which an enforcement procedure exists under German law. Enforcement is also subject to the effect of any applicable bankruptcy, insolvency, reorganization, liquidation, moratorium as well as other similar laws affecting creditor’s rights generally.

Furthermore, German civil procedure differs substantially from U.S. civil procedure in a number of aspects. With respect to the production of evidence, for example, U.S. federal and state law and the laws of several other jurisdictions based on common law provide for pre-trial discovery, a process by which parties to the proceedings may, prior to trial, compel the production of documents by adverse or third parties and the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law.

If the party in whose favor such final judgment is rendered brings a new suit in a competent court in Germany, such party may submit to the German court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against the Company or such persons will be regarded by a German court only as evidence of the outcome of the dispute to which such judgment relates. A German court may choose to re-hear the dispute and may render a judgment not in line with the judgment rendered by a federal or state court of the United States.

The Netherlands

In the absence of an applicable treaty to which the United States and the Netherlands are a party, a judgment obtained against the Issuer in the courts of the United States enforceable will not be directly enforceable in the Netherlands.

In order to obtain a judgment which is enforceable in the Netherlands, the claim must be relitigated before a competent court of the Netherlands; the relevant Netherlands court has discretion to attach such weight to a judgment of the courts of the United States as it deems appropriate; based on case law, the courts of the Netherlands may be expected to recognize and grant permission for enforcement of a judgment of a court of competent jurisdiction in the United States without re-examination or relitigation of the substantive matters adjudicated thereby, provided that (i) the relevant court in the United States had jurisdiction in the matter in accordance with standards which are generally accepted internationally; (ii) the proceedings before such court complied with principles of proper procedure; and (iii) recognition and/or enforcement of such judgment does not conflict with the public policy of the Netherlands.

Listing and general information

Admission to trading and listing

Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, in accordance with the rules and regulations of such exchange.

Listing information

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange require, copies of the following documents may be inspected and obtained free of charge at the specified office of the Luxembourg listing agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the organizational documents of the Issuer;
- the organizational documents of the Parent Guarantor;
- the financial statements included in this Offering Memorandum;
- the Indenture (including the Note Guarantee);
- the Intercreditor Agreement;
- the Security Documents; and
- other material agreements described in this Offering Memorandum as to which we specify that copies thereof will be made available.

The Issuer has appointed Deutsche Bank Luxembourg S.A. as Luxembourg listing agent, paying agent, transfer agent and registrar and to make payments on, when applicable, and transfers of the Notes. The Issuer reserves the right to vary such appointments in accordance with the terms of the Indenture.

The Issuer will maintain a paying and transfer agent in Luxembourg for so long as any of the Notes are listed on the Luxembourg Stock Exchange. The Issuer reserves the right to vary such appointment and will publish notice of such change of appointment in a newspaper having a general circulation in Luxembourg. So long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a paying and transfer agent in Luxembourg.

Pursuant to Part 1, point 703 of the Rules and Regulations of the Luxembourg Stock Exchange, the Notes will be freely transferable on the Luxembourg Stock Exchange. The Issuer accepts responsibility for the information contained in this Offering Memorandum. The Issuer declares that, to the best of its knowledge, except as otherwise noted, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum. This Offering Memorandum may only be used for the purposes for which it has been published.

Approval

The Issuer and the Parent Guarantor have obtained all necessary consents, approvals, authorizations or other orders for the issue of Notes and other documents to be entered into by the Issuer in connection with the issue of the Notes in Luxembourg. The creation and issuance of the Notes was authorized by the Issuer's management board dated July 15, 2013.

Financial Information

Schaeffler AG has prepared consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 and will continue to prepare consolidated financial statements in the future.

Clearing Information

The Euro Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under Common Codes 095490778 and 095490743, respectively. The international securities identification number (the "**ISIN Number**") for the Euro Notes sold pursuant to Regulation S is XS0954907787 and the ISIN Number for the Euro Notes sold pursuant to Rule 144A is XS0954907431.

The Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of DTC. The Common Code for the Dollar Notes sold pursuant to Regulation S is 092892727 and the Common Code for the Dollar Notes sold pursuant to Rule 144A is 092892468. The ISIN Number of the Dollar Notes sold pursuant to Regulation S is USN77616AA34 and the ISIN Number for the Dollar Notes sold pursuant to Rule 144A is US80626PAA84. The CUSIP number for the Dollar Notes sold pursuant to Regulation S is N77616 AA3 and the CUSIP number for the Dollar Notes pursuant to Rule 144A is 80626P AA8.

Significant Change

Except as disclosed in this Offering Memorandum:

- there has been no material adverse change in the Parent Guarantors' and its subsidiaries' financial condition since March 31, 2013; and
- neither the Parent Guarantor nor any of its subsidiaries has been involved in any litigation, administrative proceeding or arbitration relating to claims or amounts which are material in the context of the issue of the Notes, and, so far as the Issuer is aware, no such litigation, administrative proceeding or arbitration is pending or threatened.

Glossary of technical terms

CTV	Continuously variable automatic transmission.
Camshaft Phasing	Allows for a form of variable valve control system.
Cold forming technology	The strengthening of a metal by plastic deformation.
Deep drawing	A sheet metal forming process in which a sheet metal blank is radially drawn into a forming die by the mechanical action of a punch.
Dry double clutch system	Describes the type of clutch linings of the double clutch. It is a LuK innovation and the key to the most efficient transmissions to date.
Dual mass flywheels	The dual mass flywheel provides effective vibration damping in the drivetrain.
Electromechanical actuators	Can be used instead of hydraulic systems. They originate in aviation and are now used in steering systems and chassis applications.
Electric mobility	Refers to the possibility to use drive vehicles that use one or more electric motors or traction motors for propulsion.
Forging	Shaping of metal using localized compressive forces.
ISO 14001	Specifies the actual requirements for an environmental management system. It applies to those environmental aspects which the organization has control and over which it can be expected to have an influence.
Linear guidance systems	Systems used in linear technology to minimize friction during translation of one or more moveable assemblies of a machine and to keep the direction of movement of a linear raceway.
Mechatronic	Multidisciplinary field of engineering.
Spindles	Main rotating part of a machine tool.
Tribology	The science and engineering of interacting surfaces in relative motion.
Valve-lash adjustment	Valve lash is the mechanical clearance in the valve train between camshaft and valve in an internal combustion engine. Valve lash adjustment is necessary maintenance for engines without hydraulic valve lifters.
Valve train	Mechanism for transferring the cam stroke to the lifting valves in a combustion engine.
Wheel bearing spur gear teeth	Design variant of a wheel bearing where the wheel bearing and the axle journal are connected to each other axially instead of radially.

APPENDIX 1

FORM OF NOTICE

[*The following notice shall be sent to the Luxembourg Stock Exchange via email to ost@bourse.lu.*]

DATE:

We hereby inform you of the issuance by Schaeffler Holdings Finance B.V., a private limited liability company established under the laws of the Netherlands (the "**Issuer**"), of €[●] and $[●] of additional Senior PIK Toggle Notes on [date] (the "**Additional PIK Notes**") as payment for interest due on its €800,000,000 6.875% / 7.625% Senior Secured PIK Toggle Notes due 2018 and its $1,000,000,000 6.875% / 7.625% Senior Secured PIK Toggle Notes due 2018 issued on July 24, 2013 (the "**Original PIK Notes**" and, together with the Additional PIK Notes, the "**PIK Notes**"), the terms of which are described in the Issuer's listing particulars dated [month] [day], [year] (the "**Listing Particulars**").

The aggregate principal amount of the Issuer's PIK Notes that are admitted to listing on the Official List and to trading on the Euro MTF shall be increased on the soonest practicable date following receipt by the Luxembourg Stock Exchange of this notice in the following manner

Additional PIK Notes represented

(i) by a Euro 144A Global Note (ISIN No. XS0954907431, Common Code 095490743) shall be increased by €[●];

(ii) by a Euro Regulation S Global Note (ISIN No. XS0954907787, Common Code 095490778) shall be increased by €[●];

(iii) by a Dollar 144A Global Note (CUSIP No. 80626P AA8, ISIN No. US80626PAA84, Common Code 092892468) shall be increased by $[●]; and

(iv) by a Dollar Regulation S Global Note (CUSIP No. N77616 AA3, ISIN No. USN77616AA34, Common Code 092892727) shall be increased by $[●],

Capitalized terms that are used and not otherwise defined herein shall have the respective meanings ascribed to such terms in the Issuer's Listing Particulars dated [month] [day], [year].

Sincerely,

Schaeffler Holdings Finance B.V.

Financial information
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Unaudited condensed consolidated financial statements of Schaeffler AG as of and for the three months ended March 31, 2013

Consolidated income statement

in € millions	March 31, 2013	March 31, 2012	Change in %
Revenue	2,756	2,858	(3.6)
Cost of sales	(1,965)	(1,973)	(0.4)
Gross profit	**791**	**885**	**(10.6)**
Research and development expenses	(152)	(147)	3.4
Selling expenses	(188)	(191)	(1.6)
Administrative expenses	(113)	(127)	(11.0)
Other income	24	10	> 100
Other expenses	(7)	(29)	(75.9)
Earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT)	**355**	**401**	**(11.5)**
Financial income[1)]	51	25	> 100
Financial expense[1)]	(218)	(236)	(7.6)
Financial result[1)]	**(167)**	**(211)**	**(20.9)**
Share of net income of equity-accounted investees	**135**	**136**	**(0.7)**
Earnings before income taxes[1)]	**323**	**326**	**(0.9)**
Income taxes	(89)	(88)	1.1
Net income[1)]	**234**	**238**	**(1.7)**
Attributable to shareholders of the parent company[1)]	233	235	(0.9)
Attributable to non-controlling interests	1	3	(66.7)

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see condensed notes to consolidated interim financial statements for details.

Consolidated statement of comprehensive income

	March 31,					
	2013			2012		
in € millions	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income[1)]	**323**	**(89)**	**234**	**326**	**(88)**	**238**
Foreign currency translation differences for foreign operations	45	0	45	(25)	0	(25)
Net loss on hedge of net investment in foreign operation	(17)	0	(17)	0	0	0
Effective portion of changes in fair value of cash flow hedges	(3)	1	(2)	52	(14)	38
Share of other comprehensive income (loss) of equity-accounted investees	30	0	30	0	(1)	(1)
Total other comprehensive income (loss) that will be reclassified subsequently to profit or loss	**55**	**1**	**56**	**27**	**(15)**	**12**
Defined benefit plan actuarial gains (losses)[1)]	(41)	7	(34)	(62)	15	(47)
Share of other comprehensive income (loss) of equity-accounted investees	26	(30)	(4)	0	0	0
Total other comprehensive income (loss) that will not be reclassified subsequently to profit or loss	**(15)**	**(23)**	**(38)**	**(62)**	**15**	**(47)**
Total other comprehensive income (loss)	**40**	**(22)**	**18**	**(35)**	**0**	**(35)**
Total comprehensive income (loss) for the period	**363**	**(111)**	**252**	**291**	**(88)**	**203**
Total comprehensive income (loss) attributable to shareholders of the parent company	359	(111)	248	287	(88)	199
Total comprehensive income (loss) attributable to non-controlling interests	4	0	4	4	0	4
Total comprehensive income (loss) for the period	**363**	**(111)**	**252**	**291**	**(88)**	**203**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see condensed notes to consolidated interim financial statements for details.

Consolidated statement of financial position

in € millions	March 31, 2013	December 31, 2012	March 31, 2012	Change in %[1]
ASSETS				
Intangible assets	549	554	554	(0.9)
Property, plant and equipment	3,500	3,515	3,392	(0.4)
Investments in equity-accounted investees	5,200	5,040	4,908	3.2
Other investments	14	14	14	0.0
Other assets	155	150	116	3.3
Income tax receivables	16	17	24	(5.9)
Deferred tax assets	398	364	366	9.3
Total non-current assets	**9,832**	**9,654**	**9,374**	**1.8**
Inventories	1,543	1,495	1,603	3.2
Trade receivables	1,855	1,626	1,885	14.1
Other assets	220	231	221	(4.8)
Income tax receivables	52	107	75	(51.4)
Cash and cash equivalents	458	433	291	5.8
Total current assets	**4,128**	**3,892**	**4,075**	**6.1**
Total assets	**13,960**	**13,546**	**13,449**	**3.1**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	500	500	500	0.0
Reserves[2]	2,010	2,027	1,246	(0.8)
Accumulated other comprehensive income (loss)[2]	(464)	(479)	(186)	(3.1)
Equity attributable to shareholders of the parent company	**2,046**	**2,048**	**1,560**	**(0.1)**
Non-controlling interests	64	60	57	6.7
Total shareholders' equity	**2,110**	**2,108**	**1,617**	**0.1**
Provisions for pensions and similar obligations	1,608	1,553	1,282	3.5
Provisions[2]	60	75	75	(20.0)
Financial debt	7,088	7,140	7,155	(0.7)
Income tax payables	281	267	187	5.2
Other liabilities	175	240	341	(27.1)
Deferred tax liabilities	145	119	122	21.8
Total non-current liabilities	**9,357**	**9,394**	**9,162**	**(0.4)**
Provisions	237	223	203	6.3
Financial debt	204	121	300	68.6
Trade payables	908	794	976	14.4
Income tax payables	192	232	202	(17.2)
Other liabilities	952	674	989	41.2
Total current liabilities	**2,493**	**2,044**	**2,670**	**22.0**
Total shareholders' equity and liabilities	**13,960**	**13,546**	**13,449**	**3.1**

1) March 31, 2013 compared to December 31, 2012.

2) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see condensed notes to consolidated interim financial statements for details.

Consolidated statement of cash flows

in € millions	March 31, 2013	2012	Change in %
Operating activities			
EBIT	355	401	(11.5)
Interest paid	(190)	(166)	14.5
Interest received	2	2	0.0
Income taxes paid	(58)	(54)	7.4
Depreciation, amortization and impairments	157	148	6.1
Gains (losses) on disposal of assets	0	(1)	(100)
Other non-cash items	(10)	(19)	(47.4)
Changes in:			
• Inventories	(29)	(54)	(46.3)
• Trade receivables	(211)	(290)	(27.2)
• Trade payables	126	121	4.1
• Provisions for pensions and similar obligations	(9)	(8)	12.5
• Other assets, liabilities and provisions	39	57	(31.6)
Cash flows from operating activities[1]	**172**	**137**	**25.5**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	2	7	(71.4)
Capital expenditures on intangible assets	(4)	(9)	(55.6)
Capital expenditures on property, plant and equipment	(117)	(241)	(51.5)
Investments in other financial investments	(1)	(1)	0.0
Cash used in investing activities	**(120)**	**(244)**	**(50.8)**
Financing activities			
Receipts from loans	1	170	(99.4)
Repayments of loans	(14)	(11)	27.3
Acquisitions in stages	0	(13)	(100)
Other financing activities[2]	(18)	(144)	(87.5)
Cash used in financing activities	**(31)**	**2**	**–**
Net increase (decrease) in cash and cash equivalents	**21**	**(105)**	**–**
Effects of foreign exchange rate changes on cash and cash equivalents	4	(1)	–
Cash and cash equivalents as of beginning of period	433	397	9.1
Cash and cash equivalents as at end of period	**458**	**291**	**57.4**

1) Excluding interest payments, cash flows from operating activities for the period from 01/01 to 03/31/2013 amount to EUR 362 m (prior year: EUR 303 m).

2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 0 m (prior year: EUR 150 m).

Consolidated statement of changes in shareholders' equity

in € millions	Share capital	Reserves	Accumulated other comprehensive income (loss)[1] Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses	Subtotal	Non-controlling interests	Total
Balance as at January 1, 2012 before IAS 19 (rev. 2011) adjustments	**500**	**1,324**	**118**	**(131)**	**0**	**(150)**	**1,661**	**53**	**1,714**
Change in accounting policy - IAS 19 (rev. 2011)		(13)				13	0		0
Balance as at January 1, 2012 after IAS 19 (rev. 2011) adjustments	**500**	**1,311**	**118**	**(131)**	**0**	**(137)**	**1,661**	**53**	**1,714**
Net income		236					236	3	239
Other comprehensive income (loss)			(27)	38	1	(49)	(37)	1	(36)
Change in accounting policy - IAS 19 (rev. 2011)		(1)				1	0		0
Total comprehensive income (loss) for the period	**0**	**235**	**(27)**	**38**	**1**	**(48)**	**199**	**4**	**203**
Transactions with shareholders									
Dividends		(300)					(300)		(300)
Total amount of transactions with shareholders		**(300)**					**(300)**		**(300)**
Balance as at March 31, 2012	**500**	**1,246**	**91**	**(93)**	**1**	**(185)**	**1,560**	**57**	**1,617**
Balance as at January 1, 2013 before IAS 19 (rev. 2011) adjustments	**500**	**2,042**	**75**	**(2)**	**2**	**(570)**	**2,047**	**60**	**2,107**
Change in accounting policy - IAS 19 (rev. 2011)		(15)				16	1		1
Balance as at January 1, 2013 after IAS 19 (rev. 2011) adjustments	**500**	**2,027**	**75**	**(2)**	**2**	**(554)**	**2,048**	**60**	**2,108**
Net income		233					233	1	234
Other comprehensive income (loss)			55	(2)		(38)	15	3	18
Total comprehensive income (loss) for the period	**0**	**233**	**55**	**(2)**	**0**	**(38)**	**248**	**4**	**252**
Transactions with shareholders									
Dividends		(250)					(250)		(250)
Total amount of transactions with shareholders		**(250)**					**(250)**		**(250)**
Balance as at March 31, 2013	**500**	**2,010**	**130**	**(4)**	**2**	**(592)**	**2,046**	**64**	**2,110**

1) Including the effect of equity-accounted investees.

Consolidated segment information

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

	Automotive		Industrial		Other		Total	
	March 31,		March 31,		March 31,		March 31,	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	1,988	1,933	768	908	0	17[1)]	2,756	2,858
Cost of sales	(1,452)	(1,401)	(513)	(555)	0	(17)[2)]	(1,965)	(1,973)
Gross profit	536	532	255	353	0	0	791	885
EBIT	277	244	78	157	0	0	355	401
• in % of revenue	13.9	12.6	10.2	17.3	–	–	12.9	14.0
Depreciation, amortization and impairments	(111)	(102)	(46)	(46)	0	0	(157)	(148)
Inventories[3)]	897	894	646	709	0	0	1,543	1,603
Trade receivables[3)]	1,325	1,307	530	578	0	0	1,855	1,885
Property, plant and equipment[3)]	2,462	2,319	1,038	1,073	0	0	3,500	3,392
Additions to intangible assets and property, plant and equipment	79	177	24	58	0	0	103	235

Prior year information based on 2013 segment structure.

1) Other revenues not attributable to a segment.

2) Other costs not attributable to a segment.

3) Amounts as at March 31.

Condensed notes to the consolidated financial statements

Reporting entity

Schaeffler AG, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1-3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 13202). The condensed consolidated interim financial statements of Schaeffler AG as at March 31, 2013 comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as “Schaeffler” or “Schaeffler Group”). Schaeffler is a supplier to the automotive and manufacturing sectors with operations worldwide.

Basis of preparation of consolidated interim financial statements

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 IFRS Interpretations Committee (IFRIC).

The consolidated interim financial statements of Schaeffler AG, Herzogenaurach, for the reporting period ended March 31, 2013 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and 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 in principle the same as those used in the 2012 consolidated financial statements, where they are discussed in detail. The following IFRS amendments and new regulations have been initially applied in these interim financial statements as required as at March 31, 2013:

- IAS 19: Change in the measurement of obligations under partial retirement arrangements and in the determination of net interest expense/income,
- IAS 1: Change in the presentation of the consolidated statement of comprehensive income including adjustments to the comparative period,
- IFRS 7 and IFRS 13: Expanded note disclosures on financial instruments, and
- Other IFRS amendments: No effect on these interim financial statements.

The Schaeffler Group has applied the accounting treatment required by IAS 19 (rev. 2011) starting January 1, 2013. The new requirements of IAS 19 (rev. 2011) include replacing expected returns on plan assets and interest expense on the pension obligation by the newly introduced net interest approach. Under this approach, net interest expense or benefit to be recognized in income for the period is arrived at by multiplying the net pension obligation by the discount rate used to measure the gross pension obligation. The transition rules of IAS 19 (rev. 2011) require the amendments to the standard to be applied retrospectively. As a result, adjustments to prior years are shown in the earliest reporting period presented in these consolidated interim financial statements. For the prior period, interest income was reduced by EUR 7 m and the revised income on plan assets of EUR 6 m was offset against interest expense. The resulting difference was recognized in shareholders’ equity as a reduction in reserves and an increase in accumulated other comprehensive income. The effect of applying the net interest approach under IAS 19 (rev. 2011) on the first quarter of 2013 was insignificant.

Due to the allocation and netting of certain exchange gains and losses recognized in profit or loss, prior year figures for other income and other expense were each adjusted by EUR 17 m for comparability. Please refer to the 2012 consolidated financial statements for further detail.

In the preparation of 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, 2012.

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 quarterly financial statements is not significantly affected by seasonality.

Income taxes are determined based on best estimate.

As amounts (in millions of Euros) and percentages have been rounded, minor rounding differences may occur.

Significant changes in financial statement line items are discussed separately in the Group management report.

Scope of consolidation

The scope of consolidation has not changed since December 31, 2012.

The Schaeffler Group includes, in addition to Schaeffler AG, 159 fully consolidated subsidiaries; 54 companies are domiciled in Germany and 105 are foreign entities.

In the consolidated interim financial statements as at March 31, 2013, nine investments (six associated companies and three joint ventures) are accounted for at equity. As in the prior year, Schaeffler Beteiligungsholding GmbH & Co. KG holds 72,290,458 shares or 36.14 % of the voting interest in Continental AG as at March 31, 2013.

Continental AG is a leading automotive supplier with worldwide operations, headquartered in Hanover, Germany. The following table summarizes key financial information about the Continental Group:

in € millions	**2013**	**2012**
Revenue (01/01 – 03/31)	8,033	8,320
Net income[1] (01/01 – 03/31)	463	501
Assets[2] (as at 03/31)	28,256	26,785
Liabilities[2] (as at 03/31)	19,518	19,260

1) Including non-controlling interests.

2) Prior year amounts restated for initial application of IAS 19 (rev. 2011).

Share of net income of equity-accounted investees

In accordance with the equity method, the acquisition cost of the Schaeffler Group's interest was allocated based on the fair value of the assets and liabilities of Continental AG.

The share of net income of equity-accounted investees relates primarily to shares in Continental AG. The Schaeffler Group's share of depreciation, amortization, and impairments on fair value adjustments and its share of Continental AG's net income resulted in income of EUR 135 m (prior year: EUR 136 m) net of deferred tax.

Schaeffler's share of net income of equity-accounted investees for the period ending March 31, 2013 consists of the following components:

in € millions	**2013**	**2012**
Depreciation, amortization and impairments of fair value adjustments	(35)	(59)
Share of net income of Continental AG	160	174
Effect before income taxes	**125**	**115**
Deferred taxes	10	17
Effect on income before special items[1]	**135**	**132**
Special items[1]		
• Reversal of cash flow hedges existing at the time of the PPA	0	2
• Recognition of Continental AG pension obligations at fair value	0	2
Effect on income after special items[1]	**135**	**136**

1) Realized through purchase price allocation (PPA).

The Schaeffler Group's share of other comprehensive income of Continental AG amounts to EUR 25 m (prior year: EUR -1 m).

Debt covenants restrict Continental AG's ability to pay dividends. On April 30, 2012, Continental AG paid a dividend of EUR 1.50 per share in respect of 2011.

Based on a share price of EUR 93.27 per share (prior year: EUR 70.77 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (36.14%) was EUR 6,743 m (prior year: EUR 5,116 m) on March 31, 2013.

Segment reporting

Segment reporting under IFRS 8, which follows the management approach, is based on the internal reporting structure of the Schaeffler Group. As a result, these interim consolidated financial statements present segment information for the two segments Automotive and Industrial.

The allocation of customers and products to segments is reviewed regularly and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer and product structure.

Reconciliation to earnings before income taxes	**March 31,**	
in € millions	**2013**	**2012**
EBIT Automotive[1]	277	244
EBIT Industrial[1]	78	157
EBIT	**355**	**401**
Financial result	**(167)**	**(211)**
Share of net income of equity-accounted investees	**135**	**136**
Earnings before income taxes	**323**	**326**

1) Prior year information presented based on 2013 segment structure.

Financial instruments

The carrying amounts and fair values of financial instruments by balance sheet class and by category per IFRS 7.8 are summarized below. Derivatives designated as hedging instruments are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories in accordance with IFRS 7.8 during the current or prior year periods.

			March 31, 2013		December 31, 2012		March 31, 2012	
in € millions	Category per IFRS 7.8	Level per IFRS 13	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class								
Trade receivables	LaR	1	1,855	1,855	1,626	1,626	1,885	1,885
Other investments[1]	AfS	1	14	–	14	–	14	–
Other assets								
• Marketable securities	AfS	1	3	3	6	6	5	5
• Other loans receivable[2]	LaR	1	95	95	103	103	113	113
• Derivatives designated as hedging instruments	n.a.	2	10	10	30	30	0	0
• Derivatives not designated as hedging instruments	HfT	2	84	84	84	84	26	26
Cash and cash equivalents	LaR	1	458	458	433	433	291	291
Financial liabilities, by class								
Financial debt	FLAC	2	7,292	7,906	7,261	7,727	7,455	7,669
Trade payables	FLAC	1	908	908	794	794	976	976
Other liabilities								
• Derivatives designated as hedging instruments	n.a.	2	160	160	213	213	295	295
• Derivatives not designated as hedging instruments	HfT	2	24	24	27	27	61	61
• Other liabilities[2]	FLAC	1	417	416	170	170	428	427
Summary by category								
Available-for-sale financial assets (AfS)			17	–	20	–	19	–
Financial assets held for trading (HfT)			84	–	84	–	26	–
Loans and receivables (LaR)			2,408	–	2,162	–	2,289	–
Financial liabilities at amortized cost (FLAC)			8,617	–	8,225	–	8,859	–
Financial liabilities held for trading (HfT)			24	–	27	–	61	–

1) Investments accounted for at cost.

2) Includes other assets/liabilities in the scope of IAS 39/IFRS 7.

Financial assets and liabilities measured at fair value have been classified using a fair value hierarchy that reflects the nature of the methods used to arrive at fair value (Level 1 – Level 3). According to the levels of the hierarchy, fair value is determined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Determined using a valuation method for which all significant inputs are based on observable market data.

The fair value of financial debt is the present value of expected future cash flows discounted using risk-adjusted discount rates in effect at the end of the reporting period.

Derivative financial instruments that are foreign exchange contracts, interest rate swaps or cross-currency swaps are measured using exchange rates in effect at the end of the reporting period and risk-adjusted interest and discount rates. Instruments with an option-type structure are measured using a Black-Scholes option pricing model. Key inputs are the relevant volatilities and credit default swap rates (CDS rates).

- Level 3: Determined using a valuation method for which significant inputs are not based on observable market data. The Schaeffler Group does not have any financial instruments in this level.

No transfers were made between the various levels of the fair value hierarchy (Level 1 – 3). Other investments include investments (shares in companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in the first quarter of 2013, and no (partial) disposals are planned for the foreseeable future.

The following summary shows amounts as required by IFRS 7.13C subject to an enforceable master netting arrangement or similar agreement that are not set off in the statement of financial position:

in € millions	March 31, 2013	December 31, 2012	March 31, 2012
Financial assets			
Gross amount of financial assets	94	114	26
Amounts offset in accordance with IAS 32.42	0	0	0
Gross amount of financial assets	94	114	26
Amounts subject to master netting arrangements	(33)	(45)	(5)
Net amount of financial assets	61	69	21
Financial liabilities			
Gross amount of financial liabilities	(184)	(240)	(356)
Amounts offset in accordance with IAS 32.42	0	0	0
Gross amount of financial liabilities	(184)	(240)	(356)
Amounts subject to master netting arrangements	33	45	5
Net amount of financial liabilities	(151)	(195)	(351)

Contingent liabilities and other financial obligations

At March 31, 2013, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 164 m (December 31, 2012: EUR 164 m). EUR 131 m of the commitments existing at March 31, 2013 are expected to be settled within one year and EUR 33 m in more than one year but within five years.

Contingent liabilities amount to EUR 36 m at March 31, 2013 (December 31, 2012: EUR 37 m) and consist primarily of claims raised by employees and reassessments from taxation authorities.

Related parties

The Schaeffler Group's related parties are its parent company and the members of that company's governing bodies as well as other companies controlled by the parent company. These companies are referred to as IHO companies (companies with INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, as their group parent company) below.

The Continental AG Group companies are also related to the Schaeffler Group.

Transactions with Continental Group companies during the period from January 1 to March 31, 2013 were as follows:

	Receivables		Payables	
in € millions	**March 31, 2013**	**December 31, 2012**	**March 31, 2013**	**December 31, 2012**
Continental Group companies	15	10	4	4

	Expenses		Income	
in € millions	**2013**	**2012**	**2013**	**2012**
Continental Group companies (01/01 – 03/31)	8	9	21	20

Payables to IHO companies were EUR 556 m (December 31, 2012: EUR 324 m) at March 31, 2013 and consisted primarily of EUR 537 m (December 31, 2012: EUR 288 m) in liabilities due to the shareholder, Schaeffler Verwaltungs GmbH, including a dividend of EUR 250 m payable in December 2013.

Events after the reporting period

On April 22, 2013, the Schaeffler Group announced that it had again refinanced part of its financial debt by placing with institutional investors the equivalent of approximately EUR 1.25 bn in secured high-yield bonds denominated in Euros and in U.S. Dollars with five- and eight-year terms and using the proceeds to prepay a portion of its existing financial debt (Senior Term Loan A and B1). The outstanding balance of Senior Term Loan A remaining after this partial prepayment and the existing revolving credit facility were refinanced with more favorable terms and extended maturities. These transactions have again significantly improved the maturity profile of the financial debt and further reduced the company's borrowing costs. Rating agencies have rated the high-yield bonds B+ (Standard & Poor's) and Ba3 (Moody's).

No other material events expected to have a significant impact on the results of operations, financial position, and net assets of the Schaeffler Group occurred after March 31, 2013.

Herzogenaurach, May 13, 2013

The Executive Board

Audited consolidated financial statements of Schaeffler AG as of and for the year ended December 31, 2012

1. Consolidated income statement

in € millions	Note	2012	2011	Change in %
Revenue	3.1	11,125	10,694	4.0
Cost of sales		(7,836)	(7,463)	5.0
Gross profit		**3,289**	**3,231**	**1.8**
Research and development expenses		(593)	(495)	19.8
Selling expenses		(759)	(725)	4.7
Administrative expenses		(465)	(408)	14.0
Other income	3.2	35	111	(68.5)
Other expenses	3.3	(94)	(25)	> 100
Earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT)		**1,413**	**1,689**	**(16.3)**
Financial income	3.5	53	40	32.5
Financial expenses	3.5	(729)	(773)	(5.7)
Financial result	**3.5**	**(676)**	**(733)**	**(7.8)**
Share of net income of equity-accounted investees	**2.2, 3.6**	**554**	**324**	**71.0**
Earnings before income taxes		**1,291**	**1,280**	**0.9**
Income taxes	3.7	(407)	(378)	7.7
Net income		**884**	**902**	**(2.0)**
Attributable to shareholders of the parent company		872	889	(1.9)
Attributable to non-controlling interests		12	13	(7.7)

2. Consolidated statement of comprehensive income

in € millions	2012 Before taxes	2012 Taxes	2012 After taxes	2011 Before taxes	2011 Taxes	2011 After taxes
Net income	**1,291**	**(407)**	**884**	**1,280**	**(378)**	**902**
Foreign currency translation differences for foreign operations	(39)	0	(39)	(24)	0	(24)
Net gain on hedge of net investment in foreign operation	2	0	2	0	0	0
Effective portion of changes in fair value of cash flow hedges	180	(51)	129	(33)	10	(23)
Net change in fair value of available-for-sale financial assets	1	0	1	0	0	0
Defined benefit plan actuarial gains (losses)	(329)	93	(236)	(114)	34	(80)
Share of other comprehensive income (loss) of equity-accounted investees	(266)	73	(193)	(40)	4	(36)
Total other comprehensive income (loss)	**(451)**	**115**	**(336)**	**(211)**	**48**	**(163)**
Total comprehensive income (loss) for the period	**840**	**(292)**	**548**	**1,069**	**(330)**	**739**
Total comprehensive income (loss) attributable to shareholders of the parent company	832	(292)	540	1,063	(330)	733
Total comprehensive income (loss) attributable to non-controlling interests	8	0	8	6	0	6
Total comprehensive income (loss) for the period	**840**	**(292)**	**548**	**1,069**	**(330)**	**739**

See Notes 2.2, 4.11 and 4.15 for further details.

3. Consolidated statement of financial position

in € millions	Note	December 31, 2012	2011	Change in %
ASSETS				
Intangible assets	4.1	554	553	0.2
Property, plant and equipment	4.2	3,515	3,328	5.6
Investments in equity-accounted investees	4.3	5,040	4,772	5.6
Other investments		14	14	0.0
Other assets	4.7	150	95	57.9
Income tax receivables	4.7	17	22	(22.7)
Deferred tax assets	4.4	364	350	4.0
Total non-current assets		**9,654**	**9,134**	**5.7**
Inventories	4.5	1,495	1,562	(4.3)
Trade receivables	4.6	1,626	1,607	1.2
Other assets	4.7	231	200	15.5
Income tax receivables	4.7	107	89	20.2
Cash and cash equivalents	4.8	433	397	9.1
Total current assets		**3,892**	**3,855**	**1.0**
Total assets		**13,546**	**12,989**	**4.3**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves		2,042	1,324	54.2
Accumulated other comprehensive income (loss)		(495)	(163)	> 100
Equity attributable to shareholders of the parent company		**2,047**	**1,661**	**23.2**
Non-controlling interests		60	53	13.2
Total shareholders' equity	**4.9**	**2,107**	**1,714**	**22.9**
Provisions for pensions and similar obligations	4.11	1,553	1,217	27.6
Provisions	4.12	76	79	(3.8)
Financial debt	4.10	7,140	7,168	(0.4)
Income tax payables	4.14	267	172	55.2
Other liabilities	4.14	240	261	(8.0)
Deferred tax liabilities	4.4	119	124	(4.0)
Total non-current liabilities		**9,395**	**9,021**	**4.1**
Provisions	4.12	223	208	7.2
Financial debt	4.10	121	317	(61.8)
Trade payables	4.13	794	873	(9.0)
Income tax payables	4.14	232	184	26.1
Other liabilities	4.14	674	672	0.3
Total current liabilities		**2,044**	**2,254**	**(9.3)**
Total shareholders' equity and liabilities		**13,546**	**12,989**	**4.3**

4. Consolidated statement of cash flows

in € millions	2012	2011	Change in %
Operating activities			
EBIT	1,413	1,689	(16.3)
Interest paid	(593)	(686)	(13.6)
Interest received	9	13	(30.8)
Income taxes paid	(226)	(238)	(5.0)
Dividends received	81	0	–
Depreciation, amortization and impairments	618	554	11.6
(Gains) losses on disposal of assets	(1)	0	–
Other non-cash items	(21)	2	–
Changes in:			
• Inventories	55	(80)	–
• Trade receivables	(27)	(153)	(82.4)
• Trade payables	(52)	83	–
• Provisions for pensions and similar obligations	(45)	(61)	(26.2)
• Other assets, liabilities and provisions	2	(39)	–
Cash flows from operating activities[1)]	**1,213**	**1,084**	**11.9**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	29	11	> 100
Capital expenditures on intangible assets	(35)	(15)	> 100
Capital expenditures on property, plant and equipment	(825)	(758)	8.8
Investments in other financial investments	(3)	(10)	(70.0)
Other investing activities	2	7	(71.4)
Cash used in investing activities	**(832)**	**(765)**	**8.8**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	0.0
Receipts from loans	395	13	> 100
Repayments of loans	(449)	(42)	> 100
Acquisitions in stages	(13)	0	–
Dividends paid to Schaeffler Verwaltungs GmbH	(79)	(400)	(80.3)
Other financing activities[2)]	(194)	(216)	(10.2)
Cash used in financing activities	**(341)**	**(646)**	**(47.2)**
Net increase (decrease) in cash and cash equivalents	**40**	**(327)**	**–**
Effects of foreign exchange rate changes on cash and cash equivalents	(4)	(9)	(55.6)
Cash and cash equivalents as at beginning of period	397	733	(45.8)
Cash and cash equivalents as at end of period	**433**	**397**	**9.1**

1) Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2012 amount to EUR 1,806 m (prior year: EUR 1,770 m).

2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 227 m (prior year: EUR 186 m).

See Note 5.3 to the consolidated financial statements.

5. Consolidated statement of changes in shareholders' equity

in € millions	Share capital	Reserves	Accumulated other comprehensive income (loss)[1] Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses	Subtotal	Non-controlling interests	Total
Balance as at January 1, 2011	**500**	**2,801**	**179**	**(120)**	**1**	**(67)**	**3,294**	**47**	**3,341**
Net income		889					889	13	902
Other comprehensive income (loss)			(61)	(11)	(1)	(83)	(156)	(7)	(163)
Total comprehensive income (loss) for the period	**0**	**889**	**(61)**	**(11)**	**(1)**	**(83)**	**733**	**6**	**739**
Transactions with shareholders									
Dividends		(2,364)					(2,364)		(2,364)
Total amount of transactions with shareholders		**(2,364)**					**(2,364)**		**(2,364)**
Other items from equity-accounted investees recognized directly in shareholders' equity		(2)					(2)		(2)
Balance as at December 31, 2011	**500**	**1,324**	**118**	**(131)**	**0**	**(150)**	**1,661**	**53**	**1,714**
Balance as at January 1, 2012	**500**	**1,324**	**118**	**(131)**	**0**	**(150)**	**1,661**	**53**	**1,714**
Net income		872					872	12	884
Other comprehensive income (loss)			(43)	129	2	(420)	(332)	(4)	(336)
Total comprehensive income (loss) for the period	**0**	**872**	**(43)**	**129**	**2**	**(420)**	**540**	**8**	**548**
Transactions with shareholders									
Dividends		(300)					(300)	(1)	(301)
Capital contribution		131					131		131
Total amount of transactions with shareholders		**(169)**					**(169)**	**(1)**	**(170)**
Other items from equity-accounted investees recognized directly in shareholders' equity		15					15		15
Balance as at December 31, 2012	**500**	**2,042**	**75**	**(2)**	**2**	**(570)**	**2,047**	**60**	**2,107**

1) Including the effect of equity-accounted investees.

See Note 4.9 to the consolidated financial statements.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

	Automotive		Industrial		Other		Total	
	December 31,		December 31,		December 31,		December 31,	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Revenue	7,663	7,157	3,401	3,463	61[1)]	74[1)]	11,125	10,694
Cost of sales	(5,556)	(5,207)	(2,219)	(2,182)	(61)[2)]	(74)[2)]	(7,836)	(7,463)
Gross profit	2,107	1,950	1,182	1,281	0	0	3,289	3,231
EBIT	998	1,074	415	615	0	0	1,413	1,689
• in % of revenue	13.0	15.0	12.2	17.8	–	–	12.7	15.8
Depreciation, amortization and impairments	(431)	(396)	(187)	(158)	0	0	(618)	(554)
Inventories[3)]	852	867	643	695	0	0	1,495	1,562
Trade receivables[3)]	1,131	1,089	495	518	0	0	1,626	1,607
Property, plant and equipment[3)]	2,428	2,271	1,087	1,057	0	0	3,515	3,328
Additions to intangible assets and property, plant and equipment[3)]	617	630	210	216	0	0	827	846

1) Other revenues not attributable to a segment.

2) Other costs not attributable to a segment.

3) Amounts as of December 31.

See Note 5.4 to the consolidated financial statements.

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1-3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 13202). The consolidated financial statements of Schaeffler AG as at December 31, 2012 comprise Schaeffler AG and its subsidiaries, investments in associated companies and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). Schaeffler is a supplier to the automotive and manufacturing sectors with operations worldwide.

1.2 Basis of preparation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2012 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code). The term IFRS includes all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

As permitted by section 315a (3) HGB, the company has chosen to prepare its consolidated financial statements under IFRS.

These consolidated financial statements are presented in Euro, the functional and presentation currency of the Schaeffler Group. Unless stated otherwise, all amounts are in millions of Euro (EUR m).

To achieve a more appropriate presentation, share of net income of equity-accounted investees, which in previous years was included in financial result, is shown in the consolidated income statement in a separate line, below financial result and above earnings before income taxes this year. Consequently, the item "EBIT" in the consolidated income statement was renamed "Earnings before financial result, share of net income of equity-accounted investees, and income taxes". Prior year information was adjusted accordingly.

Schaeffler classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period. Inventories are current assets even if they are not expected to be realized within twelve months after the end of the reporting period. Similarly, liabilities are classified as current if Schaeffler is contractually required to settle them within twelve months after the end of the reporting period.

The financial statements of all entities included in these consolidated financial statements have been prepared as of the same date as these consolidated financial statements.

Measurement bases

Except for the following, assets and liabilities have generally been measured on the basis of historical cost:

- derivative financial instruments,
- financial instruments recorded at fair value through profit or loss, and
- available-for-sale financial assets.

These assets and liabilities were measured at fair value.

Estimation uncertainty and management judgment

In the preparation of financial statements in accordance with IFRS, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Both estimates and the basis on which assumptions are made are reviewed regularly. Changes in estimates are recognized in the period in which the changes are made as well as in all subsequent periods affected by the changes.

The following issues affected by estimation uncertainty in the application of accounting policies have the most significant impact on amounts recognized in the consolidated financial statements:

- determination of the useful lives of intangible assets and property, plant and equipment,
- determination of valuation allowances on inventories,
- impairment tests of goodwill and non-current assets, including determination of recoverable amounts and the underlying assumptions (e.g. discount rate),
- accounting for employee benefits, including actuarial assumptions,
- recognition and measurement of other provisions, and
- assessment of the recoverability of deferred tax assets.

The following issues in particular are affected by the application of management's judgment:

- identification of cash-generating units and
- classification of lease agreements as finance or operating leases.

In 2012, there was no significant impact from changes in assumptions made in the past or from the resolution of previously existing uncertainties related to the above items.

1.3 Summary of significant accounting policies

The accounting policies set out below have been applied for all periods presented in these consolidated financial statements consistently by all Schaeffler Group entities.

Consolidation principles

Subsidiaries are entities directly or indirectly controlled by Schaeffler AG. Control exists if Schaeffler has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control normally results from holding a majority of the voting rights. Potential voting rights that are currently exercisable are taken into account when assessing control. In accordance with SIC 12 "Consolidation – Special Purpose Entities", Schaeffler's consolidated financial statements also include companies that Schaeffler controls without holding a majority of the voting rights, e.g. where Schaeffler in substance retains the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities. Subsidiaries' financial statements are included in the consolidated financial statements from the date Schaeffler obtains control until the date Schaeffler loses control.

Associated companies are those entities for which Schaeffler has significant influence on, but not control or joint control over, the financial and operating policy decisions of the investee. Significant influence is presumed to exist if Schaeffler holds, directly or indirectly, between 20% and 50% of the voting power of an investee. Where Schaeffler's direct or indirect holdings represent less than 20% of the voting rights, significant influence is presumed not to exist unless such influence can be clearly demonstrated.

Investments in associated companies are accounted for using the equity method. Under this method, the investment is initially recognized at cost. If the accounting policies of these entities differ from those of Schaeffler AG, they are adjusted to comply with Schaeffler AG's accounting policies. If acquisition cost exceeds Schaeffler's share of the fair value of the net assets of the associated company, the difference is recognized as goodwill. Goodwill arising on the acquisition of an associated company is included in the carrying amount of the investment in the associated company and is tested for impairment as part of the total investment when there is an objective indication of impairment. After initial recognition, the carrying amount of the investment is increased or decreased by the investor's share of the investee's net income or loss and other items recognized directly in equity by the investee from the date that significant influence commences until the date significant influence ceases. If Schaeffler's share of losses of an associated company reaches or exceeds the amount of the investment, the carrying amount of that investment is reduced to zero and no further losses are recognized except to the extent that Schaeffler has incurred a legal or constructive obligation to make payments or has made payments on behalf of the associated company. The accounting policies set out above also apply to joint ventures.

Balances and transactions with consolidated subsidiaries and any related income and expenses are completely eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associated companies are eliminated against the carrying amount of the investment in the associated company to the extent of Schaeffler's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent there is no evidence of impairment. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Foreign currency translation

Foreign currency transactions
Upon initial recognition, purchases and sales denominated in foreign currencies are translated at the exchange rate applicable at the time of the transaction. Since receivables and payables denominated in foreign currencies arising from these transactions are monetary items within the scope of IAS 21, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. The resulting exchange gains and losses are recognized in the consolidated income statement.

In prior years, all exchange gains and losses on foreign currency transactions were recognized as other income or other expenses. In the consolidated financial statements for the year ended December 31, 2012, the income effect of currency translation is split between EBIT and financial result and each component is netted based on the underlying economic circumstances. Exchange gains and losses on operating receivables and payables and on derivatives entered into to hedge the related foreign exchange risk are presented within earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives entered into to hedge the related foreign exchange risk are reflected in financial result. This separate presentation is intended to help provide more detailed disclosures. The impact is only a change in presentation within the income statement and affects neither the balance sheet nor net income. Prior year figures for other expenses and income were each adjusted by EUR 219 m for comparability.

Translation of foreign currency financial statements
The Schaeffler Group presents its financial statements in Euro, the functional currency of Schaeffler AG. Assets and liabilities of subsidiaries whose functional currency is not the Euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in accumulated other comprehensive income and reclassified to the income statement upon disposal of the subsidiary.

The following table illustrates the most significant exchange rates used in preparing the consolidated financial statements:

Currencies 1 € in		Closing rate December 31, 2012	Closing rate December 31, 2011	Average rate 2012	Average rate 2011
U.S.A.	USD	1.32	1.29	1.29	1.39
Japan	JPY	113.61	100.20	102.62	110.86
Hungary	HUF	292.30	314.58	289.32	279.44
Romania	RON	4.44	4.32	4.46	4.24

Revenue recognition and cost of sales

Revenues from the business activities of the Schaeffler Group are recognized at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates based on the company's general terms and conditions. Other revenues such as from equipment sales and rental income are included in other income.

Revenue from the sale of goods is recognized when, based on the agreement with the customer,

- the significant risks and rewards of ownership of the goods have been transferred to the buyer,
- it is sufficiently probable that the economic benefits associated with the sale will flow to Schaeffler,
- the costs associated with the transaction as well as possible returns can be measured reliably,
- Schaeffler does not retain continuing managerial involvement in relation to the goods, and
- the amount of revenue can be measured reliably.

Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery, provided that the conditions listed above are met.

Cost of sales consists primarily of the cost of producing products, rendering services, or purchase cost of merchandise sold. Production cost comprises all direct costs attributable to the process of manufacturing products and rendering services as well as allocated production-related overheads.

Research and development expenses

Research and development expenses include costs incurred for research and development and expenditures for customer-specific applications, prototypes, and testing.

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge are recognized as expenses as incurred.

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Provided they can be measured reliably, development costs are only recognized as intangible assets if

- their technical feasibility can be demonstrated,
- Schaeffler has the intention to complete the intangible asset and use or sell it,
- Schaeffler has the ability to use or sell the intangible asset,
- Schaeffler can demonstrate that using or selling the intangible asset will generate future economic benefits,

- adequate technical, financial, and other resources are available to complete the development and to subsequently sell or use it, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalized costs include costs directly attributable to the development process and development-related overheads. Capitalized development expenditures are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the average expected useful life of six years beginning when the intangible asset is ready for use. Amortization expense is presented in cost of sales. In contrast to costs of developing new or substantially improved products, advance development costs and costs incurred to produce customer-specific applications (i.e. to customize existing products without substantial improvement) are not capitalized, but instead expensed as incurred.

Goodwill

Goodwill is calculated as the excess of the aggregate of (1) the fair value of consideration transferred, (2) the amount of non-controlling interests, and (3), in a business combination achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree over the net fair values of the identifiable assets acquired and liabilities assumed. Non-controlling interests in the acquired company are measured at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Goodwill is measured at cost less accumulated impairment losses. It is not amortized, but is instead tested for impairment at least annually and when there is an objective indication. Goodwill is tested for impairment at the level of cash-generating units or groups of cash-generating units. The impairment test is performed by comparing the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated with its recoverable amount. Recoverable amount is determined using the discounted cash flow method and is the higher of fair value less costs to sell and value in use of the cash-generating unit or group of cash-generating units. An impairment loss on goodwill is recognized when the carrying amount of the cash-generating unit or group of cash-generating units exceeds its recoverable amount. Impairments recognized on goodwill cannot be reversed, even if the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated exceeds its carrying amount in future periods.

Expected cash flows are based on a three-year-forecast and future projections which are reviewed regularly by Schaeffler Group management. The medium-term forecast is based on specific assumptions regarding macroeconomic indicators, external sales expectations and internal assessments of demand and projects, as well as sales prices, commodity price trends, and the volume of investments in intangible assets and property, plant and equipment. Projections beyond the detailed forecasting horizon are based on growth rates. The discount rate reflects current market expectations and specific risks.

Other intangible assets

Purchased intangible assets including software and patents are capitalized at acquisition cost, internally generated intangible assets meeting the requirements of IAS 38 regarding capitalization, including software and development projects, at production cost. Intangible assets with a determinable useful life are amortized on a straight-line basis over their estimated useful lives of three years for software, six years for capitalized development costs and ten years for patents. Amortization commences when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Other intangible assets are tested for impairment when there is an objective indication that the asset may be impaired. The Schaeffler Group does not have any intangible assets with indefinite useful lives.

Subsequent expenditures are only capitalized when they meet the recognition criteria for an intangible asset, i.e. it is probable that the future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. All other expenditures, including expenditures for internally generated goodwill and brands, are expensed as incurred.

In the consolidated income statement, amortization expense and impairment losses related to an intangible asset are presented within the functional area in which the intangible asset is utilized.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all costs directly attributable to the acquisition of the asset. Self-constructed assets are initially measured at the directly attributable construction cost that is necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the consideration received with the carrying amount of the asset. They are presented net in other income or other expenses, respectively.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Estimated useful lives range from 15 to 25 years for buildings and outside facilities, from 2 to 10 years for technical equipment and machinery and from 3 to 8 years for other equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the asset's useful life. Land is not depreciated. Depreciation expense and impairment losses are presented in the consolidated income statement under the appropriate functional area. Depreciation methods are reviewed at the end of each reporting period.

Leases

Leases that transfer substantially all risks and rewards of ownership to Schaeffler are classified as finance leases. The leased asset is initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A liability is recognized at the same amount. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. Financing costs are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases under which the lessor retains substantially all risks and rewards of ownership are classified as operating leases, and the related lease payments are expensed on a straight-line basis over the lease term.

Impairment

Financial assets
Financial assets are tested for impairment individually at the end of each reporting period and when objective evidence of impairment exists. Schaeffler has established group-wide guidelines to help determine the relative amount of the impairment (such as commencement of judicial collection procedures, compulsory enforcement) when analyzing evidence of impairment. Group companies apply these guidelines taking into account the circumstances specific to the financial asset being considered. For financial assets that are equity instruments, a significant or prolonged decline in the fair value below cost is considered objective evidence of impairment. Impairment losses in respect of a financial asset measured at amortized cost are calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the effective interest rate originally determined at initial recognition (discounted cash flow method). An impairment loss in respect of an available-for-sale financial asset is calculated based on the asset's fair value.

All impairment losses are recognized in profit or loss. If an impairment is recognized in respect of an available-for-sale financial asset, any cumulative losses previously recognized in other comprehensive income related to that asset are reclassified from accumulated other comprehensive income to profit or loss.

An impairment loss is reversed if the reversal of the impairment loss can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognized in other comprehensive income.

Non-financial assets
Assets are tested for impairment by comparing their carrying amount with their recoverable amount. If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, the impairment test is not performed at the level of the individual asset but instead at the level of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest unit with largely independent cash flows.

If there is an indication of impairment, intangible assets and property, plant and equipment are tested for impairment during the year. Goodwill and intangible assets not yet available for use are also tested annually for impairment at the end of the reporting period.

Recoverable amount is the higher of fair value less costs to sell and value in use. Initially, Schaeffler determines recoverable amount under the value in use concept using the discounted cash flow method. If value in use does not exceed the carrying amount of the cash-generating unit, recoverable amount is then determined using fair value less costs to sell.

An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses (except on goodwill) are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

If the resulting impairment loss exceeds the amount of recognized goodwill, goodwill is fully impaired first. The remaining impairment loss is allocated to the other assets in the cash-generating unit.

The discount rate reflects current market expectations and the risks specific to the asset or cash-generating unit.

At the end of each reporting period, the Schaeffler Group assesses whether there is any indication that its equity method investments may be impaired. If such an indication exists, Schaeffler is required to test that equity method investment for impairment. An equity method investment is impaired when its carrying amount exceeds the higher of its value in use and fair value less costs to sell.

Financial instruments

In accordance with IAS 32 a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include (1) non-derivative financial instruments and (2) derivative financial instruments. Normal sales and purchases of financial assets are recognized using settlement date accounting. The Schaeffler Group does not apply the fair value option. Please refer to Note 4.15 for an analysis of the Schaeffler Group's financial instruments by class as required by IFRS 7.6.

(1) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and receivables, and trade and other payables. Non-derivative financial instruments are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

Schaeffler classifies its financial instruments in the following categories as defined in IAS 39:

Available-for-sale financial assets
Except for investments in companies accounted for using the equity method, Schaeffler classifies its investments in equity securities as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein – other than impairment losses and exchange differences on available-for-sale monetary assets – are recognized in other comprehensive income (including related deferred taxes). Fair values are derived from market prices unless no quoted prices are available or there is no active market; in these cases, fair value is determined using recognized valuation techniques such as the discounted cash flow method. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be measured reliably are recognized at cost.

When an available-for-sale financial asset is derecognized, the cumulative gain or loss previously recognized in accumulated other comprehensive income is reclassified to profit or loss.

Any prolonged or significant decline in the fair value below cost is considered an impairment and is recognized in profit or loss immediately.

Loans and receivables
Loans and receivables are measured at amortized cost less any impairment losses. Trade and other receivables within this category are carried at face value. Impairment losses on trade and other receivables are recognized in profit or loss unless the receivable is covered by credit insurance. Impairment allowances for uncollectible receivables as well as for general credit risks are recognized on an individual basis. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. In that case, the impairment loss is recognized against the gross amount of the receivable. Non-interest bearing receivables with a maturity of more than one year are discounted. Loans and receivables sold to third parties are derecognized if and when substantially all risks and rewards associated with the loans and receivables sold have been transferred.

This category also includes cash and cash equivalents. Cash equivalents include cash on hand, checks, and cash at banks. Schaeffler considers all short-term, highly liquid investments with a maturity of up to three months from the date of acquisition to be cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities
With the exception of derivative financial instruments, Schaeffler measures all financial liabilities at amortized cost using the effective interest method. Amortized cost includes any transaction costs attributable to the liability. For financial liabilities designated as the hedging instrument in a hedge of a net investment in a foreign operation (i.e. to hedge the related foreign exchange risk), gains and losses are recognized in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss. Obligations under finance leases are initially measured at an amount equal to the lower of the fair value of the leased asset and the present value of minimum lease payments.

(2) Derivative financial instruments

Schaeffler holds derivative financial instruments to hedge its currency and interest rate risk exposures inherent in assets and liabilities and in future cash flows.

In accordance with IAS 39, derivatives are initially recognized as an asset or liability at fair value, which is normally the market price or the price quoted on an exchange. If these are not available, the recognized amount is determined using recognized valuation methods (e.g. option pricing models). Attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss and classified as financial assets/liabilities held for trading (HfT). The Schaeffler Group does not have any fair value hedges.

Non-derivative host instruments are reviewed for embedded derivatives (e.g. prepayment options). Embedded derivatives are separated from the host instrument when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument. Embedded derivatives required to be separated are measured at fair value.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in accumulated other comprehensive income remains in equity until the forecast transaction occurs or is no longer expected to occur. Otherwise, the amount is reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value. Acquisition cost of raw materials, supplies and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods (including goods in transit) are valued at production cost, consisting of direct material and labor costs as well as production-related overheads. Net realizable value is defined as the estimated selling price in the ordinary course of business less estimated costs of completion and estimated necessary selling costs.

Income taxes

Income tax expense for the period includes current and deferred tax expense. Income taxes are recognized in profit or loss, except for income taxes relating to items recognized directly in equity or in other comprehensive income, which are also recognized in equity or in other comprehensive income.

Current taxes are calculated based on local tax rules and regulations effective at the end of the reporting period or shortly thereafter in the countries in which the subsidiaries and companies accounted for using the equity method operate and generate taxable income. Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and, where appropriate, recognizes provisions based on amounts expected to be payable to taxation authorities.

Under IAS 12 "Income Taxes", deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets and liabilities are recognized on temporary differences that will result in taxable or deductible amounts in determining taxable profit of future periods, unless the differences are the result of the initial recognition of an asset or a liability in a transaction which is not a business combination and at the time of the transaction has affected neither pre-tax profit or loss nor taxable profit (initial differences). The same also applies for deferred tax liabilities arising from the initial recognition of goodwill. IAS 12 also requires the recognition of deferred tax assets on tax loss carryforwards and tax credits.

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that future taxable profit will be available.

Deferred tax liabilities arising on temporary differences associated with investments in subsidiaries and associated companies are recognized unless the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future as a result of this control.

Deferred taxes are measured using tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period and that are expected to apply to the period when the deferred tax asset is expected to be realized or the deferred tax liability is expected to be settled. The effects of changes in tax rates or tax laws on deferred tax assets and liabilities are recognized in profit or loss unless the deferred tax assets and liabilities were originally recognized outside profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right of offset exists and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend to settle net.

Provisions for pensions and similar obligations

Employee benefits include both defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market assessments of expected return on plan assets and anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent Schaeffler is entitled to a refund or reduction of future contributions to the fund.

Schaeffler immediately recognizes all actuarial gains and losses arising from defined benefit plans in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the expected return on plan assets are included in financial income and financial expense.

For defined contribution plans, Schaeffler pays fixed contributions to a third party without any legal or constructive obligation to make additional contributions. The contributions are recognized as personnel expense within the appropriate functional expenses.

Provisions

A provision is recognized if, as a result of a past event, Schaeffler has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the recognition criteria for provisions are not met, a contingent liability is disclosed in the notes to the financial statements provided certain criteria are met.

Provisions are measured at the best estimate of the amount required to settle the obligation. This estimate is subject to uncertainty.

Warranty provisions are generally recognized when the claim becomes known and are measured at the estimated cost of meeting a specific obligation to perform rework free of charge, provide a replacement, or to pay damages. In addition, when there is a large number of similar transactions, warranty provisions are recognized based on historical experience.

Non-current provisions are recognized at present value by discounting expected future cash outflows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest, including effects of changes in interest rates, is shown in financial result.

1.4 New accounting pronouncements

In 2012, the amendment to IFRS 7 adopted by the EU as European law and summarized below was required to be applied for the first time. This initial application had no effect.

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment
IFRS 7	Financial Instruments: Disclosures	07/01/2011	Disclosure requirements related to transfers of financial assets

The International Accounting Standards Board (IASB) has issued the Standards and amendments summarized below. The Schaeffler Group will initially apply the amendments in its 2013 financial year.

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
IAS 1	Presentation of Financial Statements	07/01/2012	Presentation of other comprehensive income	Changes to the presentation of the consolidated statement of comprehensive income
IAS 19	Employee Benefits	01/01/2013	Changes resulting from IAS 19 rev. 2011	Minor impact on financial result (Note 4.11); accounting for obligations under partial retirement arrangements; extent of disclosures
IAS 12	Income Taxes	01/01/2013	Deferred taxes on investment property measured at fair value through profit or loss	none
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01/01/2013	Stripping costs in the production phase of a surface mine	none
IFRS 7	Financial Instruments: Disclosures	01/01/2013	Disclosures on financial assets and financial liabilities that are offset	none
IFRS 13	Fair Value Measurement	01/01/2013	Fair value measurement	Expanded disclosures on fair values of financial instruments
IAS 32	Financial Instruments: Presentation	01/01/2014	Offsetting financial assets and liabilities	none
IFRS 10	Consolidated Financial Statements	01/01/2014	Replaces the corresponding requirements of IAS 27	none
IFRS 11	Joint Arrangements	01/01/2014	Replaces IAS 31	none
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	Disclosure of interests in other entities	Expanded disclosures regarding all investments and unconsolidated structured entities
IAS 27	Consolidated and Separate Financial Statements	01/01/2014	Guidance on separate financial statements; elimination of guidance on consolidation (IFRS 10)	none
IAS 28	Investments in Associates	01/01/2014	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12	none

In addition, the IASB has issued new Standards and amendments to existing Standards and Interpretations which have not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue by Schaeffler Group management.

The Schaeffler Group has not applied any of the following new Standards or amendments to existing Standards and Interpretations early:

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1	First-time Adoption of International Financial Reporting Standards	01/01/2013	Accounting for government loans	none
Annual Improvements 2011		01/01/2013	Various improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34	none to minor
Transition Guidance (Amendments to IFRS 10, 11 and 12)		01/01/2014	Amendments to transition guidance	none
Investment Entities		01/01/2014	Definition of and requirements for investment entities	none
IFRS 9	Financial Instruments	01/01/2015	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments and changes to related disclosures[1]
Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)		01/01/2015	Changes to mandatory effective date and transition guidance	Date of initial application and disclosures

1) Detailed statements regarding the extent of the impact are not yet possible.

2. Principles of consolidation

2.1 Scope of consolidation

In 2012, the Schaeffler Group includes, in addition to Schaeffler AG, 159 (prior year: 154) subsidiaries; 54 (prior year: 50) companies are domiciled in Germany and 105 (prior year: 104) are foreign entities.

The following changes have occurred since December 31, 2011:

The newly founded companies Schaeffler Israel Ltd., Yokneam Illit (Israel), Schaeffler Manufacturing Rus GmbH, Ulyanovsk (Russia), and four additional “Verwaltungsholding” companies, all located in Herzogenaurach (Germany), are consolidated for the first time. FAG Servicos Industriais Ltda., Săo Paulo (Brazil), which no longer had any operations, was liquidated and eliminated from the consolidation. In total, the number of consolidated companies has increased by five.

Two foreign subsidiaries (prior year: two) are consolidated because Schaeffler AG has the ability to control these companies, although it does not hold the majority of the voting rights.

In the consolidated financial statements as at December 31, 2012, nine (prior year: nine) investments (including three joint ventures; prior year: three) are accounted for at equity.

See Note 5.9 for details of the Schaeffler Group’s investments.

2.2 Investments in equity-accounted investees

Investments in equity-accounted investees consist primarily of the indirectly held shares in Continental AG. As in the prior year, Schaeffler Beteiligungsholding GmbH & Co. KG holds 72,290,458 shares or 36.14% of the voting interest in Continental AG as at December 31, 2012. Schaeffler Beteiligungsholding GmbH & Co. KG is accounted for as a joint venture in the consolidated financial statements. The articles of incorporation stipulate that all income and losses as well as all assets and liabilities of Schaeffler Beteiligungsholding GmbH & Co. KG are attributable to Schaeffler AG.

Continental AG is a leading automotive supplier with worldwide operations, headquartered in Hanover, Germany. The following table summarizes key financial information about the Continental Group:

in € millions	2012	2011
Revenue (01/01 – 12/31)	32,736	30,505
Net income[1] (01/01 – 12/31)	1,968	1,325
Assets (as at 12/31)	27,338	26,038
Liabilities (as at 12/31)	18,193	18,495

1) Including non-controlling interests.

In accordance with the equity method, the acquisition cost of the investment in Continental AG was allocated based on Schaeffler AG's interest in the fair value of the assets and liabilities of Continental AG. The equity method carrying amount at the time Schaeffler AG transferred its 36.14% investment in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG on September 30, 2011 then represented the carrying amount of Schaeffler AG's investment of 100% of the limited partner shares in Schaeffler Beteiligungsholding GmbH & Co. KG, which is accounted for as a joint venture in the consolidated financial statements.

As Schaeffler AG has indirect influence (via Schaeffler Beteiligungsholding GmbH & Co. KG) over Continental AG and since Schaeffler Beteiligungsholding GmbH & Co. KG does not have any operations other than holding the investment in Continental AG, Schaeffler has based its equity method accounting for Schaeffler Beteiligungsholding GmbH & Co. KG on the equity method carrying amount of the investment in Continental AG since September 30, 2011.

Share of net income of equity-accounted investees: The share of net income of equity-accounted investees totaling EUR 554 m (prior year: EUR 324 m) is mainly the result of measuring the investment in Continental AG (held indirectly since September 30, 2011) using the equity method. The Schaeffler Group's share of depreciation, amortization and impairments on fair value adjustments and its share of Continental AG's net income, adjusted for goodwill impairments recognized by Continental AG, including non-recurring items realized through the purchase price allocation and net of offsetting deferred tax effects, result in income after tax of EUR 553 m. The effect on Schaeffler AG's net income is as follows:

in € millions	2012	2011
Depreciation, amortization and impairments of fair value adjustments	(237)	(265)
Share of net income of Continental AG	681	477
Goodwill impairment loss recognized by Continental AG	27	0
Effect before income taxes	**471**	**212**
Deferred taxes	66	74
Effect on income before special items[1]	**537**	**286**
Special items[1]		
• Reversal of cash flow hedges existing at the time of the PPA	7	20
• Recognition of Continental AG pension obligations at fair value	9	5
Effect on income after special items[1]	**553**	**311**

1) Realized through purchase price allocation (PPA).

Special items realized through the purchase price allocation reflect adjustments for transactions that have since been realized by Continental AG.

Share of other comprehensive income (loss) of equity-accounted investees

The Schaeffler Group's share of other comprehensive loss of Continental AG amounts to EUR 1 m (prior year: income of EUR 14 m).

An adjustment to reflect the use of uniform group wide valuation methods in accounting for pension obligations of EUR 184 m (prior year: EUR 17 m) and changes in cash flow hedges of EUR 7 m (prior year: EUR 20 m) had an offsetting effect on other comprehensive income (loss).

In total, these items almost entirely reduced accumulated other comprehensive income (loss) by EUR 193 m after tax (prior year: EUR 36 m).

In addition, Schaeffler's share of the impact of acquisitions in stages made by Continental AG and, in the prior year, the exercise of share options by certain members of Continental AG management have changed reserves by EUR 15 m (prior year: decrease of EUR 2 m) without affecting net income.

Nature and extent of significant restrictions

Debt covenants restrict Continental AG's ability to pay dividends. Continental AG did not pay any dividends for 2008, 2009 and 2010. On April 30, 2012, Continental AG paid a dividend of EUR 1.50 per share in respect of 2011 (see Note 4.3).

Market capitalization

Based on a share price of EUR 87.59 per share (prior year: EUR 48.10 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (36.14%, prior year: 36.14%) was EUR 6,332 m (prior year: EUR 3,477 m) on December 31, 2012.

3. Notes to the consolidated income statement

3.1 Revenue

in € millions	2012	2011
Revenue from the sale of goods	10,957	10,499
Other revenue	168	195
Total	**11,125**	**10,694**

Revenue from the sale of goods consists of sales of goods to customers, net of early payment discounts. Other revenue includes primarily EUR 88 m (prior year: EUR 103 m) in revenue from other services (e.g. related to research and development), as well as EUR 71 m (prior year: EUR 76 m) from the sale of tools and special machines.

3.2 Other income

in € millions	2012	2011
Exchange gains	0	73
Reversal of provisions	1	6
Reduction of allowances	4	3
Gains on disposal of assets	5	3
Miscellaneous income	25	26
Total	**35**	**111**

Foreign exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate. The netting of foreign exchange gains and losses has resulted in a net exchange loss in 2012 which is presented in other expenses.

3.3 Other expenses

in € millions	2012	2011
Exchange losses	44	0
Increase in allowances	9	3
Losses on disposal of assets	4	3
Miscellaneous expenses	37	19
Total	**94**	**25**

The increase in other expenses is primarily due to movements in the U.S. Dollar. Expenses for land transfer taxes on intra-group transfers recognized in miscellaneous expenses have also increased other expenses.

3.4 Personnel expense and headcount

The number of employees at December 31, 2012 was 76,099, 2.8% above the prior year level of 74,031. In 2012, the Schaeffler Group had an average of 75,893 employees (prior year: 71,896) and 627 temporary staff (prior year: 747).

Number of employees by region	2012	2011
Germany	29,825	29,001
Europe w/o Germany	22,214	21,425
North America	7,087	6,474
South America	4,528	4,636
Asia/Pacific	12,239	10,360
Total	**75,893**	**71,896**

Number of employees by functional area	2012	2011
Production	59,172	56,457
Research and development	6,098	5,465
Selling	6,047	5,793
General administration	4,576	4,181
Total	**75,893**	**71,896**

The Schaeffler Group's personnel expense can be analyzed as follows:

in € millions	2012	2011
Wages and salaries	2,664	2,484
Social security contributions	521	495
Pensions and similar benefit expenses	67	49
Total	**3,252**	**3,028**

The increase in personnel expense in 2012 is mainly due to pay increases arising from local collective agreements, but also to targeted expansion of capacity, primarily in production and in research and development.

Pensions and similar benefit expenses consist of expenses related to defined benefit pension plans, contributions to defined contribution pension plans, expenses in connection with the "Pensionssicherungsverein" (German pension assurance association), and other employee benefits.

3.5 Financial result

To achieve a more appropriate presentation, share of net income of equity-accounted investees, which in previous years was included in financial result, is shown in the consolidated income statement in a separate line, below financial result and above earnings before income taxes this year. Consequently, the item "EBIT" in the consolidated income statement was renamed "Earnings before financial result, share of net income of equity-accounted investees, and income taxes". Prior year information was also adjusted accordingly.

The Schaeffler Group's financial result for the year amounts to EUR -676 m (prior year: EUR -733 m).

Financial result comprises financial income of EUR 53 m (prior year: EUR 40 m) and financial expenses of EUR 729 m (prior year: EUR 773 m).

			2012
in € millions	**Financial expenses**	**Financial income**	**Financial result**
Interest expense on financial debt[1]	(523)	0	(523)
Fair value changes and compensation payments on derivatives	(6)	8	2
Foreign exchange gains and losses	(10)	3	(7)
Amortization of cash flow hedge accounting reserve[2]	(72)	0	(72)
Interest income and expense on pensions and partial retirement obligations	(83)	30	(53)
Other	(35)	12	(23)
Total	**(729)**	**53**	**(676)**

			2011
in € millions	**Financial expenses**	**Financial income**	**Financial result**
Interest expense on financial debt[1]	(494)	0	(494)
Fair value changes and compensation payments on derivatives	(101)	0	(101)
Foreign exchange gains and losses	0	0	0
Amortization of cash flow hedge accounting reserve[2]	(75)	0	(75)
Interest income and expense on pensions and partial retirement obligations	(81)	26	(55)
Other	(22)	14	(8)
Total	**(773)**	**40**	**(733)**

1) Incl. transaction costs.

2) Hedge accounting terminated in connection with the refinancing arrangement in 2009.

Interest expense on financial debt of EUR 523 m (prior year: EUR 494 m) for 2012 includes interest paid and accrued on the Group's financing arrangements of EUR 453 m (prior year: EUR 402 m) and expenses of EUR 47 m (prior year: EUR 78 m) relating to transaction costs. In addition, the amount also includes interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of EUR 2 m (prior year: losses of EUR 101 m). The amount consists largely of compensation payments of EUR 105 m (prior year: EUR 170 m) and favorable changes in the value of interest rate and cross-currency derivatives as well as embedded derivatives of EUR 107 m (prior year: EUR 69 m). The change from the prior year results mainly from the favorable development of embedded derivatives and lower compensation payments in 2012.

Net foreign exchange losses of EUR 7 m on financial assets and liabilities are primarily due to movements of the U.S. Dollar against the Euro (see Note 1.3).

Additional expenses of EUR 72 m (prior year: EUR 75 m) arose from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009 on interest rate hedging instruments.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 53 m (prior year: EUR 55 m). See Note 4.11 for additional details on pensions.

Other items giving rise to net expenses of EUR 23 m (prior year: EUR 8 m) include primarily interest income of EUR 11 m (prior year: EUR 13 m) on loans and receivables, impairment losses on loans of EUR 13 m (prior year: EUR nil), and other financial expenses of EUR 21 m (prior year: EUR 21 m).

3.6 Share of net income of equity-accounted investees

The 2012 share of net income of equity-accounted investees of EUR 554 m (prior year: EUR 324 m) relates almost entirely to the investment in Schaeffler Beteiligungs GmbH & Co. KG, which holds a 36.14% interest in Continental AG.

3.7 Income taxes

Income taxes consist of the following:

in € millions	2012	2011
Current income taxes	384	386
Deferred income taxes	23	(8)
Income taxes	**407**	**378**

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during the reporting period. Trade tax is levied by municipalities.

The average domestic tax rate for corporations was 27.9% in 2012 (prior year: 27.9%). This tax rate consists of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.0% (prior year: 12.0%). Partnerships located in Germany are only subject to trade tax.

In 2012, current income tax expense related to prior years amounts to EUR 12 m (prior year: EUR 16 m). Schaeffler did not have any deferred tax income related to prior years in 2012 (prior year: EUR 14 m).

Deviations from the expected tax rate result from differing country-specific tax rates applicable to German and foreign entities.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2012 is based on a 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler AG.

in € millions	2012	2011
Net income before tax	1,291	1,280
Expected tax expense	**361**	**358**
Addition/reduction due to deviating local tax bases	10	(1)
Foreign/domestic tax rate differences	(5)	(4)
Non-recognition of deferred tax assets	(1)	4
Non-deductible expenses	196	122
Share of net loss of equity-accounted investees	(154)	(90)
Taxes for previous years	12	2
Other	(12)	(13)
Reported tax expense	**407**	**378**

The additional income tax on non-deductible expenses is mainly caused by interest expense that is non-deductible because of the interest deduction cap rules in Germany as well as the tax effect of the internal reorganization of the group structure. As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards.

Share of net income of equity-accounted investees relates primarily to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach (see Notes 2.2 and 3.6 for further details).

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as at January 1, 2011	**483**	**997**	**211**	**0**	**1,691**
Additions	0	5	10	0	15
Disposals	0	(1)	0	0	(1)
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as at December 31, 2011	**483**	**1,002**	**221**	**0**	**1,706**
Balance as at January 1, 2012	**483**	**1,002**	**221**	**0**	**1,706**
Additions	0	22	13	0	35
Disposals	0	(7)	0	0	(7)
Transfers	0	0	2	0	2
Foreign currency translation	0	0	0	0	0
Balance as at December 31, 2012	**483**	**1,017**	**236**	**0**	**1,736**
Accumulated amortization and impairment losses					
Balance as at January 1, 2011	**0**	**976**	**140**	**0**	**1,116**
Additions	0	10	27	0	37
Disposals	0	(1)	0	0	(1)
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as at December 31, 2011	**0**	**986**	**167**	**0**	**1,153**
Balance as at January 1, 2012	**0**	**986**	**167**	**0**	**1,153**
Additions	0	14	22	0	36
Disposals	0	(7)	0	0	(7)
Transfers	0	0	0	0	0
Foreign currency translation	0	0	0	0	0
Balance as at December 31, 2012	**0**	**993**	**189**	**0**	**1,182**
Net carrying amounts					
As at January 1, 2011	**483**	**21**	**71**	**0**	**575**
As at December 31, 2011	**483**	**16**	**54**	**0**	**553**
As at January 1, 2012	**483**	**16**	**54**	**0**	**553**
As at December 31, 2012	**483**	**24**	**47**	**0**	**554**

As at December 31, intangible assets purchased from third parties have a net carrying amount of EUR 24 m (prior year: EUR 16 m). Additions totaled EUR 22 m (prior year: EUR 5 m) in 2012.

Capitalized development costs included in internally generated intangible assets decreased to EUR 21 m (prior year: EUR 32 m) as a result of EUR 11 m (prior year: EUR 13 m) in amortization in 2012.

Internally generated intangible assets include EUR 26 m (prior year: EUR 22 m) in internally generated software, mainly relating to the implementation of SAP. In 2012, additions and transfers of EUR 15 m (prior year: EUR 10 m) are offset by amortization of EUR 11 m (prior year: EUR 14 m).

Amortization of internally generated intangible assets totaling EUR 36 m (prior year: EUR 37 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 12 m (prior year: EUR 14 m), research and development expenses EUR 5 m (prior year: EUR 3 m), selling expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 14 m (prior year: EUR 15 m).

Internally generated intangible assets with a carrying amount of EUR 7 m (prior year: EUR 10 m) are not yet subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 593 m (prior year: EUR 495 m) were recognized in the consolidated income statement in 2012.

At December 31, 2012, no intangible assets were pledged as collateral for bank loans (prior year: carrying amount of EUR 5 m).

Goodwill

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under Note 1.3. The key assumption in our forecast relates to constant growth rates for the Automotive and Industrial segments exceeding our corresponding assumptions for the performance of the market as a whole. We remain confident that, where necessary, we can be sufficiently flexible in our cost structure to be able to maintain our EBITDA margin (ratio of earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation and amortization to revenue) at its current level in the coming years.

For purposes of determining the recoverable amount, cash flows for the detailed forecasting horizon of 2015 and beyond are based on an annual growth rate of 0.5% (prior year: 0.5%) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 15.03% (prior year: 13.87%) as the weighted average cost of capital for the Automotive segment and 15.25% (prior year: 13.89%) for the Industrial segment. This corresponds to a post-tax interest rate of 10.29% for the Automotive segment (prior year: 9.64%) and 10.43% for the Industrial segment (prior year: 9.75%).

Other valuation assumptions are normally identical across cash-generating units.

As the value in use of the cash-generating units exceeds their carrying amount both for 2012 and the prior year, they are not impaired. Even adjusting an assumption the forecasted cash flows are based upon, e.g. by reducing forecasted EBIT by 15% or increasing cost of capital by 5% does not result in an impairment loss.

The carrying amounts of goodwill allocated to the cash-generating units are unchanged from the prior year, amounting to EUR 275 m (prior year: EUR 275 m) for the Automotive segment and EUR 208 m (prior year: EUR 208 m) for the Industrial segment.

4.2 Property, plant and equipment

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 1, 2011	**2,053**	**5,697**	**810**	**215**	**8,775**
Additions	32	313	73	413	831
Disposals	(6)	(119)	(42)	(2)	(169)
Transfers	9	100	8	(117)	0
Foreign currency translation	0	(20)	(3)	0	(23)
Balance as at December 31, 2011	**2,088**	**5,971**	**846**	**509**	**9,414**
Balance as at January 1, 2012	**2,088**	**5,971**	**846**	**509**	**9,414**
Additions	71	428	73	220	792
Disposals	(8)	(133)	(40)	(6)	(187)
Transfers	54	283	6	(345)	(2)
Foreign currency translation	(3)	(39)	(1)	(2)	(45)
Balance as at December 31, 2012	**2,202**	**6,510**	**884**	**376**	**9,972**
Accumulated depreciation and impairment losses					
Balance as at January 1, 2011	**929**	**4,133**	**659**	**13**	**5,734**
Depreciation	66	389	62	0	517
Impairment losses	0	0	0	0	0
Impairment reversals	0	0	0	0	0
Disposals	(1)	(115)	(41)	0	(157)
Transfers	0	(4)	4	0	0
Foreign currency translation	2	(9)	(2)	1	(8)
Balance as at December 31, 2011	**996**	**4,394**	**682**	**14**	**6,086**
Balance as at January 1, 2012	**996**	**4,394**	**682**	**14**	**6,086**
Depreciation	72	442	68	0	582
Impairment losses	0	0	0	0	0
Impairment reversals	(2)	0	0	(14)	(16)
Disposals	(3)	(120)	(38)	0	(161)
Transfers	0	5	(5)	0	0
Foreign currency translation	(2)	(32)	0	0	(34)
Balance as at December 31, 2012	**1,061**	**4,689**	**707**	**0**	**6,457**
Net carrying amounts					
As at January 1, 2011	**1,124**	**1,564**	**151**	**202**	**3,041**
As at December 31, 2011	**1,092**	**1,577**	**164**	**495**	**3,328**
As at January 1, 2012	**1,092**	**1,577**	**164**	**495**	**3,328**
As at December 31, 2012	**1,141**	**1,821**	**177**	**376**	**3,515**

At EUR 792 m (prior year: EUR 831 m), the Schaeffler Group made slightly fewer additions to property, plant and equipment in 2012 than in the prior year.

Besides Germany, investment in property, plant and equipment focused on the production facilities in China and India, in Slovakia, Hungary, and in the U.S.

Impairment losses of EUR 16 m recognized in 2008 and 2009 on a then incomplete building at the plant in Yinchuan, China, were reversed in 2012 as the production building has since been put into operation. The reversal is included in cost of sales in the consolidated income statement.

At December 31, 2012, property, plant and equipment with a carrying amount of EUR 9 m (prior year: EUR 1,703 m) were pledged as collateral for bank loans. The significant decrease of EUR 1,694 m from the prior year results from the change in collateral during the first quarter of 2012 (see management report section 3.5).

4.3 Investments in equity-accounted investees

in € millions	December 31, 2012	2011
Schaeffler Beteiligungsholding GmbH & Co. KG	5,037	4,770
Other	3	2
Total	**5,040**	**4,772**

The change in the carrying amount of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG is largely the result of measuring the interest in Continental AG held indirectly using the equity method. An increase in the carrying amount of EUR 375 m from measuring the investment at equity during the year was partially offset by a decrease of EUR 108 m related to the recognition of the gross amount of the dividend from Continental AG.

Schaeffler Beteiligungsholding GmbH & Co. KG paid the net amount of the dividend of EUR 80 m to Schaeffler AG. In accordance with the company's loan agreements, this amount was used to repay financial debt (see Note 5.3).

In addition, please refer to the discussion in Note 2.2.

4.4 Deferred tax assets and liabilities

Total deferred tax assets and liabilities result from the following items:

	December 31, 2012		December 31, 2011	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	2	(16)	2	(18)
Property, plant and equipment	70	(139)	66	(139)
Financial assets	1	(21)	1	(26)
Inventories	75	(5)	70	(5)
Trade receivables and other assets	41	(69)	66	(78)
Provisions for pensions and similar obligations	246	(43)	151	(40)
Other provisions and other liabilities	175	(96)	191	(50)
Loss carryforwards	24	0	25	0
Other	4	(4)	15	(5)
Deferred taxes (gross)	638	(393)	587	(361)
Netting	**(274)**	**274**	**(237)**	**237**
Deferred taxes, net	**364**	**(119)**	**350**	**(124)**

In accordance with IAS 12, deferred taxes are calculated using tax rates effective or substantively enacted at the end of the reporting period and expected to apply when the deferred taxes are realized. In 2011, an average trade tax rate of 12.0% (prior year: 12.0%) was used for German partnerships, a combined tax rate of 27.9% (prior year: 27.9%) including corporation tax, solidarity surcharge, and trade tax was used for German corporations, and the applicable local tax rates were used for foreign entities.

In 2012, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 12 m (prior year: EUR 8 m). Recovery of these net deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2012, Schaeffler had gross loss carryforwards of EUR 152 m (prior year: EUR 140 m) for corporation tax and EUR 28 m (prior year: EUR 48 m) for trade tax, including EUR 89 m (prior year: EUR 77 m) for which no deferred taxes have been recognized. In addition, the group had gross carryforwards under the interest deduction cap of EUR 683 m (prior year: EUR 481 m) at the end of the reporting period. Since it is not probable that these carryforwards will be utilized in the foreseeable future, no deferred taxes have been recognized on this amount. As these carryforwards are not considered recoverable, a potential loss of a portion of the interest carryforwards as a result of an internal reorganization of the group structure would not have a material impact. Interest expense of EUR 202 m was not tax deductible in 2012 because of the interest deduction cap. The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred tax liabilities have been recognized on EUR 3,320 m (prior year: EUR 1,734 m) in undistributed profits of certain subsidiaries as distribution of these profits is not intended. Instead, these profits are continually reinvested.

At December 31, 2012, the cumulative amount of deferred taxes recognized in accumulated other comprehensive income is EUR 201 m (prior year: EUR 86 m) and mainly relates to derivatives and pensions and similar obligations.

4.5 Inventories

	December 31,	
in € millions	**2012**	**2011**
Raw materials and supplies	304	311
Work in progress	386	401
Finished goods and merchandise	801	845
Advance payments	4	5
Total	**1,495**	**1,562**

Inventories of EUR 7,698 m (prior year: EUR 7,367 m) were recognized as an expense in cost of sales in the consolidated income statement during the reporting period.

In 2012, Schaeffler recognized a valuation allowance of EUR 209 m (prior year: EUR 192 m) on inventories. All identifiable risks were taken into account in determining the valuation allowance to write down inventories to net realizable value.

No inventories (prior year: EUR 1,078 m) were pledged as collateral for bank loans as at December 31, 2012.

4.6 Trade receivables

	December 31,	
in € millions	**2012**	**2011**
Trade receivables	1,626	1,607

All trade receivables are current.

At December 31, 2012, trade receivables of EUR 788 m (prior year: EUR 884 m) were pledged as collateral for bank loans.

Movements in impairment allowances on trade receivables can be reconciled as follows:

in € millions	2012	2011
Impairment allowances as at January 1	**18**	**22**
Additions	9	3
Allowances used to cover write-offs	(1)	(4)
Reversals	(3)	(3)
Impairment allowances as at December 31	**23**	**18**

Trade receivables past due are summarized as follows:

in € millions		December 31, 2012	December 31, 2011
Carrying amount		**1,626**	**1,607**
Not past due		1,513	1,492
Past due	up to 60 days	101	109
	61-120 days	6	3
	121-180 days	2	1
	181-360 days	2	1
	> 360 days	2	1

Trade receivables past due – both gross and net of impairment allowances of EUR 22 m (prior year: EUR 16 m) – changed as follows during the year:

	Past due				
in € millions	up to 60 days	61-120 days	121-180 days	181-360 days	> 360 days
December 31, 2012					
Gross	102	9	5	6	13
Impairment allowance	1	3	3	4	11
Net	**101**	**6**	**2**	**2**	**2**
December 31, 2011					
Gross	110	6	2	3	10
Impairment allowance	1	3	1	2	9
Net	**109**	**3**	**1**	**1**	**1**

Impairment allowances of EUR 1 m (prior year: EUR 2 m) were recognized on trade receivables not yet past due.

Please refer to Note 5.5 for related party receivables.

4.7 Other assets and income tax receivables

in € millions	December 31, 2012	December 31, 2011
Other assets	381	295
Income tax receivables	124	111

At December 31, 2012, income tax receivables amount to EUR 124 m (prior year: EUR 111 m), including non-current balances of EUR 17 m (prior year: EUR 22 m).

The following summary shows the current and non-current portions of other assets:

in € millions	December 31, 2012 Non-current	Current	Total	December 31, 2011 Non-current	Current	Total
Pension asset	46	0	46	43	0	43
Marketable securities	6	0	6	4	0	4
Loans receivable and financial receivables	17	0	17	16	0	16
Tax receivables	2	87	89	1	110	111
Derivative financial assets	67	47	114	2	11	13
Miscellaneous assets	12	97	109	29	79	108
Total	**150**	**231**	**381**	**95**	**200**	**295**

Non-current derivative financial assets consist of the derivatives embedded in the SFA. The current portion of derivative financial assets represents fair values of derivatives the Schaeffler Group uses to economically hedge currency risk.

Other balances included here primarily comprise value-added tax and other tax receivables, the pension asset, and loans receivable and financial receivables.

Default risk related to other assets is reflected in impairment allowances. Impairment allowances recognized on other non-current assets amounted to EUR 13 m (prior year: EUR nil) at December 31, 2012.

At December 31, 2012, other assets and income tax receivables of EUR 82 m (prior year: EUR 45 m) were pledged as collateral for bank loans.

The increase in miscellaneous current assets is mainly due to term deposits pledged to protect partial retirement obligations against insolvency, accounts receivable related to the sale of non-current assets and claims for reimbursement of warranty expenses.

4.8 Cash and cash equivalents

At December 31, 2012, cash and cash equivalents amount to EUR 433 m (prior year: EUR 397 m) and consist primarily of bank balances.

At December 31, 2012, cash and cash equivalents of EUR 147 m (prior year: EUR 259 m) were pledged as collateral for bank loans.

4.9 Shareholders' equity

The Schaeffler Group's shareholders' equity consists of the following:

in € millions	December 31, 2012	2011
Share capital	500	500
Reserves	2,042	1,324
Accumulated other comprehensive income (loss)	(495)	(163)
Equity attributable to shareholders of the parent company	**2,047**	**1,661**
Non-controlling interests	60	53
Total shareholders' equity	**2,107**	**1,714**

Schaeffler AG's share capital ("Grundkapital") remains at EUR 500,025,000 at December 31, 2012. It is divided into 500,025,000 registered no-par-value shares, all of which are held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up, Schaeffler AG has no authorized or contingent capital, and there are no resolutions with respect to these types of capital.

Schaeffler AG's annual general meeting in March 2012 resolved to pay a dividend of EUR 300 m (or EUR 0.60 per share) for the year 2011. EUR 79 m of this dividend was paid to Schaeffler Verwaltungs GmbH in December 2012.

Also in December 2012, Schaeffler Verwaltungs GmbH waived its right to receive EUR 131 m of the dividend, increasing reserves by the same amount. The remaining liability resulting from the declaration of the dividend has increased the loan payable by Schaeffler AG to Schaeffler Verwaltungs GmbH by EUR 90 m to EUR 287 m (see Note 4.10).

A dividend to be paid as at December 15, 2013, of EUR 250 m will be proposed to the annual general meeting for 2012.

Accumulated other comprehensive income and other comprehensive income (loss), net of tax, consist of the following:

	Accumulated other comprehensive income (loss)[1)]						
in € millions	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Reserve for actuarial gains and losses**	**Subtotal**	**Non-controlling interests**	**Total**
2011							
Foreign currency translation differences for foreign Operations	(17)				(17)	(7)	(24)
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		(23)			(23)		(23)
Defined benefit plan actuarial losses, net of tax				(80)	(80)		(80)
Effects of equity-accounted investees	(44)	12	(1)	(3)	(36)		(36)
Total other comprehensive income (loss), net of tax	**(61)**	**(11)**	**(1)**	**(83)**	**(156)**	**(7)**	**(163)**
2012							
Foreign currency translation differences for foreign Operations	(35)				(35)	(4)	(39)
Net gain on hedge of net investment in foreign Operations	2				2		2
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		37			37		37
Net changes in fair value of cash flow hedging instruments reclassified to profit or loss, net of tax		92			92		92
Net changes in fair value of available-for-sale financial assets, net of tax			1		1		1
Defined benefit plan actuarial losses, net of tax				(236)	(236)		(236)
Effects of equity-accounted investees	(10)		1	(184)	(193)		(193)
Total other comprehensive income (loss), net of tax	**(43)**	**129**	**2**	**(420)**	**(332)**	**(4)**	**(336)**

1) Including the impact of equity-accounted investees.

The following is a discussion of the various reserves:

- **Translation reserve**

  The translation reserve comprises all foreign currency differences arising on translation of the financial statements of foreign operations with a functional currency different from the presentation currency.

- **Hedging reserve**

  The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. Other comprehensive income (loss) includes EUR 37 m (prior year: EUR -23 m) in fair value changes of hedging instruments and EUR 92 m (prior year: EUR nil) that were reclassified to profit or loss when realized (gross: EUR 128 m, deferred tax: EUR -36 m; prior year: gross: EUR nil, deferred tax: EUR nil).

- **Fair value reserve**

  The fair value reserve comprises all accumulated net changes in the fair value of available-for-sale financial assets incurred until these assets are derecognized or impaired.

- **Reserve for actuarial gains and losses**

  Schaeffler immediately recognizes all actuarial gains and losses arising on defined benefit plans in accumulated other comprehensive income (loss).

Non-controlling interests represent interests in the equity of consolidated subsidiaries held by third parties. Other comprehensive income (loss) of non-controlling interests relates mainly to currency translation (December 31, 2012: EUR -4 m; prior year: EUR -7 m).

4.10 Current/Non-current financial debt

	December 31, 2012			December 31, 2011		
in € millions	**Total**	**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**
Financial debt	**7,261**	121	7,140	**7,485**	317	7,168

At December 31, 2012, the Schaeffler Group had financial debt of EUR 7,261 m (prior year: EUR 7,485 m), consisting of EUR 7,140 m (prior year: EUR 7,168 m) in non-current financial debt and EUR 121 m (prior year: EUR 317 m) in current financial debt, both accounted for at amortized cost.

The refinancing arrangements completed and bonds issued in 2012 significantly affected the Schaeffler Group's financial debt. In 2011, the Group's financing was largely comprised of one bank loan with a principal of EUR 6,950 m, while at December 31, 2012, the company's debt consisted of four loan tranches with a total principal of approximately EUR 4,612 m obtained from banks and institutional investors (Syndicated Senior Term Loan and Revolving Credit Facilities Agreement; SFA) as well as five bond issues totaling approximately EUR 2,360 m.

The Syndicated Senior Term Loan and Revolving Credit Facilities Agreement (SFA) consists of the following tranches:

Tranche	Currency	Face value in millions	Carrying amount in € millions	Coupon	Maturity
Senior Term Loan A	EUR	2,446	2,410	Euribor + 4.00%	01/27/2015
Senior Term Loan B1	EUR	504	501	Euribor + 4.75%	01/27/2017
Senior Term Loan B2	EUR	525	510	Euribor + 5.00%[2]	01/27/2017
Senior Term Loan B2	USD	1,500	1,120	Libor + 4.75%[3]	01/27/2017
Revolving Credit Facility[1]	EUR	1,000	(10)	Euribor + 4.00%	01/27/2015

1) EUR 57 m were drawn down as at December 31, 2012, primarily in the form of letters of credit.

2) Euribor floor of 1.50%.

3) Libor floor of 1.25%

Schaeffler Finance B.V., Barneveld, Netherlands, has issued the following bonds:

ISIN	Currency	Face value in millions	Carrying amount in € millions	Coupon	Maturity
XS0741938624	EUR	800	785	7.75%	02/15/2017
US806261AC75	USD	600	446	7.75%	02/15/2017
XS0801261156	EUR	326	322	6.75%	07/01/2017
XS0741939788	EUR	400	398	8.75%	02/15/2019
US806261AA10	USD	500	378	8.50%	02/15/2019

The differences between face value and carrying amount represent unamortized transaction costs. The carrying value of the revolving credit facility consists entirely of unamortized transaction costs.

Other liabilities (Note 4.14) also include EUR 64 m (prior year: EUR nil) in bond interest accrued up to December 31, 2012.

Financial debt also includes a loan granted by Schaeffler Verwaltungs GmbH to Schaeffler AG with a carrying amount of EUR 287 m (prior year: EUR 417 m) as well as a loan due from INA Beteiligungsverwaltungs GmbH to Schaeffler Verwaltungs GmbH with a carrying amount of EUR 36 m (prior year: EUR 3 m).

Schaeffler also obtained an annuity loan to finance the purchase of an interest rate hedging instrument in 2009. At year end 2012, the loan has a carrying amount of EUR 54 m (prior year: EUR 101 m) and is included in current financial debt.

Both the SFA and the bond agreements contain certain constraints including a requirement to meet certain financial covenants relating to senior debt leverage cover, senior interest cover, senior cash flow cover and capital expenditure cover. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the covenants are not met, which would result in the debt becoming due immediately.

Collateral has been pledged to the banks in connection with the loan agreement. Required details of such collateral are disclosed in the notes for the various assets concerned.

4.11 Provisions for pensions and similar obligations

Employee benefits include both defined contribution plans and defined benefit plans, some of which are funded. While defined contribution plans entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are presented as follows in the statement of financial position:

	December 31,	
in € millions	2012	2011
Provisions for pensions (liabilities net of related plan assets)	1,553	1,215
Provisions for obligations similar to pensions	0	2
Provisions for pensions and similar obligations	**1,553**	**1,217**
Pension asset (plan assets net of related liabilities)	46	43
Net defined benefit obligation	**1,507**	**1,174**

Defined benefit obligation and plan assets amount to the following:

in € millions	December 31, 2012	2011
Present value of unfunded obligations	1,468	1,145
Present value of funded obligations	619	536
Present value of defined benefit obligations (total)	**2,087**	**1,681**
Fair value of plan assets	580	509
Net pension obligation recognized in the statement of financial position	**1,507**	**1,172**
Other employee benefits similar to pensions	0	2
Net defined benefit obligation	**1,507**	**1,174**

The Schaeffler Group grants its employees various types of pension benefits. The defined benefit pension obligations largely cover beneficiaries in Germany and are mostly unfunded. Exceptions are pension arrangements where employees acquire rights to additional pension benefits by way of deferred compensation. Under these arrangements, Schaeffler agrees to accumulate additional capital using the compensation deferred, which is then paid out to the employee upon retirement, either in full or in installments. Deferred compensation is invested in specific funds with restricted access.

The Schaeffler Group's obligations under defined benefit pensions are due to current employees (EUR 942 m, prior year: EUR 681 m), former employees with vested benefits (EUR 221 m, prior year: EUR 197 m) and retirees receiving pension benefits (EUR 924 m, prior year: EUR 803 m).

In addition to the German pension plans, further significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2012, approximately 88% (prior year: 86%) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

Plan assets consist of the following:

in € millions	December 31, 2012	2011
Equity instruments	195	177
Debt instruments	236	210
Real estate	16	15
Cash	26	2
Other (incl. reimbursement insurance)	107	105
Total	**580**	**509**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments.

The opening and closing balances of the present value of the defined benefit obligation can be reconciled as follows:

in € millions	2012	2011
Present value of defined benefit obligations as at January 1	**1,681**	**1,542**
Benefits paid	(87)	(83)
Current service cost	33	24
Past service cost	3	0
Interest cost	80	78
Contributions by plan participants	10	9
Transfers in/out	0	1
Actuarial gains and losses recognized in other comprehensive income (loss)	362	100
Foreign currency translation	5	10
Present value of defined benefit obligations as at December 31	**2,087**	**1,681**

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

in € millions	2012	2011
Fair value of plan assets as at January 1	**509**	**478**
Benefits paid	(22)	(22)
Expected return on plan assets	29	26
Contributions by employer/employee	27	33
• Employer contributions	18	24
• Employee contributions	9	9
Transfers in/out	(1)	(1)
Actuarial gains and losses recognized in other comprehensive income (loss)	33	(15)
Foreign currency translation	5	10
Fair value of plan assets as at December 31	**580**	**509**

The actual return on plan assets for 2012 amounts to EUR 62 m (prior year: EUR 11 m). For 2013, the Schaeffler Group expects to make contributions to plan assets of EUR 25 m (prior year: EUR 46 m).

The following amounts were recognized in profit or loss:

in € millions	2012	2011
Current service cost	33	24
Past service cost	3	0
Interest cost	80	78
Expected return on plan assets	(29)	(26)
Net pension cost	**87**	**76**

The amounts are included in the following line items of the consolidated income statement:

in € millions	2012	2011
Cost of sales	20	14
Research and development expenses	5	3
Selling expenses	4	3
Administrative expenses	7	4
Included in EBIT	**36**	**24**
Interest expense	80	78
Expected return on plan assets	(29)	(26)
Included in financial result	**51**	**52**
Total	**87**	**76**

The following expenses are recognized as personnel expense within the appropriate functional expenses:

in € millions	2012	2011
Expenses related to defined benefit plans	36	24
Contributions to defined contribution plans	12	11
Total	**48**	**35**

The following summarizes the actuarial gains and losses recognized directly in equity via other comprehensive income (loss). The amounts presented include related foreign currency translation gains and losses but not deferred tax effects. The table presents actuarial losses as negative amounts and actuarial gains as positive amounts.

in € millions	2012	2011
Accumulated balance as at January 1	**(72)**	**43**
Gains/losses on defined benefit obligations	(362)	(100)
Gains/losses on plan assets	33	(15)
Accumulated balance as at December 31	**(401)**	**(72)**

Assumptions used to arrive at defined benefit obligations, in particular discount rates, future salary increases, and expected long-term rates of return on plan assets, are determined separately for each country.

Upon adoption of the amendments in IAS 19 rev. 2011 as at January 1, 2013, net interest expense will be determined based on the net pension obligation recognized in the balance sheet as at the beginning of the reporting period. The discount rate used will be the rate applied in measuring the defined benefit obligation as at December 31, 2012. In the future, expected returns on pension plan assets will no longer be determined separately. Returns on plan assets expected for 2012 were 5.7% for the Schaeffler Group in total, 4.5% for Germany, 7.7% for the U.S., and 5.6% for the United Kingdom.

In addition, starting in 2013, expected costs of managing plan assets will no longer be included in financial result, but will instead be recognized in other comprehensive income (loss) as part of the remeasurement component.

Overall, the amendments contained in IAS 19 rev. 2011 do not significantly affect the Schaeffler Group's net income.

The principal actuarial assumptions for the Schaeffler Group are as follows:

	2012	2011
Discount rate as at December 31	3.6%	4.9%
Future salary increases	3.3%	3.3%
Future pension increases	2.5%	1.7%

Actuarial assumptions for the major countries are as follows:

Germany:	2012	2011
Discount rate as at December 31	3.5%	5.0%
Future salary increases	3.3%	3.3%
Future pension increases	0.5%	1.5%

U.S.A.:	2012	2011
Discount rate as at December 31	3.8%	4.5%
Future salary increases	n.a.	n.a.
Future pension increases	2.5%	2.5%

United Kingdom:	2012	2011
Discount rate as at December 31	4.5%	5.0%
Future salary increases	n.a.	n.a.
Future pension increases	3.0%	3.0%

Mortality assumptions are based on published statistics and country-specific mortality tables. The mortality tables "RICHTTAFELN 2005 G" by Heubeck are used for the German plans.

Experience adjustments on pension obligations and plan assets have been as follows:

	December 31,				December 31,
in € millions	2012	2011	2010	2009	2008
Present value of defined benefit obligation	2,087	1,681	1,542	1,474	1,292
Fair value of plan assets	580	509	478	385	329
Net unfunded benefit obligation	**1,507**	**1,172**	**1,064**	**1,089**	**963**
Experience adjustments arising on plan liabilities	(12)	7	7	14	10
Experience adjustments arising on plan assets	(20)	15	15	20	(74)

Experience adjustments are caused by differences between actuarial assumptions made at the beginning of the period and those made at the end of the period.

4.12 Provisions

in € millions	Employee benefits	Restruc-turing	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 1, 2011	**197**	**7**	**50**	**36**	**18**	**136**	**444**
Additions	34	1	45	6	4	37	127
Utilization	(92)	(1)	(17)	(9)	(4)	(110)	(233)
Reversals	(8)	(6)	(15)	(10)	(3)	(12)	(54)
Interest expense	4	0	0	0	0	0	4
Foreign currency translation	0	0	0	0	(1)	0	(1)
Balance as at December 31, 2011	**135**	**1**	**63**	**23**	**14**	**51**	**287**
Balance as at January 1, 2012	**135**	**1**	**63**	**23**	**14**	**51**	**287**
Additions	71	0	68	20	8	37	204
Utilization	(91)	0	(21)	(4)	(4)	(35)	(155)
Reversals	(16)	0	(19)	(1)	(1)	(4)	(41)
Interest expense	6	0	0	0	0	0	6
Foreign currency translation	0	0	0	(1)	(1)	0	(2)
Balance as at December 31, 2012	**105**	**1**	**91**	**37**	**16**	**49**	**299**

Provisions consist of the following current and non-current portions:

	December 31, 2012			December 31, 2011		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	59	46	105	66	69	135
Restructuring	0	1	1	0	1	1
Warranties	2	89	91	0	63	63
Other taxes	0	37	37	0	23	23
Liability and litigation risks	0	16	16	0	14	14
Other	15	34	49	13	38	51
Total	**76**	**223**	**299**	**79**	**208**	**287**

Employee benefits and restructuring: Provisions for employee benefits consist primarily of provisions for partial retirement and long-term flextime accounts, net of the related plan assets, of EUR 71 m (prior year: EUR 85 m). Obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are determined using the mortality tables "RICHTTAFELN 2005 G" by Klaus Heubeck. The discount rate is 0.75% (prior year: 2.75%) at December 31, 2012, and future salary increases were assumed to be 3.25% (prior year: 3.25%). The provision for employee benefits also includes provisions for long-time service awards and other personnel and payroll-related provisions, particularly for early retirement, death, and temporary assistance benefits, obligations arising from the adjustment funds, and provisions based on the collective bargaining agreement with the metalworking and electrical engineering industry in Germany (German Entgeltrahmenabkommen, ERA).

At December 31, 2012, restructuring provisions of EUR 1 m (prior year: EUR 1 m) have been recognized primarily for expenses expected in connection with human resources measures.

Warranties: Warranty provisions are recognized on a case-by-case basis for each sales transaction or, in cases involving a large population of warranty items, using the expected value method. At December 31, 2012, warranty provisions include a provision of EUR 43 m (prior year: EUR 6 m) related to a specific warranty claim in the Industrial segment. An expected reimbursement of approximately EUR 10 m (prior year: approximately EUR 13 m) for warranty expenses incurred has been recognized in other assets.

Other taxes: Tax provisions have been recognized for taxes other than income taxes for current and prior years. These provisions consist primarily of land transfer tax related to an internal reorganization of the group structure.

Liability and litigation risks: Provisions for liability and litigation risks are recognized if, as a result of a past transaction or event, Schaeffler has a legal or constructive obligation for which an outflow of resources representing economic benefits is probable and which can be reliably estimated. Such provisions are recognized at their expected settlement amount, taking into account all identifiable risks, and are not offset against expected reimbursements.

Other: At the reporting date, other provisions include provisions for environmental risks, document retention and other items to be provided for, such as provisions for inventors' bonuses and contributions.

4.13 Trade payables

At December 31, 2012, the Schaeffler Group has trade payables of EUR 794 m (prior year: EUR 873 m), all of which are current. At December 31, 2012, the amount includes EUR 40 m (prior year: EUR 50 m) in notes payable. The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15.

4.14 Other liabilities and income tax payables

	December 31,	
in € millions	2012	2011
Other liabilities	914	933
Income tax payables	499	356

At December 31, 2012, income tax payables amount to EUR 499 m (prior year: EUR 356 m), including non-current balances of EUR 267 m (prior year: EUR 172 m).

Other liabilities consist of the following:

	December 31, 2012			December 31, 2011		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	297	297	0	322	322
Social security contributions payable	4	36	40	5	39	44
Advance payments received	0	26	26	0	25	25
Other tax payables	0	83	83	0	81	81
Derivative financial liabilities	224	16	240	245	71	316
Miscellaneous liabilities	12	216	228	11	134	145
Total	**240**	**674**	**914**	**261**	**672**	**933**

Amounts payable to staff comprise overtime accounts, accrued vacation, as well as profit sharing accruals.

Social security contributions payable consist mainly of unpaid contributions to social security schemes.

Derivative financial liabilities include mainly forward exchange contracts, interest rate hedging instruments, and cross-currency swaps used to economically hedge the Schaeffler Group's currency and interest rate risk. The decrease is primarily due to the favorable change in the values of interest rate and currency hedging instruments as at the reporting date.

Miscellaneous liabilities include mainly accrued selling costs (customer bonuses, rebates, early-payment discounts) and interest as at December 31, 2012.

The Schaeffler Group's exposure to currency and liquidity risk related to other liabilities is disclosed in Note 4.15 on financial instruments.

4.15 Financial instruments

The following summarizes the carrying amounts and fair values of financial instruments by balance sheet class and by category per IFRS 7.8. Derivatives designated as hedging instruments are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

		December 31,			
		2012		2011	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,626	1,626	1,607	1,607
Other investments[1]	AfS	14	–	14	–
Other assets					
• Marketable securities	AfS	6	6	4	4
• Other loans receivable[2]	LaR	103	103	103	103
• Derivatives designated as hedging instruments	n.a.	30	30	0	0
• Derivatives not designated as hedging Instruments	HfT	84	84	13	13
Cash and cash equivalents	LaR	433	433	397	397
Financial liabilities, by class					
Financial debt	FLAC	7,261	7,727	7,485	7,568
Trade payables	FLAC	794	794	873	873
Other liabilities					
• Derivatives designated as hedging instruments	n.a.	213	213	69	69
• Derivatives not designated as hedging Instruments	HfT	27	27	247	247
• Other liabilities[2]	FLAC	170	170	195	195
Summary by category					
Available-for-sale financial assets (AfS)		20	–	18	–
Financial assets held for trading (HfT)		84	–	13	–
Loans and receivables (LaR)		2,162	–	2,107	–
Financial liabilities at amortized cost (FLAC)		8,225	–	8,553	–
Financial liabilities held for trading (HfT)		27	–	247	–

1) Investments accounted for at cost.

2) Includes other assets/liabilities in the scope of IAS 39/IFRS 7.

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in incorporated companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2012, and no (partial) disposals are planned for the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of money market fund units.

Hedge accounting is only applied to derivatives designated as hedges of currency and interest rate risk in cash flow hedges. Schaeffler uses forward exchange contracts, currency options and currency swaps as well as cross-currency swaps as hedging instruments to hedge currency risk. Interest rate risk is hedged using interest rate options and swaps. The fair values of derivatives are shown in the table above and are calculated using recognized valuation models with all significant inputs observable in the market.

The carrying amounts of trade payables and other liabilities are assumed to represent their fair value. The fair value of financial debt is the present value of the expected future cash flows, discounted using risk-adjusted discount rates in effect at the end of the reporting period.

Please refer to the notes on the various balance sheet line items for the amount of financial assets pledged as collateral. Financial and non-financial assets of the Schaeffler Group have been pledged on the basis of the SFA (see Note 4.10). Collateral has generally been pledged until maturity of the SFA and may be realized under the creditors' right to call the debt before maturity, for instance if defined financial covenants are not complied with.

Financial assets and liabilities measured at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in arriving at the measurements (Level 1 – Level 3). The classification is based on the method used to determine fair value. According to the levels of the hierarchy, the fair value of a financial instrument is determined using the following inputs:

- Level 1: Quoted prices in active markets for identical assets or liabilities. This includes Schaeffler's marketable securities, whose fair value is derived from the exchange-quoted price at the end of the reporting period.
- Level 2: Determined using a valuation method for which all significant inputs are based on observable market data. In addition to the existing forward exchange contracts, currency options and interest rate hedging instruments, i.e. interest rate swaps and caps and cross-currency swaps, this level also includes embedded derivatives accounted for separately from their host instrument. All of these financial instruments are measured using recognized valuation models based on input variables observable in the market.
- Level 3: Determined using a valuation method for which significant inputs are not based on observable market data. The Schaeffler Group does not have any financial instruments in this level.

in € millions	Level 1	Level 2	Total
December 31, 2012			
Marketable securities	6		6
Derivatives designated as hedging instruments		30	30
Derivatives not designated as hedging instruments		84	84
Total financial assets	**6**	**114**	**120**
Derivatives designated as hedging instruments		213	213
Derivatives not designated as hedging instruments		27	27
Total financial liabilities	**0**	**240**	**240**
December 31, 2011			
Marketable securities	4		4
Derivatives designated as hedging instruments			0
Derivatives not designated as hedging instruments		13	13
Total financial assets	**4**	**13**	**17**
Derivatives designated as hedging instruments		69	69
Derivatives not designated as hedging instruments		247	247
Total financial liabilities	**0**	**316**	**316**

No transfers were made between the various levels of the fair value hierarchy (Level 1-3).

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

	Subsequent measurement					
in € millions	Interest and dividends	At fair value	Impairment loss	Foreign currency translation	Net income (loss) 2012	Net income (loss) 2011
Available-for-sale financial assets	1				1	1
Financial assets and liabilities held for trading	(3)	116			113	103
Loans and receivables	12		(18)	5	(1)	25
Financial liabilities at amortized cost	(523)			2	(521)	(494)
Total	**(513)**	**116**	**(18)**	**7**	**(408)**	**(365)**

As shown above, net gains and losses include interest and dividends, changes in fair value recognized in profit or loss, impairment losses and impairment reversals, as well as currency translation effects. Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and in interest expense on financial debt, respectively (see Note 3.5).

The net gain on financial assets and liabilities held for trading of EUR 113 m (prior year: EUR 103 m) relates entirely to derivatives. EUR 106 m (prior year: EUR 42 m) of this net gain is presented in financial result. In the prior year, the amount also included EUR 143 m in compensation payments on interest rate derivatives designated as hedging instruments. Fair value changes on bifurcated embedded derivatives resulted in gains of EUR 128 m.

In 2012, Schaeffler incurred net foreign exchange gains of EUR 7 m (prior year: EUR 12 m) on loans and receivables and financial liabilities accounted for at amortized cost. The impairment loss on financial assets classified as loans and receivables consists of an impairment reversal of EUR 4 m (prior year: EUR 3 m) and an impairment loss of EUR 9 m (prior year: EUR 3 m) and relates entirely to the trade receivables class. Impairment losses on financial assets in the other loans receivable class amounted to EUR 13 m (prior year: EUR nil).

Financial risk management

Overview

Due to its global business activities and the resulting financing requirements, the Schaeffler Group is exposed to the following risks from its use of financial instruments:

(1) Liquidity risk

(2) Counterparty risk

(3) Market risk (currency, interest rate, and other price risk)

The Schaeffler Group's executive board has overall responsibility for establishing and overseeing the group's risk management system. The finance organization is responsible for developing and monitoring this risk management system and reports regularly to the chief financial officer of the Schaeffler Group on its activities in this area.

Group-wide risk management policies are in place to identify and analyze Schaeffler's risks, to set appropriate risk limits and controls as well as to monitor risks and adherence to limits. Risk management procedures and systems are reviewed regularly to reflect changes in market conditions and Schaeffler's activities.

See the discussion in section 11.3 of the group management report for further details on financial risk management.

(1) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its financial obligations as they become due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they become due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to Schaeffler's reputation.

Liquidity risk is closely monitored by the finance organization based on a short-term (4 weeks) and medium-term (12 months) rolling timeframe. Both liquidity status and liquidity forecast are reported regularly to the CFO.

The Schaeffler Group ensures its ability to meet the financing requirements of its operations and its financial obligations by using equity, cash pooling arrangements, intercompany loans and existing lines of credit based on the relevant legal and tax regulations.

The Schaeffler Group's contractual payments of interest and principal on financial debt and derivative financial liabilities are summarized as follows:

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2012					
Non-derivative financial liabilities	**8,225**	**9,978**	**1,747**	**7,345**	**886**
• Financial debt	7,261	9,014	796	7,338	880
• Trade payables	794	794	794		
• Other liabilities	170	170	157	7	6
Derivative financial liabilities	**240**	**252**	**144**	**108**	
Total	**8,465**	**10,230**	**1,891**	**7,453**	**886**
December 31, 2011					
Non-derivative financial liabilities	**8,553**	**9,126**	**1,810**	**7,309**	**7**
• Financial debt	7,485	8,058	751	7,307	0
• Trade payables	873	873	873	0	
• Other liabilities	195	195	186	2	7
Derivative financial liabilities	**316**	**320**	**176**	**144**	
Total	**8,869**	**9,446**	**1,986**	**7,453**	**7**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans.

Schaeffler has access to an additional line of credit of EUR 1,000 m which bears interest at Euribor plus 400 basis points.

(2) Counterparty risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is called counterparty risk. This risk is primarily inherent in trade receivables and other financial assets. Among Schaeffler's major customers in the Automotive segment are various OEM's. Within trade receivables there is a concentration of counterparty risk with regard to these business relationships (see Note 5.4).

Counterparty risk arising on trade receivables is managed by constant monitoring of customers' financial status, creditworthiness, and payment history. Efficient collection procedures and classification of customers in defined risk categories are additional components of Schaeffler's counterparty risk management. Appropriate credit limits are set and commercial credit insurance policies further reduce counterparty risk. Depending on the customer's creditworthiness, these insurance policies cover up to 80% of receivables outstanding. All relevant rules are outlined in a Schaeffler Group guideline.

The carrying amounts of financial assets represent the maximum counterparty exposure at the end of each reporting period as follows:

	Carrying amount	
	December 31,	
in € millions	2012	2011
Trade receivables	1,626	1,607
Other investments	14	14
Other assets		
• Marketable securities	6	4
• Other loans receivable	103	103
• Derivatives designated as hedging instruments	30	0
• Derivatives not designated as hedging instruments	84	13
Cash and cash equivalents	433	397
Total financial assets	**2,296**	**2,138**

The Schaeffler Group's executive board does not have any indications that the debitors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Management has determined that there are no indications that the counterparties to other financial assets, i.e. marketable securities, other loans and derivative financial assets will be unable to meet their future contractual obligation.

(3) Market risk

Market risk is defined as the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Schaeffler Group's net income or the value of its financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters while optimizing returns.

The Schaeffler Group enters into derivatives in order to manage market risk. All such transactions are carried out within the risk management strategy approved by the executive board. The finance organization closely monitors, actively manages, and reports market risk to the chief financial officer.

Interest rate risk: Schaeffler's interest-bearing financial instruments can be summarized by type of interest as follows as at each December 31:

	Carrying amount	
	December 31,	
in € millions	2012	2011
Variable interest instruments	**4,555**	**6,964**
• Financial debt	4,555	6,964
Fixed interest instruments	**2,706**	**521**
• Financial debt	2,706	521

The Schaeffler Group enters into interest rate swaps and caps to minimize its exposure to changes in interest rates on the variable interest debt under the SFA. These instruments are used to economically hedge variable rate debt. EUR 3,500 m (prior year: EUR 3,500 m) of the hedges are interest rate swaps to which hedge accounting has been applied in accordance with IAS 39 (cash flow hedge) in 2012. Thus, the effective portion of changes in the fair value of these hedging instruments is recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to financial income or financial expense when the hedged transaction (hedged item) affects net income. As a result, accumulated other comprehensive income includes accumulated gains of EUR 52 m (prior year: losses of EUR 13 m) arising from fair value changes on designated financial instruments as at December 31, 2012. The interest payments hedged will be expensed in 2013 and 2014.

Schaeffler demonstrates both prospective and retrospective effectiveness of the hedging relationships by regularly performing effectiveness tests. Prospective and retrospective effectiveness is tested using regression analysis to determine market sensitivities on the basis of a parallel shift in the yield curve by ± 150 basis points (Bp).

As the test results show effectiveness to be within a range of 80% – 125%, the hedging relationship is considered to be highly effective. There was no ineffectiveness related to designated cash flow hedges that would have had to be recognized in net income in 2012.

Any fair value changes on additional interest caps with a nominal value of EUR 2,488 m were recognized directly in profit or loss in 2012.

The equity reserve of EUR -286 m accumulated up to November 20, 2009 for the cash flow hedge relationship is being amortized to profit or loss using the effective interest method. In 2012, this resulted in interest expense of EUR 72 m (prior year: EUR 75 m).

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of interest rate risk changed as follows:

in € millions	2012	2011
Balance as at January 1	**(122)**	**(184)**
Additions	52	(13)
Reclassified to income statement		
• to financial income	0	0
• to financial expense	72	75
Balance as at December 31	**2**	**(122)**

The Schaeffler Group has neither classified any fixed rate financial assets and liabilities as at fair value through profit or loss nor has it designated any derivatives as fair value hedges.

With regard to variable interest instruments a shift in the yield curve of 100 Bp as at December 31, 2012 would affect (increase/decrease) net income and shareholder's equity by the following amounts. This analysis assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0%.

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2012				
Variable interest instruments	10	(10)		
Interest rate derivatives designated as hedging instruments	0	0	54	(54)
Interest rate derivatives not designated as hedging instruments	4	15		
Total	**14**	**5**	**54**	**(54)**
As at December 31, 2011				
Variable interest instruments	(27)	27		
Interest rate derivatives designated as hedging instruments	16	(2)	96	(94)
Interest rate derivatives not designated as hedging instruments	5	(5)		
Total	**(6)**	**20**	**96**	**(94)**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income and shareholders' equity from interest rate derivatives is entirely due to changes in fair value. Changes in the fair value of interest rate derivatives designated as hedging instruments would not have an effect on net income, while their impact on the reserve in accumulated other comprehensive income (loss) would be EUR 54 m and EUR -54 m, respectively. The impact of interest rate derivatives not designated as hedging instruments on net income would be EUR 4 m and EUR 15 m, respectively, including the impact of embedded derivatives of EUR -8 m and EUR 16 m, respectively, as well as the impact from interest rate derivatives of EUR 12 m and EUR -1 m, respectively.

Currency risk: The Schaeffler Group is exposed to currency risk on sales, purchases, loans payable and receivable, as well as financial debt that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risks from operations in respect of forecasted sales and purchases over the next twelve months using forward exchange contracts, currency swaps and related options. Where necessary, forward exchange contracts are rolled over at maturity.

Loans between group entities denominated in a currency other than the functional currency of one of the entities involved are fully hedged using forward contracts with the same maturity as the loans.

Schaeffler hedges the foreign exchange risk of part of its investment in the U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollar (principal of USD 900 m) under a net investment hedge. This reduces the group's translation risk on the U.S. subsidiaries. As a result, accumulated other comprehensive income includes accumulated foreign exchange gains of EUR 2 m on designated financial debt as at December 31, 2012. The hedging relationship did not produce any ineffectiveness that would have had to be recognized separately. Investments in the Group's other subsidiaries are not hedged.

The portions of our third party financial debt denominated in a currency other than the functional currency and not designated as the hedging instrument under a net investment hedge are hedged using cross-currency swaps (nominal amount USD 1,700 m). This includes cross-currency swaps with a nominal amount of USD 800 m designated under a cash flow hedge in accordance with IAS 39. As a result, accumulated other comprehensive income includes accumulated losses of EUR 25 m arising from fair value changes on designated financial instruments as at December 31, 2012. There was no ineffectiveness.

Changes in the fair value of additional cross-currency swaps with a nominal amount of USD 900 m were recognized directly in profit or loss in 2012.

The Schaeffler Group's significant currency risk exposures by currency based on face values as of the end of each reporting period are as follows:

in € millions	**USD**	**JPY**	**HUF**	**RON**
December 31, 2012				
Estimated currency risk from operations	942	85	(110)	(194)
Forward exchange contracts	(762)	(78)	81	149
Currency options	0	0	0	0
Remaining currency risk from operations	**180**	**7**	**(29)**	**(45)**
December 31, 2011				
Estimated currency risk from operations	1,062	108	(93)	(190)
Forward exchange contracts	(639)	(82)	76	152
Currency options	(156)	0	0	0
Remaining currency risk from operations	**267**	**26**	**(17)**	**(38)**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance organization. Thus, this exposure represents the difference between recognized hedged items and hedged items in the form of expected future foreign currency cash flows that have not yet been recognized on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 5.3) is monitored by Schaeffler's finance organization. The most significant currency risk in these countries arises on the U.S. Dollar and amounts to an estimated volume of EUR -174 m (prior year: EUR -314 m).

Forward exchange contracts in certain currencies are accounted for as cash flow hedges with nearly perfect effectiveness. Changes in the fair value of these derivatives are recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to the income statement when the hedged transaction (hedged item) affects net income. Both the majority of the forecast transactions and the resulting impact on net income occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk arising from operations changed as follows:

in € millions	2012	2011
Balance as at January 1	**(56)**	**38**
Additions	23	(18)
Reclassified to income statement		
• to other income	0	(84)
• to other expense	56	8
Balance as at December 31	**23**	**(56)**

The sensitivity analysis for currency risk is based on a hypothetical 10% weakening of the Euro against each of the significant foreign currencies as of December 31. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk and assumes that all other variables, particularly interest rates, remain constant.

The following table shows the effect on net income and shareholders' equity of translating balances at the closing rate and of measurement at fair value:

	December 31, 2012		December 31, 2011	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	3	(86)	15	(77)
JPY	(3)	(6)	(4)	(6)
HUF	(6)	9	(5)	8
RON	(16)	16	(18)	16

Conversely, a 10% rise in the Euro against the significant foreign currencies as at December 31 would have had the same but opposite effect, again holding all other variables constant.

We apply cash flow hedge accounting to the foreign currency hedge of our bonds issued in U.S. Dollar using cross-currency swaps. The effective portion of changes in the fair value of these hedging instruments is recognized in other comprehensive income. The foreign exchange effects hedged will be recognized in profit or loss in the years 2013 to 2017.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk arising from financing activities changed as follows:

in € millions	2012	2011
Balance as at January 1	**0**	**0**
Additions	(26)	0
Reclassified to income statement		
• to financial income	0	0
• to financial expense	2	0
Balance as at December 31	**(24)**	**0**

The sensitivity analysis for currency risk is based on a hypothetical 10% weakening of the Euro against the U.S. Dollar as of December 31. The analysis covers foreign currency financial debt and derivative financial instruments used to hedge foreign currency risk related to financing and assumes that all other variables, particularly interest rates, remain constant.

	December 31, 2012	
in € millions	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	(142)	(75)
Foreign exchange gains and losses on derivatives	144	23
Total	**2**	**(52)**

The foreign exchange effects of financial debt with a principal of USD 2,600 m affect both net income and shareholders' equity. Shareholders' equity includes the foreign exchange impact of a nominal volume of USD 900 m that has been designated under a cash flow hedge in accordance with IAS 39. The effective portion of changes in the value of cross-currency swaps designated as hedging instruments is recognized in shareholders' equity.

Currency risk arising from intra-group foreign currency loans is fully hedged economically and does not result in any significant additional currency risk exposure.

Other price risk: Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from changes in interest rates or exchange rates.

Other price risk required to be disclosed under IFRS 7 normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IAS 39, which is not the case for the Schaeffler Group. Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses. Derivative financial instruments are not used to a significant extent in this context.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

4.16 Capital structure

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) rose by EUR 393 m to EUR 2,107 m in 2012 (prior year: EUR 1,714 m). The equity ratio (ratio of shareholders' equity to total assets) was 15.6% (prior year: 13.2%) at December 31, 2012.

The overriding objective of the Schaeffler Group's capital management is to ensure that Schaeffler is able to repay its debt and to provide access to sufficient financial resources. The most important instrument in this context is a detailed liquidity management system at the group company level; it is designed to ensure that sufficient liquidity reserves are available at all times to service the financial debt incurred under the Group's financing agreements (see Note 4.10).

Under these financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.10). Compliance with these financial covenants is continually monitored at the group level. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from amounts in the consolidated financial statements.

The company has complied with the financial covenants as stipulated in the debt agreements both in 2012 and in 2011. Based on its forecast, the Schaeffler Group also expects to comply with the financial covenants under the agreements entered into in January 2012 and amended in December 2012 in 2013, 2014, and beyond.

In addition to the financial covenants contained in the financing agreements, the Schaeffler Group regularly determines financial indicators. One important such indicator is the ratio of net debt to EBITDA (earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation and amortization), which is calculated as follows:

	December 31,	
in € millions	**2012**	**2011**
Current financial debt	121	317
Non-current financial debt	7,140	7,168
Total financial debt	**7,261**	**7,485**
Shareholder loans	323	420
Total financial debt excluding shareholder loans	**6,938**	**7,065**
Cash and cash equivalents	433	397
Total liquidity	**433**	**397**
Total net financial debt	**6,828**	**7,088**
Net financial debt excluding shareholder loans	**6,505**	**6,668**
Earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation and amortization (EBITDA)	**2,031**	**2,243**
Net financial debt excluding shareholder loans to EBITDA ratio	**3.2**	**3.0**

4.17 Leases

The Schaeffler Group's obligations under finance leases are not significant.

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

	December 31,	
in € millions	**2012**	**2011**
Less than one year	46	44
Between one and five years	52	72
More than five years	3	4
Total	**101**	**120**

The obligations consist primarily of rental agreements for real estate, leases of company vehicles, and contracts for IT and logistics services.

In 2012, expenses of EUR 68 m (prior year: EUR 57 m) related to operating rental and lease agreements were recognized in the consolidated income statement.

5. Other disclosures

5.1 Commitments

At December 31, 2012, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 164 m (prior year: EUR 261 m). These commitments are expected to be settled as follows:

	December 31,	
in € millions	**2012**	**2011**
Less than one year	117	249
Between one and five years	47	12
Total	**164**	**261**

5.2 Contingent liabilities

	December 31,	
in € millions	**2012**	**2011**
Obligations under guarantees and warranties	0	10
Other	37	34
Total	**37**	**44**

In the prior year, obligations under guarantees and warranties consisted primarily of securities given and payment guarantees.

Other contingent liabilities consist primarily of claims raised by current and former employees as well as possible reassessments issued by taxation authorities. Due to the remote probability of an outflow of resources in these cases, they do not meet the conditions to be recognized as provisions.

Several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. The EU antitrust authorities are conducting further close examinations; the Schaeffler Group expects further steps in the proceedings in 2013. There is a risk that the antitrust authorities will impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

5.3 Additional disclosures on the consolidated statement of cash flows

Amounts reported by foreign subsidiaries are translated using average monthly exchange rates. Liquid funds, on the other hand, are measured using the exchange rate at the reporting date, as is the case in the balance sheet.

Changes in balance sheet items shown in the statement of cash flows cannot be derived directly from the balance sheet as they have been adjusted for the impact of foreign exchange rates.

At December 31, 2012, cash and cash equivalents amount to EUR 433 m (prior year: EUR 397 m), including EUR 154 m (prior year: EUR 95 m) held by subsidiaries in Argentina, Brazil, China, Chile, Colombia, India, South Korea, South Africa, Taiwan, Thailand, the Philippines, Venezuela, and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

The financing transactions completed in the first quarter of 2012 to refinance the company's senior loans – replacing existing loans with new loan agreements, issuing bonds, and placing loans with institutional investors – were largely non-cash in nature. The issue of the EUR 300 m in retail bonds and the employee bonds of EUR 26 m resulted in cash inflows of EUR 323 m, all of which were used to repay financial debt.

Schaeffler Beteiligungsholding GmbH & Co. KG immediately paid the net dividend of EUR 80 m it received from Continental AG to Schaeffler AG (see Note 4.3). In the statement of cash flows, the dividend is shown in cash flows from operating activities under dividends received. These EUR 80 m were used to repay bank debt as required by the SFA and are shown as a cash outflow from financing activities.

5.4 Segment Reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler Group executive board. Schaeffler engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group executive board and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

Schaeffler's operating segments are reported in a manner consistent with the internal reporting provided to the Schaeffler Group's executive board. The Schaeffler Group is divided into the two segments Automotive and Industrial as described below, each focusing on a specific customer group worldwide. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations of each of the Schaeffler Group's two reportable segments:

Automotive: Product and service business with customers in the automotive sector. These include manufacturers of passenger cars and their suppliers (OEM, Tier 1 and Tier 2) as well as companies focusing on the distribution of spare parts for passenger cars and commercial vehicles (aftermarket). Products range from wheel bearings as well as chassis and steering components through transmission systems and developments to engine components and valve control systems.

Industrial: Product and service business with manufacturers of investment goods. Specifically, these customers operate in the production machinery, rail traffic, wind power, consumer goods, heavy industries, power transmission and industrial aftermarket (MRO) sectors. The business with customers in the aerospace industry is also included in this segment. The key products of this segment are rolling and plain bearings, linear guidance systems and direct drives.

Since segment reporting information is based on internal management accounting requirements and not all items can be allocated, the information for segment reporting purposes differs from that reported in accordance with IFRS.

Information on the operating activities of the two reportable segments is included below. Performance is measured based on EBIT as the executive board believes that such information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

The amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as depreciation, are reported based on the current allocation of customers to segments. Prior year figures were adjusted accordingly for comparability. Gains on transactions between operating segments are not included.

The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer structure.

Reconciliation to earnings before income taxes in € millions	2012	2011
EBIT Automotive[1]	998	1,074
EBIT Industrial[1]	415	615
EBIT	**1,413**	**1,689**
Financial result	(676)	(733)
Share of net income of equity-accounted investees	**554**	**324**
Earnings before income taxes	**1,291**	**1,280**

1) Prior year information presented based on 2012 segment structure.

The reportable segments Automotive and Industrial are managed on a global basis and operate production and distribution facilities in the geographical areas Germany, Europe excluding Germany, North America, South America, and Asia/Pacific.

Significant customers

In 2012, Schaeffler generated revenue of EUR 1,283 m (prior year: EUR 1,153 m) from one key customer, representing approximately 11.5% (prior year: 10.8%) of total group revenue and approximately 16.7% (prior year: 16.1%) of Automotive segment revenue.

Information about geographical areas

			Non-current assets[2]	
	Revenue[1]		December 31,	
in € millions	2012	2011	2012	2011
Germany	2,926	2,857	1,640	1,690
Europe w/o Germany	3,401	3,454	1,041	969
North America	1,665	1,409	382	352
South America	560	628	156	177
Asia/Pacific	2,573	2,346	850	693
Total	**11,125**	**10,694**	**4,069**	**3,881**

1) Revenue by customer location. Prior year information presented based on 2012 segment structure.

2) Non-current assets by production location. Non-current assets consist of property, plant and equipment and intangible assets.

For purposes of reporting information by geographical area, revenue is allocated to geographical areas based on the geographic location of customers, while assets are allocated based on the geographic location of the assets.

5.5 Related parties

Under the definitions of IAS 24, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler are related parties of the Schaeffler Group.

Related parties of the Schaeffler Group include the members of the executive board of Schaeffler AG: The members of the statutory board of directors Dr Juergen M. Geissinger, Wolfgang Dangel, Professor Dr Peter Gutzmer, Kurt Mirlach, Klaus Rosenfeld, and Robert Schullan, as well as the other members of the executive board Rainer Hundsdoerfer (until August 31, 2012), Norbert Indlekofer, Oliver Jung, Professor Dr Peter Pleus and Dr Gerhard Schuff.

The Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler AG, which, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: Professor Dr Hans-Joerg Bullinger, Dr Eckhard Cordes, Dr Hubertus Erlen, Professor Dr Bernd Gottschalk, Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr Siegfried Luther, Thomas Moelkner, Wolfgang Mueller, Tobias Rienth, Stefanie Schmidt, Dirk Spindler, Robin Stalker, Salvatore Vicari, Juergen Wechsler, Dr Otto Wiesheu, and Juergen Worrich.

The Schaeffler Group's related companies consist of the direct and indirect parent companies of Schaeffler AG as well as other companies controlled by these parent companies. These related companies are referred to as "parent IHO companies" below.

The Continental Group companies are also related parties to the Schaeffler Group.

The following table summarizes income and expenses from transactions with related parties recognized in the Schaeffler Group consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period.

	Receivables		Payables	
	December 31,		December 31,	
in € millions	2012	2011	2012	2011
Parent IHO companies	0	1	324	422
Continental Group companies	10	10	4	4

	Expenses		Income	
in € millions	2012	2011	2012	2011
Parent IHO companies	21	12	108	1
Continental Group companies	34	24	91	75

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. The immediate parent company of Schaeffler AG is Schaeffler Verwaltungs GmbH. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG (IHO).

In 2012 and 2011, Schaeffler Group companies had various business relationships with the parent IHO companies. These include fees for bank guarantees and various services recharged to the Schaeffler Group as well as shareholder loans from a parent IHO company. Shareholder loans consist of the loans from Schaeffler Verwaltungs GmbH discussed in Note 4.10.

Schaeffler AG's annual general meeting in March 2012 resolved to pay a dividend of EU 300 m (or EUR 0.60 per share) for the year 2011 (see Note 4.9).

In addition, in 2011, 12,043,528 Continental AG shares were distributed to Schaeffler Verwaltungs GmbH as a dividend in kind and a derivative financial instrument with a positive fair value was transferred on an arm's length basis to Schaeffler Verwaltungs GmbH for EUR 8 m.

Related-party business relationships exist with Continental Group companies in the form of the supply of vehicle components and tools, the rendering of development and other services, and the lease of commercial real estate. The transactions with the Continental Group were entered into at arm's length conditions.

In addition, on August 20, 2008, the Schaeffler Group entered into an investor agreement with Continental AG which is non-cancellable until the close of the Continental AG annual general meeting in 2014. The agreement stipulates, among other things, that Schaeffler AG commit itself to restricting its investment in Continental AG to 49.99% until August 31, 2012 and to compensating Continental AG for certain tax disadvantages resulting from Continental AG losing the ability to utilize certain tax loss carryforwards.

In 2010, Schaeffler AG acquired a non-controlling interest in Schaeffler Immobilien GmbH & Co. KG consisting of 5.1% of the limited partner shares from Georg F. W. Schaeffler for a purchase price of EUR 13 m. Mr Schaeffler converted the purchase price to an interest-free loan that was outstanding at December 31, 2011 and was repaid in January 2012.

The Schaeffler Group does not have any other significant direct business relations with Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler.

Members of the supervisory board and executive board of Schaeffler AG and parties related to them have acquired bonds issued by Schaeffler Finance B.V. totaling EUR 4 m in 2012.

Short-term employee benefits of EUR 21 m (prior year: EUR 17 m) were paid to members of the Schaeffler AG executive board, including EUR 13 m to members of the statutory board of directors (prior year: EUR 10 m). No post-employment benefit expenses (prior year: EUR 2 m) were recognized for members of the executive board. Total executive board remuneration for the year was EUR 21 m (prior year: EUR 19 m).

No advances or loans were granted to members of Schaeffler AG's executive board or supervisory board. The members of the Schaeffler AG statutory board did not change from the prior year.

The supervisory board was created in August 2010 due to legal requirements regarding employee co-determination. Short-term benefits paid to members of Schaeffler AG's supervisory board amounted to EUR 1 m (prior year: EUR 1 m).

Former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies received remuneration of EUR 8 m in 2012 (prior year: EUR nil).

Provisions for pension obligations, net of related plan assets, for former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies amount to EUR 9 m at December 31, 2012 (prior year: EUR 8 m).

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2012 and required to be disclosed by section 314 (1) (9) HGB total EUR 4,354 thousand (prior year: EUR 3,948 thousand) and consist of EUR 1,660 thousand (prior year: EUR 1,674 thousand) for financial statement audit services, EUR 885 thousand (prior year: EUR 1,068 thousand) for other attestation services, EUR 346 thousand (prior year: EUR 242 thousand) for tax advisory services, and EUR 1,463 thousand (prior year: EUR 964 thousand) for other services.

These fees were paid for services rendered to Schaeffler AG and its German subsidiaries. KPMG AG Wirtschaftspruefungsgesellschaft is considered to be the auditor.

5.7 Exemptions under section 264 (3) HGB

The following domestic subsidiaries meet the requirements set out in section 264 (3) HGB to be eligible for the exemption for 2012 and are availing themselves of that exemption:

- AFT Atlas Fahrzeugtechnik GmbH (since 02/21/2013: Schaeffler Engineering GmbH), Werdohl
- AS Auslandsholding GmbH, Buehl
- Duerkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach

- IAB Verwaltungs GmbH, Herzogenaurach
- INA Automotive GmbH, Herzogenaurach
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Buehl mbH, Buehl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach
- LuK Auslandsholding GmbH, Buehl
- LuK Beteiligungsgesellschaft mbH, Buehl
- LuK Vermoegensverwaltungsgesellschaft mbH, Buehl
- PD Qualifizierung und Beschaeftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach

5.8 Events after the reporting period

In 2011 and 2012 several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. The EU antitrust authorities are conducting further close examinations; the Schaeffler Group expects further steps in the proceedings in 2013. There is a risk that the antitrust authorities will impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

On February 21, 2013, Schaeffler AG announced plans to seek a repricing of a Euro and U.S. Dollar loan tranche equivalent to EUR 1.6 bn by repaying it and obtaining a new loan tranche. The transaction is expected to close in mid-March 2013. The maturity, collateral, financial covenants, and other terms contained in the loan agreement will remain unchanged.

No other material events occurred after December 31, 2012 that we expect to have a significant impact on the results of operations, financial position, and net assets of Schaeffler Group.

5.9 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG, which is based in Herzogenaurach.

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (54)			
AFT Atlas Fahrzeugtechnik GmbH (since 02/21/2013: Schaeffler Engineering GmbH)	Werdohl	DE	100.00
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA – Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	Herzogenaurach	DE	100.00
KWK Verwaltungs GmbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00
LuK Vermoegensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschaeftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
REDON Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.90
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Europa Logistik GmbH	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00
II. Foreign (105)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf – St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
HYDREL GmbH	Romanshorn	CH	100.00
INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
LuK-Aftermarket Service s.r.o.	Prague	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
RODISA, S.A.	Elgoibar	ES	100.00
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
FAG France SAS	Chatillon	FR	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (Hereford) Limited	Hereford	GB	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LUK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
FAG Bearings India Ltd.	Baroda	IN	51.33
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Madras	IN	100.00
FAG Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Seoul	KR	100.00
INA Mexico S.A. de C.V.	Mexico City	MX	100.00
LuK Puebla, S.A. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S.A. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Manufacturing Rus GmbH	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, a.s.	Kysucke Nove Mesto	SK	100.00
INA Skalica spol. s.r.o.	Skalica	SK	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Valencia	VE	100.00
Schaeffler Vietnam Co., Ltd.	Ho Chi Minh City	VN	100.00
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00
B. Associated companies/Joint ventures			
I. Germany (5)			
Contitech-INA Beteiligungsgesellschaft mbH[1)]	Hannover	DE	50.00
Contitech-INA GmbH & Co. KG[1)]	Hannover	DE	50.00
IFT Ingenieurgesellschaft für Triebwerkstechnik mbh	Clausthal-Zellerfeld	DE	49.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG[1)2)]	Herzogenaurach	DE	100.00
II. Foreign (4)			
Colinx, LLC	Greenville	US	20.00
Endorsia International AB	Gothenburg	SE	30.00
Eurings Rt.	Debrecen	HU	37.00
Roland Corporate Housing LLC	Cheraw	US	49.00

1) Joint ventures accounted for using the equity method.

2) Schaeffler Beteiligungsholding GmbH & Co. KG holds 36.14% of the voting interest in Continental AG, Hanover.

5.10 Preparation of consolidated financial statements

The statutory board of directors of Schaeffler AG prepared the consolidated financial statements on March 11, 2013 and released them for submission to the supervisory board. The supervisory board is responsible for examining and approving the consolidated financial statements.

Herzogenaurach, March 11, 2013

The Executive Board

INDEPENDENT AUDITORS' REPORT

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by Schaeffler AG, Herzogenaurach (the "Group"), comprising the consolidated statements of income, comprehensive income, financial position, cash flows, and changes in shareholders' equity and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2012 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and the results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 11, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Becker Wirtschaftspruefer	Sailer Wirtschaftspruefer

Audited consolidated financial statements of Schaeffler AG as of and for the year ended December 31, 2011

1. Consolidated income statement

in € millions	Note	2011	2010	Change in %
Revenue	3.1	10,694	9,495	12.6
Cost of sales		(7,463)	(6,506)	(14.7)
Gross profit		**3,231**	**2,989**	**8.1**
Research and development expenses		(495)	(467)	(6.0)
Selling expenses		(725)	(645)	(12.4)
Administrative expenses		(408)	(366)	(11.5)
Other income	3.2	330	375	(12.0)
Other expenses	3.3	(244)	(377)	35.3
Earnings before financial result and income taxes (EBIT)		**1,689**	**1,509**	**11.9**
Share of net income (loss) of equity-accounted investees	2.2	324	(349)	> 100
Interest income	3.5	40	51	(21.6)
Interest expense	3.5	(773)	(861)	10.2
Financial result	**3.5**	**(409)**	**(1,159)**	**64.7**
Earnings before income taxes		**1,280**	**350**	**> 100**
Income taxes	3.6	(378)	(277)	(36.5)
Net income		**902**	**73**	**> 100**
Attributable to shareholders of the parent company		889	63	> 100
Attributable to non-controlling interests		13	10	30.0

2. Consolidated statement of comprehensive income

	2011			2010		
in € millions	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income	**1,280**	**(378)**	**902**	**350**	**(277)**	**73**
Foreign currency translation differences for foreign operations	(24)	0	(24)	199	0	199
Effective portion of changes in fair value of cash flow hedges	(33)	10	(23)	121	(32)	89
Net change in fair value of available-for-sale financial assets	0	0	0	1	0	1
Defined benefit plan actuarial gains (losses)	(114)	34	(80)	10	(9)	1
Share of other comprehensive income (loss) of equity-accounted investees	(40)	4	(36)	126	0	126
Total other comprehensive income (loss)	**(211)**	**48**	**(163)**	**457**	**(41)**	**416**
Total comprehensive income (loss) for the period	**1,069**	**(330)**	**739**	**807**	**(318)**	**489**
Total comprehensive income (loss) attributable to shareholders of the parent company	1,063	(330)	733	794	(318)	476
Total comprehensive income (loss) attributable to non-controlling interests	6	0	6	13	0	13
Total comprehensive income (loss) for the period	**1,069**	**(330)**	**739**	**807**	**(318)**	**489**

See notes 2.2, 4.11 and 4.15 to the consolidated financial statements.

3. Consolidated statement of financial position

in € millions	Note	December 31, 2011	2010	Change in %
ASSETS				
Intangible assets	4.1	553	575	(3.8)
Property, plant and equipment	4.2	3,328	3,041	9.4
Investments in equity-accounted investees	4.3	4,772	5,252	(9.1)
Other investments		14	8	75.0
Other assets	4.7	95	166	(42.8)
Income tax receivables	4.7	22	0	–
Deferred tax assets	4.4	350	289	21.1
Total non-current assets		**9,134**	**9,331**	**(2.1)**
Inventories	4.5	1,562	1,482	5.4
Trade receivables	4.6	1,607	1,443	11.4
Other assets	4.7	200	257	(22.2)
Income tax receivables	4.7	89	98	(9.2)
Cash and cash equivalents	4.8	397	733	(45.8)
Total current assets		**3,855**	**4,013**	**(3.9)**
Total assets		**12,989**	**13,344**	**(2.7)**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves		1,324	2,801	(52.7)
Accumulated other comprehensive income (loss)		(163)	(7)	< (100)
Equity attributable to shareholders of the parent company		**1,661**	**3,294**	**(49.6)**
Non-controlling interests		53	47	12.8
Total shareholders' equity	**4.9**	**1,714**	**3,341**	**(48.7)**
Provisions for pensions and similar obligations	4.11	1,217	1,111	9.5
Provisions	4.12	79	127	(37.8)
Financial debt	4.10	7,168	6,413	11.8
Income tax payables	4.14	172	102	68.6
Other liabilities	4.14	261	423	(38.3)
Deferred tax liabilities	4.4	124	116	6.9
Total non-current liabilities		**9,021**	**8,292**	**8.8**
Provisions	4.12	208	317	(34.4)
Financial debt	4.10	317	64	> 100
Trade payables	4.13	873	729	19.8
Income tax payables	4.14	184	115	60.0
Other liabilities	4.14	672	486	38.3
Total current liabilities		**2,254**	**1,711**	**31.7**
Total shareholders' equity and liabilities		**12,989**	**13,344**	**(2.7)**

4. Consolidated statement of cash flows

in € millions	2011	2010	Change in %
Operating activities			
EBIT	1,689	1,509	11.9
Interest paid	(686)	(644)	(6.5)
Interest received	13	10	30.0
Income taxes paid	(238)	(298)	20.1
Depreciation, amortization and impairments	554	588	(5.8)
Gains (losses) on disposal of assets	0	(2)	100.0
Other non-cash items	2	(3)	> 100
Changes in:			
• Inventories	(80)	(257)	68.9
• Trade receivables	(153)	(241)	36.5
• Trade payables	83	271	(69.4)
• Provisions for pensions and similar obligations	(61)	(55)	(10.9)
• Other assets, liabilities and provisions	(39)	12	< (100)
Cash flows from operating activities[1)]	**1,084**	**890**	**21.8**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	11	25	(56.0)
Capital expenditures on intangible assets	(15)	(21)	28.6
Capital expenditures on property, plant and equipment	(758)	(340)	< (100)
Investments in other financial investments	(10)	(4)	< (100)
Other investing activities	7	16	(56.3)
Cash used in investing activities	**(765)**	**(324)**	**< (100)**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	0,0
Receipts from loans	13	3	> 100
Repayments of loans	(42)	(83)	49.4
Dividends paid to Schaeffler Verwaltungs GmbH	(400)	(134)	< (100)
Receipts (payments) from other financing activities[2)]	(216)	15	< (100)
Cash used in financing activities	**(646)**	**(200)**	**< (100)**
Net increase (decrease) in cash and cash equivalents	**(327)**	**366**	**< (100)**
Effects of foreign exchange rate changes on cash and cash equivalents	(9)	17	< (100)
Cash and cash equivalents as of beginning of period	733	350	> 100
Cash and cash equivalents as of end of period	**397**	**733**	**(45.8)**

1) Excluding interest payments, cash flows from operating activities for the period from 1/1 to 12/31/2011 amount to EUR 1,770 m (prior year: EUR 1,534 m).

2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 186 m (prior year: nil)

See note 5.3. to the consolidated financial statements.

5. Consolidated statement of changes in shareholders' equity

in € millions	Share capital	Reserves	Accumulated other comprehensive income (loss)[1] Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses	Subtotal	Non-controlling interests	Total
Balance as of January 1, 2010	**0**	**3,239**	**(190)**	**(206)**	**0**	**(25)**	**2,818**	**34**	**2,852**
Net income		63					63	10	73
Other comprehensive income (loss)		(1)	369	86	1	(42)	413	3	416
Total comprehensive income (loss) for the period	**0**	**62**	**369**	**86**	**1**	**(42)**	**476**	**13**	**489**
Capital increase	500	(500)					0		0
Acquisitions in stages		(6)					(6)		(6)
Other items from equity-accounted investees recognized directly in shareholders' equity		6					6		6
Balance as of December 31, 2010	**500**	**2,801**	**179**	**(120)**	**1**	**(67)**	**3,294**	**47**	**3,341**
Balance as of January 1, 2011	**500**	**2,801**	**179**	**(120)**	**1**	**(67)**	**3,294**	**47**	**3,341**
Net income		889					889	13	902
Other comprehensive income (loss)			(61)	(11)	(1)	(83)	(156)	(7)	(163)
Total comprehensive income (loss) for the period	**0**	**889**	**(61)**	**(11)**	**(1)**	**(83)**	**733**	**6**	**739**
Dividends		(2,364)					(2,364)		(2,364)
Other items from equity-accounted investees recognized directly in shareholders' equity		(2)					(2)		(2)
Balance as of December 31, 2011	**500**	**1,324**	**118**	**(131)**	**0**	**(150)**	**1,661**	**53**	**1,714**

1) Including the effect of equity-accounted investees (including Continental AG).

See note 4.9 to the consolidated financial statements.

6. Consolidated segment information

in € millions	Automotive December 31, 2011	Automotive December 31, 2010	Industrial December 31, 2011	Industrial December 31, 2010	Other December 31, 2011	Other December 31, 2010	Total December 31, 2011	Total December 31, 2010
Revenue	7,160	6,325	3,462	3,002	72 [1)]	168 [2)]	10,694	9,495
Cost of sales	(5,209)	(4,483)	(2,182)	(1,855)	(72)	(168)	(7,463)	(6,506)
Gross profit	1,951	1,842	1,280	1,147	0	0	3,231	2,989
EBIT	1,074	990	615	519	0	0	1,689	1,509
• in % of revenue	15.0	15.7	17.8	17.3	–	–	15.8	15.9
Depreciation, amortization and impairments	(375)	(401)	(179)	(187)	0	0	(554)	(588)
Inventories [3)]	862	827	700	655	0	0 [5)]	1,562	1,482
Trade receivables [3)]	1,089	977	518	466	0	0 [5)]	1,607	1,443
Property, plant and equipment [3)]	2,257	1,988	1,071	1,053	0	0 [5)]	3,328	3,041
Capital expenditures [4)]	621	284	225	102	0	0 [5)]	846	386

1) The amount consists mainly of materials provided to subcontractors.

2) The amount consists mainly of scrap sales and materials provided to subcontractors.

3) Amounts as of December 31.

4) Including non-cash additions to property, plant and equipment during the reporting period.

5) The segment reporting process was changed to reflect the allocation of these items to the segments starting in 2011. Prior year amounts have been adjusted to correspond with current year presentation.

See note 5.4 to the consolidated financial statements.

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG (until October 13, 2011: Schaeffler GmbH), Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1-3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 13202). The consolidated financial statements of Schaeffler AG as at December 31, 2011 comprise Schaeffler AG and its subsidiaries, investments in associated companies and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). Schaeffler is a supplier to automotive, aerospace and other manufacturing customers with operations worldwide.

1.2 Basis of preparation and presentation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2011 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code). The term IFRS includes all International Financial Reporting Standards and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

As permitted by section 315a (3) HGB, the company has chosen to prepare its consolidated financial statements under IFRS.

Presentation of comparative information

The ultimate Group parent company INA-Holding Schaeffler GmbH & Co. KG ("IHO Group") implemented an extensive reorganization of the group's legal structure in 2009 and 2010 in order to establish a structure suitable for the capital markets, with Schaeffler AG functioning as holding company of the sub-group. The change of the legal form to a stock corporation ("Aktiengesellschaft") became effective when it was entered in the Commercial Register on October 13, 2011.

For legal purposes, the Schaeffler Group was created upon the entry of a hive-down and assumption of investments and contractual relationships from Schaeffler Verwaltungs GmbH in the Commercial Register on June 28, 2010. As a result, part of the comparative reporting period ending on December 31, 2010 occurred before the current structure of the Schaeffler Group legally existed.

Financial data for the periods prior to June 28, 2010 have been derived from the consolidated IFRS financial statements of the IHO Group (carve-out). The operations of the Schaeffler Group are presented as if the legal structure created by the hive-down had already existed before June 28, 2010.

Assets, liabilities, expenses and income allocated to the Schaeffler Group were transferred from the consolidated IFRS financial statements of the IHO Group (predecessor accounting) at their carrying values. For the periods prior to the legal creation of the Schaeffler Group, the assets and liabilities transferred to the Schaeffler Group were recognized and measured in accordance with IFRS, IAS and the interpretations issued by the IFRIC as well as the former SIC, as adopted by the EU and effective at the end of each of the reporting periods.

Assets, liabilities, expenses and income were generally allocated to the Schaeffler Group based on the hive-down agreement dated May 25, 2010. In addition, certain financial statement line items were allocated appropriately based on certain assumptions, estimates and the principle of substance over form. The assumptions and estimates made affect the recognition, measurement and presentation of assets and liabilities as well as the amounts and presentation of the corresponding items of income and expense. The Schaeffler Group's executive board considers the allocation methods applied to be appropriate and justifiable.

Please refer to the 2010 consolidated financial statements of the Schaeffler Group for a detailed description of the carve-out.

New accounting pronouncements

In 2011, the new Standards and Interpretations and amendments to Standards and Interpretations adopted by the EU as European law and summarized below were required to be applied for the first time. This initial application had no effect.

Standard / Interpretation	Effective date	Subject of Standard/Interpretation or amendment
IFRS 1, IFRS 7	7/1/2010	Elimination of certain comparative IFRS 7 disclosures upon first-time adoption of IFRS
IAS 24	1/1/2011	Clarification of the definition of a related party and of the disclosure requirements regarding transactions; exemptions for entities controlled, jointly controlled, or significantly influenced by the state
IAS 32	2/1/2010	Rights issues in foreign currency
IFRIC 14	1/1/2011	Prepayments of a minimum funding requirement
IFRIC 19	7/1/2010	Extinguishing financial liabilities with equity instruments
Annual Improvements 2010		
IFRS 1	1/1/2011	Minor amendments
IFRS 3	7/1/2010	Amendments of revised IFRS 3 with respect to measuring non-controlling interests, share-based payment and contingent consideration
IFRS 7	1/1/2011	Amendments to various disclosures on risks arising from financial instruments
IAS 1	1/1/2011	Clarification regarding the statement of changes in shareholders' equity
IAS 21, IAS 28, IAS 31	7/1/2010	Prospective application of amendments of revised IAS 27
IAS 34	1/1/2011	Changed wording with respect to significant events and transactions
IFRIC 13	1/1/2011	Additional interpretive guidance (application guidance, basis for conclusions)

The International Accounting Standards Board (IASB) has issued the following amendment to IFRS 7. Application of this amendment is contingent on adoption by the EU under its IFRS endorsement process, which occurred in November 2011. The Schaeffler Group will initially apply the amendment in its 2012 financial year. Assuming that the Schaeffler Group will continue to not be party to transactions affected by this amendment in the future, the amendment will have no impact on the Schaeffler Group.

Standard / Interpretation	Effective date	Subject of Standard/Interpretation or amendment
IFRS 7	7/1/2011	Disclosure requirements related to transfers of financial assets

In addition, the IASB has issued new Standards and amendments to existing Standards and Interpretations which have not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue by Schaeffler Group management. The Schaeffler Group has not applied any of the following new Standards or amendments to existing Standards and Interpretations early:

Standard / Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1	7/1/2011	Aspects of first-time adoption of IFRS with respect to financial instruments and hyperinflation	none
IFRS 7	1/1/2013	Disclosures on financial assets and liabilities that are offset	none
IFRS 9	1/1/2015	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments[1)]
IFRS 10	1/1/2013	Consolidated financial statements; replaces the corresponding guidance in IAS 27	none
IFRS 11	1/1/2013	Joint arrangements; replaces IAS 31	none
IFRS 12	1/1/2013	Disclosure of interests in other entities	Expanded disclosures regarding investments and unconsolidated structured entities
IFRS 13	1/1/2013	Fair value measurement	Expanded disclosures on fair values of financial instruments
IAS 1	7/1/2012	Presentation of other comprehensive income	Changes to the presentation of the consolidated statement of comprehensive income
IAS 12	1/1/2012	Deferred taxes on investment property measured at fair value through profit or loss	none
IAS 19	1/1/2013	Changes resulting from IAS 19 rev. 2011	Accounting for obligations under partial retirement arrangements; extent of disclosures

Standard / Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
IAS 27	1/1/2013	Guidance on separate financial statements; elimination of guidance on consolidation (IFRS 10)	none
IAS 28	1/1/2013	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12	none
IAS 32	1/1/2014	Offsetting financial assets and liabilities	none
IFRIC 20	1/1/2013	Stripping costs in the production phase of a surface mine	none

1) Detailed statements regarding the extent of the impact are not yet possible.

Basis of preparation

These consolidated financial statements are presented in Euros, the functional and presentation currency of the Schaeffler Group. Unless stated otherwise, all amounts are in millions of Euros (EUR m).

Schaeffler classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period or within its normal operating cycle. Similarly, liabilities are classified as current if they are expected to be settled within the normal operating cycle or if Schaeffler is contractually required to settle them within twelve months after the end of the reporting period.

As amounts (in millions of Euros) and percentages have been rounded, rounding differences may occur.

Measurement bases

Except for the following, these consolidated financial statements have generally been prepared on the historical cost basis:

- derivative financial instruments,
- financial instruments recorded at fair value through profit or loss, and
- available-for-sale financial assets.

These instruments were measured at fair value.

Estimation uncertainty and management judgment

In the preparation of financial statements in accordance with IFRS, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Both estimates and the basis on which assumptions are made are reviewed regularly. Changes in estimates are recognized in the period in which the changes are made as well as in all subsequent periods affected by the changes.

The following issues affected by estimation uncertainty in the application of accounting policies have the most significant impact on amounts recognized in the consolidated financial statements:

- determination of the useful lives of intangible assets and property, plant and equipment,
- determination of valuation allowances on inventories,

- impairment tests of goodwill and non-current assets, including determination of recoverable amounts and the underlying assumptions (e. g. discount rate),
- accounting for employee benefits, including actuarial assumptions,
- recognition and measurement of other provisions,
- assessment of the recoverability of deferred tax assets, and
- measurement of financial instruments with respect to assessing recoverability and determining fair values.

The following issues in particular are affected by the application of management's professional judgment:

- identification of cash-generating units and
- classification of lease agreements as finance or operating leases.

In 2011, there was no significant impact from changes in assumptions made in the past or the resolution of previously existing uncertainties related to the above items.

1.3 Accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements. The financial statements of all Schaeffler Group entities have been prepared as of the same date as these consolidated financial statements.

Consolidation principles

Subsidiaries are entities Schaeffler controls. Control exists if Schaeffler has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights that are currently exercisable are taken into account when assessing control. In accordance with SIC 12 "Consolidation – Special Purpose Entities", Schaeffler's consolidated financial statements also include companies that Schaeffler controls without holding a majority of the voting rights, e. g. where Schaeffler in substance retains the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities. Subsidiaries' financial statements are included in the consolidated financial statements from the date Schaeffler obtains control until the date Schaeffler loses control.

Associated companies are those entities over which Schaeffler has significant influence, but not control, over the financial and operating policy decisions of the investee. Significant influence is presumed to exist if Schaeffler holds, directly or indirectly, between 20% and 50% of the voting power of an investee. Where Schaeffler's direct or indirect holdings represent less than 20% of the voting rights, significant influence is presumed not to exist unless such influence can be clearly demonstrated.

Investments in associated companies and joint ventures are accounted for using the equity method. Under this method, the investment is initially recognized at cost. The carrying amount of Schaeffler's investments in associated companies includes goodwill identified on acquisition of an associated company. After initial recognition, the carrying amount of the investment is increased or decreased by the investor's share of the investee's net income or loss and other comprehensive income (loss) from the date that significant influence commences until the date significant influence ceases. If Schaeffler's share of losses of an associated company reaches or exceeds the amount of the investment, the carrying amount of that investment is reduced to zero and no further losses are recognized except to the extent that Schaeffler has incurred a legal or constructive obligation to make payments or has made payments on behalf of the associated company.

Balances and transactions with consolidated subsidiaries and any related income and expenses are completely eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associated companies are eliminated against the carrying amount of the investment in the associated company to the extent of Schaeffler's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent there is no evidence of impairment. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Foreign currency translation

Foreign currency transactions
Upon initial recognition, purchases and sales denominated in foreign currencies are translated at the exchange rate applicable at the time of the transaction. Since receivables and payables denominated in foreign currencies arising from these transactions are monetary items within the scope of IAS 21, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. The resulting exchange gains and losses are recognized in the entity's separate and in the consolidated income statement of Schaeffler Group.

Translation of foreign currency financial statements
The Schaeffler Group presents its financial statements in Euros, the functional currency of Schaeffler AG. Assets and liabilities of subsidiaries whose functional currency is not the Euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in accumulated other comprehensive income and reclassified to the income statement upon disposal of the subsidiary.

The following table illustrates the most significant exchange rates used in preparing the consolidated financial statements:

Currencies 1 € in		Closing rate December 31, 2011	Closing rate December 31, 2010	Average rate 2011	Average rate 2010
Brazil	BRL	2.42	2.22	2.32	2.33
Canada	CAD	1.32	1.33	1.37	1.37
Switzerland	CHF	1.22	1.25	1.23	1.38
China	CNY	8.16	8.82	8.99	8.98
United Kingdom	GBP	0.84	0.86	0.87	0.86
Hong Kong	HKD	10.05	10.39	10.81	10.31
Hungary	HUF	314.58	277.95	279.44	275.36
India	INR	68.71	59.76	64.80	60.61
Japan	JPY	100.20	108.65	110.86	116.46
South Korea	KRW	1,498.69	1,499.06	1,537.97	1,532.89
Mexico	MXN	18.05	16.55	17.25	16.75
Romania	RON	4.32	4.26	4.24	4.21
Sweden	SEK	8.91	8.97	9.03	9.55
Singapore	SGD	1.68	1.71	1.75	1.81
U.S.A.	USD	1.29	1.34	1.39	1.33
South Africa	ZAR	10.48	8.86	10.08	9.71

Revenue recognition

Revenues from the ordinary business activities of the Schaeffler Group are shown as revenue and recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates based on the general terms and conditions. Other revenues such as from equipment sales and rental income are included in other income.

Revenue from the sale of goods is recognized when, based on the arrangement with the customer, (1) the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, (2) it is sufficiently probable that the economic benefits from the sale will flow to Schaeffler, (3) the costs associated with the sale and possible return of goods can be estimated reliably, (4) Schaeffler has no continuing managerial involvement with the goods, and (5) the amount of revenue can be measured reliably. Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery, provided that the conditions listed above are met.

Product-related expenses

Product-related expenses comprise all direct costs attributable to the process of producing goods and rendering services as well as allocated production-related overheads.

Costs incurred for advertising, sales promotion and other selling related activities are expensed as incurred. Warranty provisions are recognized on a case-by-case basis or, in cases involving a large population of items, using the expected value method taking into account the related specific legal and contractual agreements.

Research and development expenses

Research and development expenses include costs incurred for research and development and expenditures for customer-specific applications, prototypes, and testing.

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge are recognized as expenses as incurred.

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Related development costs are only capitalized as intangible assets if (1) technical feasibility can be demonstrated, (2) Schaeffler intends to complete the intangible asset and use or sell it, (3) Schaeffler has the ability to use or sell the intangible asset, (4) future economic benefits from sale or use of the intangible asset can be demonstrated to exist, (5) adequate technical, financial and other resources are available to complete the development and for the subsequent sale or use, and (6) the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalized costs include costs directly attributable to the development process and development-related overheads. Capitalized development expenditures are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the average expected useful life of six years beginning when the intangible asset is ready for use. Amortization expense is presented in cost of sales. In contrast to costs of developing new or substantially improved products, advance development costs and costs incurred to produce customer-specific applications (i.e. to customize existing products without substantial improvement) are not capitalized, but instead expensed as incurred.

Goodwill

Goodwill results from the acquisition of a subsidiary. It is calculated as the excess of the aggregate of (1) the fair value of consideration transferred, (2) the amount of non-controlling interests, and, (3) in a business combination achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree over the net fair values of the identifiable assets acquired and liabilities assumed. Non-controlling interests in the acquired company are measured either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Goodwill is not amortized, but is instead tested for impairment at least annually and when an indication exists. It is measured at cost less accumulated impairment losses. For associated companies, goodwill is included in the carrying amount of the investment in the associated company and, therefore, is tested for impairment as part of the investment when an indication exists.

Other intangible assets

Purchased intangible assets including software and patents are capitalized at acquisition cost, internally generated intangible assets meeting the requirements of IAS 38 regarding capitalization, including software and development projects, at production cost. Intangible assets with a determinable useful life are amortized on a straight-line basis over their estimated useful lives of three years for software, six years for development costs and ten years for patents. Amortization commences when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Other intangible assets are tested for impairment when there is an indication that the asset may be impaired. The Schaeffler Group does not have any intangible assets with indefinite useful lives.

Subsequent expenditures are only capitalized when they meet the recognition criteria for an intangible asset, i. e. it is probable that the future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. All other expenditures, including expenditures for internally generated goodwill and brands, are expensed as incurred.

Amortization expense and impairment losses related to an intangible asset are presented in the consolidated income statement within the functional area in which the intangible asset is utilized.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all costs directly attributable to the acquisition of the asset. Self-constructed assets are initially measured at the directly attributable construction cost that is necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the consideration received with the carrying amount of the asset. They are presented net in other income or other expenses, respectively.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Estimated useful lives range from 15 to 25 years for buildings and outside facilities, from 2 to 10 years for technical equipment and machinery and from 3 to 8 years for other equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the asset's useful life. Land is not depreciated. Depreciation expense and impairment losses are presented in the consolidated income statement under the appropriate functional area.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period. Useful lives are determined by estimating the period during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological developments.

Leases

Leases that transfer substantially all risks and rewards of ownership to Schaeffler are classified as finance leases. The leased asset is initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A liability is recognized at the same amount. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. Financing costs are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases under which the lessor retains substantially all risks and rewards of ownership are classified as operating leases, and the related lease payments are expensed on a straight-line basis over the lease term.

Impairment

Financial assets

Financial assets are tested for impairment individually at the end of each reporting period and when objective evidence of impairment exists. Schaeffler has established group-wide guidelines to help determine the relative amount of the impairment (such as commencement of judicial collection procedures, compulsory enforcement) when analyzing evidence that impairment exists. Group companies apply these guidelines taking into account the circumstances specific to the financial asset being considered. Impairment losses in respect of a financial asset measured at amortized cost are calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the effective interest rate originally determined at initial recognition (discounted cash flow method). An impairment loss in respect of an available-for-sale financial asset is calculated based on the asset's fair value.

All impairment losses are recognized in profit or loss. If an impairment is recognized in respect of an available-for-sale financial asset, any cumulative losses previously recognized in other comprehensive income related to that asset are reclassified from accumulated other comprehensive income to profit or loss.

An impairment loss is reversed if the reversal of the impairment loss can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognized in other comprehensive income.

Non-financial assets

IAS 36 requires the carrying amounts of non-financial assets to be tested for impairment on the basis of individual assets or the smallest unit with largely independent cash inflows (cash-generating units). The Schaeffler Group's cash-generating units are its segments, Automotive and Industrial.

If there is an indication of impairment, intangible assets and property, plant and equipment are tested for impairment during the year. Goodwill and intangible assets not yet available for use are also tested annually for impairment at the end of the reporting period.

Recoverable amount is the higher of fair value less costs to sell and value in use. Initially, Schaeffler determines recoverable amount under the value in use concept using the discounted cash flow method. If value in use does not exceed the carrying amount of the cash-generating unit, the second step taken is to determine recoverable amount using fair value less costs to sell.

Expected cash flows of the cash-generating units are based on a three-year-forecast and future projections which are reviewed regularly by the Schaeffler Group management. The medium-term forecast is based on specific assumptions regarding macroeconomic indicators, external sales expectations and internal assessments of demand and projects, as well as sales prices, commodity price trends, and capital expenditures. Projections beyond the detailed forecast horizon are made using a growth rate for each segment.

An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses (except on goodwill) are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

If the resulting impairment loss exceeds the amount of recognized goodwill, goodwill is fully impaired first. The remaining impairment loss is allocated to the other assets in the cash-generating unit.

The discount rate reflects current market expectations and the risks specific to the asset.

At the end of each reporting period, the Schaeffler Group assesses whether there is any indication that its equity method investments may be impaired. If such an indication exists, Schaeffler is required to test that equity method investment for impairment. An equity method investment is impaired when its carrying amount exceeds the higher of its value in use and fair value less costs to sell.

Financial instruments

In accordance with IAS 32 a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include (1) non-derivative financial instruments and (2) derivative financial instruments. Normal sales and purchases of financial assets are recognized using settlement date accounting.

Please refer to Note 4.15 for an analysis of the Schaeffler Group's financial instruments by class as required by IFRS 7.6.

(1) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and receivables, and trade and other payables. Non-derivative financial instruments are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

Schaeffler classifies its financial instruments in one of the following categories as defined in IAS 39:

Available-for-sale financial assets
Except for investments in associated companies (IAS 28), Schaeffler classifies its investments in equity securities as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein – other than impairment losses and exchange differences on available-for-sale monetary assets – are recognized in other comprehensive income (including related deferred taxes). Fair values are derived from market prices unless no quoted prices are available or there is no active market; in these cases, fair value is determined using valuation techniques such as the discounted cash flow method. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be measured reliably are recognized at cost.

When an available-for-sale financial asset is derecognized, the cumulative gain or loss previously recognized in accumulated other comprehensive income is reclassified to profit or loss.

Loans and receivables
Loans and receivables are measured at amortized cost less any impairment losses. Trade and other receivables within this category are carried at face value. Impairment losses on trade and other receivables are recognized in profit or loss unless the receivable is covered by credit insurance. Non-interest bearing receivables with a maturity of more than one year are discounted. Loans and receivables sold to third parties are derecognized if and when substantially all risks and rewards associated with the loans and receivables sold have been transferred.

This category also includes cash and cash equivalents. Schaeffler considers all liquid investments with a maturity of less than three months from the date of acquisition to be cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities
With the exception of derivative financial instruments, Schaeffler measures all financial liabilities at amortized cost, which includes any transaction costs attributable to the liability. Obligations under finance leases are initially measured at an amount equal to the lower of the fair value of the leased asset and the present value of minimum lease payments.

(2) Derivative financial instruments

Schaeffler holds derivative financial instruments to hedge its currency and interest rate risk exposures inherent in assets and liabilities and in future cash flows.

In accordance with IAS 39, derivatives are initially recognized as an asset or liability at fair value; attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss and classified as financial assets/liabilities held for trading (HfT). The Schaeffler Group does not have any fair value hedges or hedges of a net investment in a foreign operation.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in accumulated other comprehensive income remains in equity until the forecast transaction occurs or is no longer expected to occur. Otherwise, the amount is reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value. Acquisition cost of raw materials, supplies and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods (including goods in transit) are valued at production cost, consisting of direct material and labor costs as well as production-related overheads. Net realizable value is defined as the estimated selling price in the ordinary course of business less estimated costs of completion and estimated necessary selling costs.

Income taxes

Income tax expense for the period includes current and deferred tax expense. Income taxes are recognized in profit or loss, except for income taxes relating to items recognized directly in equity or in accumulated other comprehensive income, which are also recognized in equity or in accumulated other comprehensive income.

Current taxes are calculated based on local tax rules and regulations effective at the end of the reporting period or shortly thereafter in the countries in which the subsidiaries and associated companies operate and generate taxable income. Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and, where appropriate, recognizes provisions based on amounts expected to be payable to taxation authorities.

Under IAS 12 “Income Taxes”, deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets and liabilities are recognized on temporary differences that will result in taxable or deductible amounts in determining taxable profit of future periods, unless the differences are the result of the initial recognition of an asset or a liability in a transaction which is not a business combination and at the time of the transaction has affected neither pre-tax profit or loss nor taxable profit (initial differences). IAS 12 also requires the recognition of deferred tax assets on tax loss carryforwards and tax credits.

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that future taxable profit will be available.

Deferred tax liabilities arising on temporary differences associated with investments in subsidiaries and associated companies are recognized unless the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future as a result of this control.

Deferred taxes are measured using tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period and that are expected to apply to the period when the deferred tax asset is expected to be realized or the deferred tax liability is expected to be settled. The effects of changes in tax rates or tax laws on deferred tax assets and liabilities are recognized in profit or loss unless the deferred tax assets and liabilities were originally recognized outside profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right of offset exists and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend to settle net.

Provisions for pensions and similar obligations

Employee benefits include both defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market assessments of expected return on plan assets and anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent Schaeffler is entitled to a refund or reduction of future contributions to the fund.

Schaeffler immediately recognizes all actuarial gains and losses arising from defined benefit plans in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the expected return on plan assets are included in interest income and interest expense.

For defined contribution plans, Schaeffler pays fixed contributions to a third party without any legal or constructive obligation to make additional contributions. The contributions are recognized as personnel expense within the appropriate functional expenses.

Provisions

A provision is recognized if, as a result of a past event, Schaeffler has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the recognition criteria for provisions are not met, a contingent liability is disclosed in the notes to the financial statements provided certain criteria are met.

Estimating future costs is subject to a large degree of uncertainty, particularly for restructuring measures involving several parties and extending over a long period of time.

Non-current provisions are recognized at present value by discounting expected future cash outflows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest, including effects of changes in interest rates, is shown in financial result.

2. Principles of consolidation

2.1 Scope of consolidation

In 2011, the Schaeffler Group includes, in addition to Schaeffler AG, 154 (prior year: 152) fully consolidated subsidiaries; 50 (prior year: 50) companies are domiciled in Germany and 104 (prior year: 102) are foreign entities.

The following changes have occurred since December 31, 2010:

Schaeffler Ukraine GmbH, Kiev (Ukraine), which was founded in late 2010, is consolidated beginning January 1, 2011. The newly founded companies Schaeffler Manufacturing (Thailand) Co., Ltd., Rayong (Thailand), Schaeffler (Nanjing) Co., Ltd., Nanjing City (China) and Schaeffler Finance B.V., Barneveld (Netherlands) are also consolidated for the first time. FAG (UK) Ltd., Sutton Coldfield (UK) and LuK Africa (Proprietary) Limited, Port Elizabeth (South Africa), which no longer had any operations, were wound up during the year and ceased to be consolidated. The number of consolidated companies has increased by two.

Two foreign subsidiaries (prior year: two) are consolidated because Schaeffler AG has the ability to control these companies, although it does not hold the majority of the voting rights.

In the consolidated financial statements as at December 31, 2011, ten (prior year: nine) investments (including three joint ventures (prior year: two)) are accounted for at equity. Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach was founded in 2011.

Schaeffler AG transferred 12,043,528 Continental AG shares to Schaeffler Verwaltungs GmbH on May 5, 2011, reducing the Schaeffler Group’s interest in Continental AG to 36.14%.

Schaeffler AG’s shares in Continental AG were transferred to Schaeffler Beteiligungsholding GmbH & Co. KG on September 30, 2011. Schaeffler Beteiligungsholding GmbH & Co. KG is a joint venture as defined in IAS 31 and is accounted for at equity in the consolidated financial statements. As Schaeffler AG is the limited partner and holds 100% of the shares, the transfer of the Continental AG shares does not change the underlying economics of this investment. For this reason, the accounting treatment and presentation in the consolidated financial statements were continued unchanged (see Notes 2.2 and 5.5).

See Note 5.9 for details of the Schaeffler Group’s investments.

2.2 Investments in equity-accounted investees

In substance, investments in equity-accounted investees represent primarily the indirectly held shares in Continental AG. Schaeffler Beteiligungsholding GmbH & Co. KG holds 72,290,458 shares or 36.14% of the voting interest in Continental AG as at December 31, 2011.

Continental AG is a leading automotive supplier with worldwide operations, headquartered in Hanover, Germany. The following table provides summarized financial information about the Continental Group:

in € millions	2011	2010
Revenue (1/1 – 12/31)	30,505	26,047
Net income[1] (1/1 – 12/31)	1,325	646
Assets (as of 12/31)	26,038	24,391
Liabilities (as of 12/31)	18,495	18,188

1) Including non-controlling interests.

All equity-accounted investees have the same reporting date as Schaeffler AG.

Purchase price allocation

In accordance with the equity method, the acquisition cost of Schaeffler AG's interest was allocated based on the fair value of the assets and liabilities of Continental AG. The equity-method carrying amount at the time of transfer of the 36.14% investment in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG on September 30, 2011 represented Schaeffler AG's investment of 100% of the limited partner shares of Schaeffler Beteiligungsholding GmbH & Co. KG at that time, which is accounted for at equity in the consolidated financial statements.

As Schaeffler AG has indirect influence (via Schaeffler Beteiligungsholding GmbH & Co. KG) over Continental AG and since Schaeffler Beteiligungsholding GmbH & Co. KG does not have any operations except for holding the investment in Continental AG, Schaeffler has maintained both the purchase price allocation and the carrying amount of the investment in Continental AG determined in accordance with IAS 28 for purposes of its equity-method accounting for Schaeffler Beteiligungsholding GmbH & Co. KG subsequent to September 30, 2011.

Share of net income (loss) of equity-accounted investees

The share of net income (loss) of equity-accounted investees is mainly the result of measuring the investment in Continental AG (held indirectly since September 30, 2011) using the equity method. The Schaeffler Group's share of depreciation, amortization and impairments on fair value adjustments and its share of Continental AG's net income, including non-recurring items realized through the purchase price allocation and net of offsetting deferred tax effects, result in income after tax of EUR 311 m. The effect on Schaeffler AG's net income is as follows:

in € millions	2011	2010
Depreciation, amortization and impairments of fair value adjustments	(265)	(296)
Share of net income of Continental AG	477	246
Dilution of ownership interest due to non-participation in Continental AG capital increase	0	(396)
Effect before income taxes	**212**	**(446)**
Deferred taxes	74	83
Effect on income before special items[1)]	**286**	**(363)**
Special items[1)]		
• Reversal of step down of financial debt recognized at the time of the PPA	0	(5)
• Reversal of cash flow hedges existing at the time of the PPA	20	12
• Recognition of Continental AG pension obligations at fair value	5	8
Effect on income after special items[1)]	**311**	**(348)**

1) Realized through purchase price allocation (PPA).

Special items realized through the purchase price allocation reflect adjustments to transactions that have since been realized by Continental AG.

Due to the partial disposal of the Continental AG shares by distribution as a dividend in kind on May 5, 2011, EUR 13 m of the Schaeffler Group's share of the accumulated other comprehensive income (loss) of Continental AG were reclassified to the consolidated income statement. This has brought the total income from equity-accounted investees to EUR 324 m.

Share of other comprehensive income (loss) of equity-accounted investees

The Schaeffler Group's share of other comprehensive income (loss) of Continental AG amounts to EUR 14 m (prior year: EUR 181 m).

An adjustment to reflect the use of uniform methods in accounting for pension obligations of EUR 17 m (prior year: EUR 43 m) and changes in cash flow hedges of EUR 20 m (prior year: EUR 12 m) had an offsetting effect on other comprehensive income (loss). Accumulated other comprehensive income of EUR 13 m (prior year: EUR nil) was reclassified to income as a result of the partial disposal of shares in Continental AG.

In total, these items decrease accumulated other comprehensive income (loss) by EUR 36 m after tax (prior year: EUR + 126 m).

In addition, the exercise of share options by certain members of Continental AG management and Schaeffler's share of the impact of acquisitions in stages by Continental AG have decreased reserves by EUR 2 m (prior year: EUR 6 m) without affecting net income.

Nature and extent of significant restrictions

Debt covenants restrict Continental AG's ability to pay dividends. Continental AG did not pay any dividends for 2008, 2009 and 2010.

Market capitalization

The fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (36.14%) on December 31, 2011 was EUR 3,477 m. On December 31, 2010 the fair value of the Continental AG shares held by the Schaeffler Group (42.17%) was EUR 4,988 m.

3. Notes to the consolidated income statement

3.1 Revenue

in € millions	2011	2010
Revenue from the sale of goods	10,499	9,223
Other revenue	195	272
Total	**10,694**	**9,495**

Revenue from the sale of goods consists of invoiced sales of goods to customers, net of early payment discounts. Other revenue includes EUR 103 m (prior year: EUR 94 m) in revenue from other services consisting mainly of research and development services as well as revenue from the sale of tools and special machines.

3.2 Other income

in € millions	2011	2010
Exchange gains	292	308
Reversal of provisions	6	4
Reduction of allowances	3	8
Gains on disposal of assets	3	5
Miscellaneous income	26	50
Total	**330**	**375**

Exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate.

3.3 Other expenses

in € millions	2011	2010
Exchange losses	219	319
Increase in allowances	3	4
Losses on disposal of assets	3	3
Miscellaneous expenses	19	51
Total	**244**	**377**

Exchange losses of EUR 219 m (prior year: EUR 319 m) include both realized and unrealized exchange losses. The development of exchange rates, particularly against the U.S. Dollar, led to a decline in exchange losses realized on derivative currency hedging instruments compared to the prior year.

3.4 Personnel expense and headcount

The number of employees at December 31, 2011 was 74,031, 9.7% above the prior year level of 67,509. In 2011, the Schaeffler Group had an average of 71,896 employees (prior year: 65,041) and 748 temporary staff (prior year: 488).

Number of employees by region	2011	2010
Germany	29,001	27,457
Europe excluding Germany	21,425	19,016
North America	6,474	5,505
South America	4,636	4,368
Asia/Pacific	10,360	8,695
Total	**71,896**	**65,041**

Number of employees by functional area	2011	2010
Production	56,457	50,886
Research and development	5,465	4,902
Selling	5,793	5,366
General administration	4,181	3,887
Total	**71,896**	**65,041**

The Schaeffler Group's personnel expense can be analyzed as follows:

in € millions	2011	2010
Wages and salaries	2,484	2,264
Social security contributions	495	437
Pensions and similar benefit expenses	49	57
Total	**3,028**	**2,758**

The increase in personnel expense in 2011 is mainly due to the encouraging volume of business and the related increase in staffing levels in all regions.

Pensions and similar benefit expenses consist mainly of expenses related to defined benefit pension plans, contributions to defined contribution pension plans, expenses in connection with the "Pensionssicherungsverein" (German pension assurance association), and other employee benefits.

3.5 Financial result

in € millions	2011	2010
Expected return on pension plan assets	26	25
Interest income on financial assets	13	12
Miscellaneous financial income	1	14
Interest income	**40**	**51**
Interest expense on financial debt	(494)	(386)
Interest expense from compounding of pensions and other provisions	(86)	(84)
Net interest expense on interest rate derivatives	(176)	(373)
Miscellaneous financial expense	(17)	(18)
Interest expense	**(773)**	**(861)**
Share of net income (loss) of equity-accounted investees	324	(349)
Financial result	**(409)**	**(1,159)**

The Schaeffler Group's financial result comprises interest income of EUR 40 m (prior year: EUR 51 m) and interest expense of EUR 773 m (prior year: EUR 861 m) as well as the share of net income (loss) of equity-accounted investees of EUR 324 m (prior year: EUR -349 m).

The income (loss) from equity-accounted investees consists almost entirely of income from Schaeffler's 36.14% interest in Continental AG up to September 30, 2011 and since that date from Schaeffler's 100% limited partner share in Schaeffler Beteiligungsholding GmbH & Co. KG, which now holds the 36.14% interest in Continental AG and is also accounted for under the equity method in these consolidated financial statements.

Interest income relates primarily to expected returns on plan assets of funded pension plans and income from discounting various line items in the statement of financial position.

Interest expense of EUR 494 m (prior year: EUR 386 m) was primarily incurred on financial debt, EUR 176 m (prior year: EUR 373 m) on interest rate derivatives, and EUR 86 m (prior year: EUR 84 m) relate to compounding of pensions and other provisions.

Interest expense on financial debt of EUR 494 m (prior year: EUR 386 m) includes primarily interest payments of EUR 395 m (prior year: EUR 282 m) for the Senior Facility Agreement and expenses of EUR 78 m (prior year: EUR 30 m) relating to transaction costs amortized over the term of the financial debt, as well as interest expense of EUR 20 m (prior year: EUR 25 m) on the annuity loan. The amortization of transaction costs includes EUR 47 m resulting from the adjustment of the term of the loan, which was shortened in connection with the refinancing agreement reached with the banks on January 27, 2012.

Net interest expense on interest rate derivatives of EUR 176 m (prior year: EUR 373 m) includes EUR 170 m (prior year: EUR 252 m) in compensation payments on interest rate derivatives and EUR 75 m (prior year: EUR 91 m) in expenses arising from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009. These interest expenses are partially offset by EUR 69 m in gains (prior year: losses of EUR 30 m) arising from unrealized non-cash fair value changes of interest rate derivatives. These gains are presented in interest expense as well since they economically relate to interest expense on the company's financial debt.

3.6 Income taxes

Income taxes consist of the following:

in € millions	2011	2010
Current income taxes	386	314
Deferred income taxes	(8)	(37)
Income taxes	**378**	**277**

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during the reporting period. Trade tax is levied by municipalities.

The average domestic tax rate for corporations was 27.9% in 2011 (prior year: 27.9%). This tax rate consists of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.0% (prior year: 12.0%). Partnerships located in Germany are only subject to trade tax.

In 2011, current income tax expense related to prior years amounts to EUR 16 m (prior year: EUR 19 m). In addition, Schaeffler had deferred tax income of EUR 14 m (prior year: EUR 20 m) related to prior years.

Deviations from the expected tax rate result from differing country-specific tax rates applicable to German and foreign entities.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2011 is based on a 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler AG.

in € millions	2011	2010
Net income before tax	**1,280**	**350**
Expected tax expense	358	98
Addition/reduction due to deviating local tax bases	(1)	4
Foreign/domestic tax rate differences	(4)	(1)
Non-recognition of deferred tax assets	4	7
Change in tax rate and law	0	(5)
Non-deductible expenses	122	146
Share of net income (loss) of equity-accounted investees	(90)	54
Taxes for previous years	2	(1)
Other	(13)	(25)
Reported tax expense	**378**	**277**

The additional income tax on non-deductible expenses is almost entirely caused by interest expense that is non-deductible because of the interest deduction cap (German Zinsschranke). As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards.

Share of net income (loss) of equity-accounted investees relates primarily to the investment in Continental AG, Hanover.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as of January 1, 2010	**483**	**998**	**212**	**1**	**1,694**
Additions	0	6	15	0	21
Disposals	0	(11)	(17)	(1)	(29)
Transfers	0	0	0	0	0
Foreign currency translation	0	4	1	0	5
Balance as of December 31, 2010	**483**	**997**	**211**	**0**	**1,691**
Balance as of January 1, 2011	**483**	**997**	**211**	**0**	**1,691**
Additions	0	5	10	0	15
Disposals	0	(1)	0	0	(1)
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as of December 31, 2011	**483**	**1,002**	**221**	**0**	**1,706**
Accumulated amortization and impairment losses					
Balance as of January 1, 2010	**0**	**968**	**108**	**0**	**1,076**
Additions	0	16	32	0	48
Disposals	0	(11)	0	0	(11)
Transfers	0	0	0	0	0
Foreign currency translation	0	3	0	0	3
Balance as of December 31, 2010	**0**	**976**	**140**	**0**	**1,116**
Balance as of January 1, 2011	**0**	**976**	**140**	**0**	**1,116**
Additions	0	10	27	0	37
Disposals	0	(1)	0	0	(1)
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as of December 31, 2011	**0**	**986**	**167**	**0**	**1,153**
Net carrying amounts					
As of January 1, 2010	**483**	**30**	**104**	**1**	**618**
As of December 31, 2010	**483**	**21**	**71**	**0**	**575**
As of January 1, 2011	**483**	**21**	**71**	**0**	**575**
As of December 31, 2011	**483**	**16**	**54**	**0**	**553**

At the end of 2011, intangible assets purchased from third parties have a net carrying amount of EUR 16 m (prior year: EUR 21 m). Additions totaled EUR 5 m (prior year: EUR 6 m) in 2011.

Capitalized development costs included in internally generated intangible assets decreased to EUR 32 m (prior year : EUR 45 m) as a result of EUR 13 m (prior year: EUR 13 m) in amortization in 2011.

Internally generated intangible assets include EUR 22 m (prior year: EUR 26 m) in internally generated software, mainly relating to the implementation of SAP. In 2011, additions of EUR 10 m (prior year: EUR 12 m) are offset by amortization of EUR 14 m (prior year: EUR 19 m).

Amortization of internally generated intangible assets totaling EUR 37 m (prior year: EUR 48 m) was recognized in the following line items in the consolidated income statement: cost of sales

EUR 14 m (prior year: EUR 15 m), research and development expenses EUR 3 m (prior year: EUR 2 m), selling expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 15 m (prior year: EUR 26 m).

Internally generated intangible assets with a carrying amount of EUR 10 m (prior year: EUR 13 m) are not yet subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 495 m (prior year: EUR 467 m) were recognized in the consolidated income statement in 2011.

At December 31, 2011, intangible assets with a carrying amount of EUR 5 m (prior year: EUR 7 m) were pledged as collateral for bank loans.

Goodwill

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under General Information (Accounting policies). The key assumption in our forecast relates to constant growth rates for the Automotive and Industrial segments exceeding the corresponding assumptions for the market. We are further confident that we can be sufficiently flexible in our cost structure to be able to maintain our EBITDA margin at its current level in the coming years.

For purposes of determining the recoverable amount, cash flows beyond the detailed forecast horizon of 2014 are based on an annual growth rate of 0.5% (prior year: 0.5%) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 13.87% (prior year: 13.05%) as the weighted average cost of capital for the Automotive segment and 13.89% (prior year: 13.05%) for the Industrial segment. This corresponds to a post-tax interest rate of 9.64% for the Automotive segment (prior year: 9.12%) and 9.75% for the Industrial segment (prior year: 9.18%).

Valuation assumptions are normally identical across cash-generating units.

As the value in use of the cash-generating units exceeds their carrying amount both for the current and the prior year, they are not impaired. Even adjusting an assumption the forecasted cash flows are based upon, e. g. by reducing forecast EBIT by 15% or increasing cost of capital by 5%, does not result in an impairment loss.

The carrying amounts of goodwill allocated to the cash-generating units are unchanged from the prior year, amounting to EUR 275 m (prior year: EUR 275 m) (Automotive) and EUR 208 m (prior year: EUR 208 m) (Industrial).

4.2 Property, plant and equipment

in € millions	Land and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as of January 1, 2010	**1,987**	**5,466**	**824**	**167**	**8,444**
Additions	16	160	36	153	365
Disposals	(12)	(188)	(72)	(10)	(282)
Transfers	5	92	4	(101)	0
Foreign currency translation	57	167	18	6	248
Balance as of December 31, 2010	**2,053**	**5,697**	**810**	**215**	**8,775**
Balance as of January 1, 2011	**2,053**	**5,697**	**810**	**215**	**8,775**
Additions[1]	32	313	73	413	831
Disposals	(6)	(119)	(42)	(2)	(169)
Transfers	9	100	8	(117)	0
Foreign currency translation	0	(20)	(3)	0	(23)
Balance as of December 31, 2011	**2,088**	**5,971**	**846**	**509**	**9,414**
Accumulated depreciation and impairment losses					
Balance as of January 1, 2010	**854**	**3,788**	**655**	**18**	**5,315**
Depreciation	67	414	57	0	538
Impairment losses	0	2	0	0	2
Impairment reversals	0	0	0	(5)	(5)
Disposals	(10)	(183)	(69)	0	(262)
Transfers	0	(1)	1	0	0
Foreign currency translation	18	113	15	0	146
Balance as of December 31, 2010	**929**	**4,133**	**659**	**13**	**5,734**
Balance as of January 1, 2011	**929**	**4,133**	**659**	**13**	**5,734**
Depreciation	66	389	62	0	517
Impairment losses	0	0	0	0	0
Impairment reversals	0	0	0	0	0
Disposals	(1)	(115)	(41)	0	(157)
Transfers	0	(4)	4	0	0
Foreign currency translation	2	(9)	(2)	1	(8)
Balance as of December 31, 2011	**996**	**4,394**	**682**	**14**	**6,086**
Net carrying amounts					
As of January 1, 2010	**1,133**	**1,678**	**169**	**149**	**3,129**
As of December 31, 2010	**1,124**	**1,564**	**151**	**202**	**3,041**
As of January 1, 2011	**1,124**	**1,564**	**151**	**202**	**3,041**
As of December 31, 2011	**1,092**	**1,577**	**164**	**495**	**3,328**

1) Including non-cash additions to property, plant and equipment of EUR 58 m (prior year: EUR 19 m) during the reporting period.

At EUR 831 m (prior year: EUR 365 m), the Schaeffler Group made significantly higher capital expenditures in 2011 than in 2010.

The increase in worldwide automobile production, positive developments in engineering and plant construction, and the expansion strategy for the company's presence in the growth regions led to significant capital expenditures both for expanding existing production capacity and for establishing new production facilities. In addition to Germany, capital expenditures focused on the production facilities in China and Korea, in Slovakia, and in the U.S.

At December 31, 2011, property, plant and equipment with a carrying amount of EUR 1,703 m (prior year: EUR 1,627 m) were pledged as collateral for bank loans.

4.3 Investments in equity-accounted investees

in € millions	December 31, 2011	December 31, 2010
Schaeffler Beteiligungsholding GmbH & Co. KG[1]	4,770	5,248
Other	2	4
Total	**4,772**	**5,252**

1) In 2010 Continental AG.

Please refer to the comments in Note 2.2 for details of changes in investments in equity-accounted investees.

4.4 Deferred tax assets and liabilities

Total deferred tax assets and liabilities result from the following items:

in € millions	December 31, 2011	December 31, 2010
Intangible assets	(15)	(19)
Property, plant and equipment	(91)	(92)
Financial assets	(4)	(1)
Inventories	21	17
Trade receivables and other assets	(12)	(57)
Provisions for pensions and similar obligations	112	106
Other provisions and other liabilities	141	173
Loss carryforwards	25	25
Other	49	21
Deferred taxes, net	**226**	**173**
Deferred tax assets	350	289
Deferred tax liabilities	(124)	(116)

In accordance with IAS 12, deferred taxes are calculated using tax rates effective or substantively enacted at the end of the reporting period and expected to apply when the deferred taxes are realized. In 2011, an average trade tax rate of 12.0% (prior year: 12.0%) was used for German partnerships, a combined tax rate of 27.9% (prior year: 27.9%) including corporation tax, solidarity surcharge, and trade tax was used for German corporations, and the applicable local tax rates were used for foreign entities.

In 2011, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 8 m (prior year: EUR 19 m). Recovery of these net deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2011, Schaeffler had gross loss carryforwards of EUR 140 m (prior year: EUR 160 m) for corporation tax and EUR 48 m (prior year: EUR 32 m) for trade tax, including EUR 77 m (prior year: EUR 70 m) for which no deferred taxes have been recognized. In addition, the group had carryforwards under the interest deduction cap amounting to EUR 481 m (prior year: EUR 303 m) at the end of the reporting period, for which deferred taxes have not been recognized. The majority of the unrecognized loss carryforwards and the interest carryforwards can be utilized indefinitely. Interest expense of EUR 178 m was not tax deductible in 2011 because of the interest deduction cap.

At December 31, 2011, the accumulated amount of deferred taxes recognized in accumulated other comprehensive income is EUR 86 m (prior year: EUR 38 m) and mainly relates to derivatives and pensions and similar obligations.

No Schaeffler Group subsidiary is expected to be disposed of within the foreseeable future. As a result, deferred taxes were only recognized for planned dividends.

4.5 Inventories

in € millions	December 31, 2011	December 31, 2010
Raw materials and supplies	311	283
Work in progress	401	401
Finished goods and merchandise	845	792
Advance payments	5	6
Total	**1,562**	**1,482**

In 2011, Schaeffler recognized a valuation allowance of EUR 192 m (prior year: EUR 200 m) on inventories. The allowance includes a provision for slow-moving and obsolete items as well as all evident storage and inventory risks. Inventories of EUR 7,367 m (prior year: EUR 6,423 m) were recognized as an expense in the consolidated income statement during the reporting period.

Inventories of EUR 1,078 m (prior year: EUR 1,035 m) were pledged as collateral for bank loans.

4.6 Trade receivables

in € millions	December 31, 2011	December 31, 2010
Trade receivables	1,607	1,443

All trade receivables are current.

At December 31, 2011, trade receivables of EUR 884 m (prior year: EUR 795 m) were pledged as collateral for bank loans.

The Schaeffler Group recognizes impairment allowances for uncollectible receivables as well as for general credit risks on an individual basis. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. In that case, the impairment loss is recognized directly against the gross amount of the receivable. Movements in impairment allowances on trade receivables can be reconciled as follows:

in € millions	2011	2010
Impairment allowances as of January 1	**22**	**25**
Additions	3	3
Allowances used to cover write-offs	(4)	(2)
Reversals	(3)	(4)
Impairment allowances as of December 31	**18**	**22**

Trade receivables past due are summarized as follows:

in € millions		December 31, 2011	December 31, 2010
Carrying amount		**1,607**	**1,443**
Not past due		**1,492**	**1,355**
	up to 60 days	109	81
	61-120 days	3	5
Past due	121-180 days	1	0
	181-360 days	1	1
	more than one year	1	1

Trade receivables past due, both gross and net of impairment allowances, changed as follows during the year:

	Past due				
in € millions	up to 60 days	61 – 120 days	121 – 180 days	181 – 360 days	more than one year
December 31, 2011					
Gross	110	6	2	3	10
Impairment allowance	1	3	1	2	9
Net	**109**	**3**	**1**	**1**	**1**
December 31, 2010					
Gross	81	8	1	3	10
Impairment allowance	0	3	1	2	9
Net	**81**	**5**	**0**	**1**	**1**

Please refer to Note 5.5 for related party receivables.

4.7 Other assets and income tax receivables

	December 31,	
in € millions	2011	2010
Other assets	295	423
Income tax receivables	111	98

At December 31, 2011, income tax receivables amount to EUR 111 m (prior year: EUR 98 m), including non-current balances of EUR 22 m (prior year: nil).

The following summary shows the current and non-current portions of other assets:

	December 31, 2011			December 31, 2010		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	43	0	43	46	0	46
Marketable securities	4	0	4	3	0	3
Loans receivable and financial receivables	16	0	16	22	0	22
Tax receivables	1	110	111	21	112	133
Derivative financial assets	2	11	13	43	77	120
Miscellaneous assets	29	79	108	31	68	99
Total	**95**	**200**	**295**	**166**	**257**	**423**

Changes in derivative financial assets are primarily due to changes in the fair value of derivative financial instruments used to economically hedge the Schaeffler Group’s interest rate and currency risk. They consist of an interest rate hedging instrument of EUR 2 m (prior year: EUR 43 m) and EUR 11 m (prior year: EUR 77 m) in positive fair values of currency hedging instruments.

Other balances included here primarily comprise value-added tax and other tax receivables, the pension asset and loans receivable and financial receivables.

At December 31, 2011, other assets and income tax receivables of EUR 45 m (prior year: EUR 52 m) were pledged as collateral for bank loans.

4.8 Cash and cash equivalents

At December 31, 2011, cash and cash equivalents amount to EUR 397 m (prior year: EUR 733 m) and consist primarily of bank balances.

At December 31, 2011, cash and cash equivalents of EUR 259 m (prior year: EUR 531 m) were pledged as collateral for bank loans.

4.9 Shareholders' equity

The Schaeffler Group's shareholders' equity consists of the following:

	December 31,	
in € millions	**2011**	**2010**
Share capital	500	500
Reserves	1,324	2,801
Accumulated other comprehensive income (loss)	(163)	(7)
Equity attributable to shareholders of the parent company	**1,661**	**3,294**
Non-controlling interests	53	47
Total shareholders' equity	**1,714**	**3,341**

Schaeffler AG (until October 13, 2011: Schaeffler GmbH) was founded on September 29, 2009 with EUR 25,000 in share capital. On June 28, 2010, a capital increase in kind (in the form of a hive-down) raised Schaeffler GmbH's share capital to EUR 500,025,000.

Following the change in legal form of Schaeffler GmbH to Schaeffler AG, Schaeffler AG's share capital ("Grundkapital") continues to amount to EUR 500,025,000 at December 31, 2011. It is divided into 500,025,000 registered no-par-value shares, all of which are held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up, Schaeffler AG has no authorized or contingent capital, and there are no resolutions with respect to these types of capital.

Schaeffler GmbH paid dividends of EUR 2,364 m (or EUR 4.73 per share) to its shareholder before it was converted to a stock corporation ("AG") on October 13, 2011. EUR 400 m of these dividends represent a cash dividend paid on January 5, 2011, and EUR 764 m relate to the distribution of Continental AG shares as a dividend in kind on May 5, 2011. Furthermore, a further dividend payable (EUR 600 m dated July 1, 2011, see Note 4.10) was settled by way of an assumption of debt in discharge of the previous debtor, and, finally, another dividend in kind of EUR 600 m was distributed by creating a loan due from Schaeffler AG to Schaeffler Verwaltungs GmbH (dividend in kind dated September 22, 2011, see Note 4.10).

A dividend of EUR 300 m will be proposed to the annual general meeting for 2011.

Accumulated other comprehensive income (loss) consists of the following reserves:

- **Translation reserve**

  The translation reserve comprises all foreign currency differences arising on translation of the financial statements of foreign operations with a functional currency different from the presentation currency.

- **Hedging reserve**

  The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

- **Fair value reserve**

  The fair value reserve comprises all accumulated net changes in the fair value of available-for-sale financial assets incurred until these assets are derecognized or impaired.

- **Reserve for actuarial gains and losses**

  Schaeffler immediately recognizes all actuarial gains and losses arising on defined benefit plans in accumulated other comprehensive income (loss).

Expenses of EUR 75 m and income of EUR 76 m were reclassified from the hedging reserve to profit and loss in 2011 (see Note 4.15). Another EUR 13 m were reclassified from accumulated other comprehensive income (loss) to income from equity-accounted investees following the partial disposal of Continental AG shares by distribution as a dividend in kind in May 2011 (see Notes 2.1 et seq.).

Non-controlling interests represent interests in the equity of consolidated subsidiaries held by third parties.

4.10 Current/Non-current financial debt

	December 31, 2011			December 31, 2010		
in € millions	Total	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
Financial debt	**7,485**	317	7,168	**6,477**	64	6,413

At December 31, 2011, the Schaeffler Group had financial debt of EUR 7,485 m (prior year: EUR 6,477 m), consisting of EUR 7,168 m (prior year: EUR 6,413 m) in non-current financial debt and EUR 317 m (prior year: EUR 64 m) in current financial debt, both accounted for at amortized cost.

The agreement by IHO Group, defined as the consolidated group with the parent company INA-Holding Schaeffler GmbH & Co. KG, and its shareholders with the consortium banks on a comprehensive refinancing of the IHO Group's debt in late March 2011 has significantly affected the Schaeffler Group's original acquisition financing arrangement. In particular, Schaeffler AG has assumed debt in discharge of the previous debtor from its parent company Schaeffler Ver-waltungs GmbH at the terms underlying the existing Senior Facility Agreement, increasing the Senior Facility Agreement obtained under the refinancing arrangement dated November 20, 2009 by EUR 600 m.

At the reporting date, the SFA principal of EUR 7,743 m (prior year: EUR 7,143 m) consists of a term loan of EUR 6,950 m (prior year: EUR 6,350 m) and a revolver of EUR 793 m (prior year: EUR 793 m). They are due on June 30, 2013 and bear interest at EURIBOR plus 425 basis points. The carrying amount of EUR 6,949 m (prior year: EUR 6,271 m) as at December 31, 2011, which is presented as non-current financial debt, differs from the principal amount due to unamortized transaction costs of EUR 1 m (prior year: EUR 79 m) and because the revolver has not been utilized as at the reporting date.

In addition, Schaeffler obtained an annuity loan to finance the purchase of an interest rate hedging instrument. At year-end, the loan has a carrying amount of EUR 101 m (prior year: EUR 140 m) and is included in non-current financial debt.

A dividend in kind of EUR 600 m was distributed on September 22, 2011 by creating a loan due from Schaeffler AG to Schaeffler Verwaltungs GmbH. Its carrying amount was EUR 417 m at December 31, 2011, consisting of a current portion of EUR 300 m and a non-current portion of EUR 117 m.

The SFA contains certain constraints including a requirement to meet certain financial covenants relating to senior debt leverage, senior interest cover, senior cash flow cover and capital expenditures. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the covenants are not met, which would result in the debt becoming due immediately.

Extensive security has been provided to the banks in connection with the loan agreement. Where these have to be disclosed, the disclosure is made in the notes for the various assets concerned.

4.11 Provisions for pensions and similar obligations

Employee benefits include both defined contribution plans and defined benefit plans, some of which are funded. While defined contribution plans entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are presented as follows in the statement of financial position:

	December 31,	
in € millions	**2011**	**2010**
Provisions for pensions (liabilities net of related plan assets)	1,215	1,110
Provisions for obligations similar to pensions	2	2
Provisions for pensions and similar obligations	**1,217**	**1,112**
Pension asset (plan assets net of related liabilities)	43	46
Net defined benefit obligation	**1,174**	**1,066**

Defined benefit obligation and plan assets amount to the following:

	December 31,	
in € millions	**2011**	**2010**
Present value of unfunded obligations	1,145	1,041
Present value of funded obligations	536	501
Present value of defined benefit obligations (total)	**1,681**	**1,542**
Fair value of plan assets	509	478
Net pension obligation recognized in the statement of financial position	**1,172**	**1,064**
Other employee benefits similar to pensions	2	2
Net defined benefit obligation	**1,174**	**1,066**

The Schaeffler Group grants its employees various types of pension benefits. The defined benefit pension obligations are largely towards beneficiaries in Germany and most of them are unfunded. Exceptions are pension arrangements where employees acquire rights to additional pension benefits by way of deferred compensation. Under these arrangements, Schaeffler agrees to accumulate additional capital using the compensation deferred, which is then paid out to the employee upon retirement, either in full or in installments. Deferred compensation is invested in specific funds.

In addition to the German pension plans, further significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds. At the end of 2011, approximately 86% (prior year: 90%) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

Plan assets consist of the following:

	December 31,	
in € millions	**2011**	**2010**
Equity instruments	177	172
Debt instruments	210	183
Real estate	15	14
Cash	2	2
Other (incl. reimbursement insurance)	105	107
Total	**509**	**478**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments.

The opening and closing balances of the present value of the defined benefit obligation can be reconciled as follows:

in € millions	2011	2010
Defined benefit obligation as of January 1	**1,542**	**1,474**
Benefits paid	(83)	(81)
Current service cost	24	25
Interest cost	78	77
Contributions by plan participants	9	9
Transfers in/out	1	(1)
Past service cost – vested	0	4
Past service cost – non-vested	0	1
Actuarial gains and losses recognized in other comprehensive income (loss)	100	8
Foreign currency translation	10	26
Defined benefit obligation as of December 31	**1,681**	**1,542**

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

in € millions	2011	2010
Fair value of plan assets as of January 1	**478**	**385**
Benefits paid	(22)	(20)
Expected return on plan assets	26	25
Contributions by employer/employee	33	52
• Employer contribution	24	44
• Employee contribution	9	8
Transfers in/out	(1)	(1)
Actuarial gains and losses recognized in other comprehensive income (loss)	(15)	16
Foreign currency translation	10	21
Fair value of plan assets as of December 31	**509**	**478**

The actual return on plan assets for 2011 amounts to EUR 11 m (prior year: EUR 41 m).

For 2012, the Schaeffler Group will make contributions to plan assets of EUR 46 m.

The following amounts were recognized in profit or loss:

in € millions	2011	2010
Current service cost	24	25
Interest cost	78	77
Expected return on plan assets	(26)	(25)
Amortization of past service cost	0	4
Net pension cost	**76**	**81**

The amounts are included in the following line items of the consolidated income statement:

in € millions	2011	2010
Cost of sales	14	18
Research and development expenses	3	4
Selling expenses	3	3
Administrative expenses	4	4
Included in EBIT	**24**	**29**
Interest cost	78	77
Expected return on plan assets	(26)	(25)
Included in financial result	**52**	**52**
Total	**76**	**81**

The following expenses are recognized as personnel expense within the appropriate functional expenses:

in € millions	2011	2010
Expenses related to defined benefit plans	24	29
Contributions to defined contribution plans	11	12
Total	**35**	**41**

The following summarizes the actuarial gains and losses recognized in accumulated other comprehensive income (loss). The amounts presented include related foreign currency translation gains and losses but not deferred tax effects.

in € millions	2011	2010
Accumulated balance as of January 1	**(43)**	**(34)**
Gains/losses on defined benefit obligations	100	8
Gains/losses on plan assets	15	(17)
Accumulated balance as of December 31	**72**	**(43)**

Assumptions used to arrive at the defined benefit obligations, in particular discount rates, future salary increases and expected long-term rates of return on plan assets, are determined separately for each country.

The principal actuarial assumptions for the Schaeffler Group are as follows:

	2011	2010
Discount rate as of December 31	4.9%	5.3%
Expected return on plan assets	5.7%	6.0%
Future salary increases	3.3%	3.3%
Future pension increases	1.7%	1.7%

Actuarial assumptions for the major countries are as follows:

Germany	2011	2010
Discount rate as of December 31	5.0%	5.3%
Expected return on plan assets	4.5%	4.2%
Future salary increases	3.3%	3.3%
Future pension increases	1.5%	1.5%

U.S.A.	2011	2010
Discount rate as of December 31	4.5%	5.5%
Expected return on plan assets	7.7%	8.2%
Future salary increases	n.a.	n.a.
Future pension increases	n.a.	n.a.

United Kingdom	2011	2010
Discount rate as of December 31	5.0%	5.5%
Expected return on plan assets	5.6%	6.2%
Future salary increases	n.a.	n.a.
Future pension increases	3.0%	3.0%

The expected total long-term return on plan assets amounts to 5.7% (prior year: 6.0%) and is based on the return on the portfolio as a whole and not on the sum of the returns on individual asset categories. It has been determined on the basis of historical returns without making adjustments.

Mortality assumptions are based on published statistics and country-specific mortality tables. The mortality tables "Richttafeln 2005 G" by Heubeck are used for the German plans.

Experience adjustments on pension obligations and plan assets have been as follows:

	December 31,				December 31,
in € millions	2011	2010	2009	2008	2007[1]
Present value of defined benefit obligation	1,681	1,542	1,474	1,292	1,403
Fair value of plan assets	509	478	385	329	405
Net unfunded benefit obligation	**1,172**	**1,064**	**1,089**	**963**	**998**
Experience adjustments arising on plan liabilities	7	7	14	10	(13)
Experience adjustments arising on plan assets	15	15	20	(74)	(5)

1) Amounts disclosed represent those in the consolidated IFRS financial statements of IHO Group.

Experience adjustments are caused by differences between actuarial assumptions made at the beginning of the period and those made at the end of the period.

4.12 Provisions

in € millions	Employee benefits	Restruc-turing	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as of January 1, 2010	**212**	**39**	**47**	**9**	**17**	**117**	**441**
Additions	74	1	36	28	11	110	260
Utilization	(86)	(13)	(14)	(2)	(7)	(78)	(200)
Changes in scope of consolidation	0	0	0	0	(1)	(2)	(3)
Reversals	(9)	(21)	(20)	0	(3)	(16)	(69)
Interest expense	4	0	0	0	0	1	5
Foreign currency translation	2	1	1	1	1	4	10
Balance as of December 31, 2010	**197**	**7**	**50**	**36**	**18**	**136**	**444**
Balance as of January 1, 2011	**197**	**7**	**50**	**36**	**18**	**136**	**444**
Additions	34	1	45	6	4	37	127
Utilization	(92)	(1)	(17)	(9)	(4)	(110)	(233)
Reversals	(8)	(6)	(15)	(10)	(3)	(12)	(54)
Interest expense	4	0	0	0	0	0	4
Foreign currency translation	0	0	0	0	(1)	0	(1)
Balance as of December 31, 2011	**135**	**1**	**63**	**23**	**14**	**51**	**287**

Provisions have the following current and non-current portions:

	December 31, 2011			December 31, 2010		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	66	69	135	117	80	197
Restructuring	0	1	1	0	7	7
Warranties	0	63	63	0	50	50
Other taxes	0	23	23	0	36	36
Liability and litigation risks	0	14	14	0	18	18
Other	13	38	51	10	126	136
Total	**79**	**208**	**287**	**127**	**317**	**444**

Employee benefits and restructuring

Provisions for employee benefits consist primarily of provisions for partial retirement, net of the related plan assets, of EUR 85 m (prior year: EUR 100 m). Obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are determined using the mortality tables "Richttafeln 2005 G" by Klaus Heubeck. The discount rate is 2.75% (prior year: 2.75%) at December 31, 2011, and future salary increases were assumed to be 3.25% (prior year: 3.25%). The provision for employee benefits also includes obligations arising from the adjustment funds (German Entgeltrahmenabkommen, ERA) based on a collective bargaining agreement with the metalworking and electrical engineering industry in Germany, long-time service awards, as well as other personnel and payroll-related provisions, particularly for early retirement, death and temporary assistance benefits.

At December 31, 2011, restructuring provisions of EUR 1 m (prior year: EUR 7 m) have been recognized primarily for expenses expected in connection with human resources measures.

Warranties

Warranty provisions are recognized on a case-by-case basis for each sales transaction or, in cases involving a large population of items, using the expected value method.

Other taxes

Tax provisions have been recognized for current and prior year taxes other than income taxes. In particular, provisions were recognized in the prior year for land transfer tax incurred in connection with the restructuring of the group in 2010.

Liability and litigation risks

Provisions for liability and litigation risks are recognized if, as a result of a past transaction or event, Schaeffler has a legal or constructive obligation for which an outflow of resources representing economic benefits is probable and which can be reliably estimated. Such provisions are recognized at their expected settlement amount, taking into account all identifiable risks, and are not offset against expected reimbursements.

Other

At the reporting date, other provisions include provisions for environmental risks, document retention and other items to be provided for. The balance decreased mainly as a result of accrued selling costs (particularly customer bonuses, early-payment discounts and rebates), which are presented under other liabilities at December 31, 2011 due to their high level of certainty.

4.13 Trade payables

At December 31, 2011, the Schaeffler Group has trade payables of EUR 873 m (prior year: EUR 729 m), all of which are current. At December 31, 2011, the amount includes EUR 50 m (prior year: EUR 25 m) in notes payable. The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15 on financial instruments.

4.14 Other liabilities and income tax payables

	December 31,	
in € millions	**2011**	**2010**
Other liabilities	933	909
Income tax payables	356	217

At December 31, 2011, income tax payables amount to EUR 356 m (prior year: EUR 217 m), including non-current balances of EUR 172 m (prior year: EUR 102 m).

Other liabilities consist of the following:

in € millions	December 31, 2011 Non-current	Current	Total	December 31, 2010 Non-current	Current	Total
Amounts payable to staff	0	322	322	0	272	272
Social security contributions payable	5	39	44	8	28	36
Advance payments received	0	25	25	0	20	20
Other tax payables	0	81	81	0	74	74
Derivative financial liabilities	245	71	316	409	35	444
Miscellaneous liabilities	11	134	145	6	57	63
Total	**261**	**672**	**933**	**423**	**486**	**909**

Derivative financial instruments include in particular forward exchange contracts and interest rate hedging instruments used to economically hedge the Schaeffler Group's currency and interest rate risk. The decrease in this balance is primarily due to an adjustment to the hedging portfolio which led to some of the existing interest rate hedging instruments being terminated.

Amounts payable to staff comprise overtime accounts, accrued vacation, as well as profit sharing accruals.

Miscellaneous liabilities consist primarily of provisions for selling costs (customer bonuses, rebates, early-payment discounts).

The Schaeffler Group's exposure to currency and liquidity risk related to other liabilities is disclosed in Note 4.15 on financial instruments.

4.15 Financial instruments

The following summarizes the carrying amounts and fair values of financial instruments by balance sheet class and by category per IFRS 7.8. Derivatives designated as hedging instruments are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

in € millions	Category per IFRS 7.8	December 31, 2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
Financial assets, by class					
Trade receivables	LaR	1,607	1,607	1,443	1,443
Other investments[1]	AfS	14	–	8	–
Other assets					
• Marketable securities	AfS	4	4	3	3
• Other loans receivable[2]	LaR	103	103	107	107
• Derivatives designated as hedging instruments	n.a.	0	0	43	43
• Derivatives not designated as hedging instruments	HfT	13	13	77	77
Cash and cash equivalents	LaR	397	397	733	733

in € millions	Category per IFRS 7.8	December 31, 2011 Carrying amount	Fair value	2010 Carrying amount	Fair value
Financial liabilities, by class					
Financial debt	FLAC	7,485	7,568	6,477	6,555
Trade payables	FLAC	873	873	729	729
Other liabilities					
• Derivatives designated as hedging instruments	n.a.	69	69	4	4
• Derivatives not designated as hedging instruments	HfT	247	247	440	440
• Other liabilities[2)]	FLAC	195	195	83	83
Summary by category					
Available-for-sale financial assets (AfS)		18	–	11	–
Financial assets held for trading (HfT)		13	–	77	–
Loans and receivables (LaR)		2,107	–	2,283	–
Financial liabilities at amortized cost (FLAC)		8,553	–	7,289	–
Financial liabilities held for trading (HfT)		247	–	440	–

1) Investments accounted for at cost.

2) Includes other assets/liabilities in the scope of IAS 39/IFRS 7.

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in limited liability companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2011, and no (partial) disposals are planned for the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of shares in investment funds mostly investing in government bonds and money market funds.

Hedge accounting is only applied to derivatives designated as hedges of currency and interest rate risk in cash flow hedges. Schaeffler uses forward exchange contracts, options and swaps as hedging instruments to hedge currency risk. Interest rate risk is hedged using interest rate options and swaps. The fair values of derivatives are shown in the table above and are calculated using valuation models with all significant inputs observable in the market.

The carrying amounts of trade payables and other liabilities are assumed to represent their fair value. The fair value of financial debt is the present value of the expected future cash flows, discounted using risk-adjusted discount rates in effect at the end of the reporting period.

Please refer to the notes on the various balance sheet line items for details of the amount of financial assets pledged as collateral. Financial and non-financial assets of the Schaeffler Group have been pledged on the basis of the Senior Facility Agreement (see Note 4.10). Collateral has generally been pledged until maturity of the Senior Facility Agreement and may be realized under the creditors' right to call the debt before maturity, for instance if defined financial covenants are not complied with.

Financial assets and liabilities measured at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in arriving at the measurements (Level 1 – Level 3). The classification is based on the method used to determine fair value. According to the levels of the hierarchy, the fair value of a financial instrument is determined using the following inputs:

- Level 1: Quoted prices in active markets for identical assets or liabilities. This includes Schaeffler's marketable securities, whose fair value is derived from the exchange-quoted price at the end of the reporting period.

- Level 2: Determined using a valuation method for which all significant inputs are based on observable market data. This level includes existing forward exchange contracts and currency options as well as interest rate hedging instruments, i. e. interest rate swaps, caps and collars, which are measured using valuation models based on input variables observable in the market.
- Level 3: Determined using a valuation method for which significant inputs are not based on observable market data. The Schaeffler Group does not have any financial instruments in this level.

in € millions	Level 1	Level 2	Total
December 31, 2011			
Marketable securities	4		4
Derivatives designated as hedging instruments			0
Derivatives not designated as hedging instruments		13	13
Total financial assets	**4**	**13**	**17**
Derivatives designated as hedging instruments		69	69
Derivatives not designated as hedging instruments		247	247
Total financial liabilities	**0**	**316**	**316**
December 31, 2010			
Marketable securities	3		3
Derivatives designated as hedging instruments		43	43
Derivatives not designated as hedging instruments		77	77
Total financial assets	**3**	**120**	**123**
Derivatives designated as hedging instruments		4	4
Derivatives not designated as hedging instruments		440	440
Total financial liabilities	**0**	**444**	**444**

No transfers were made between the various levels of the fair value hierarchy (Level 1-3).

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

		Subsequent measurement			Net income (loss)	
in € millions	Interest and dividends	at fair value	impairment loss	currency translation	2011	2010
Available-for-sale financial assets	1				1	1
Financial assets and liabilities held for trading	(170)	130			(40)	(320)
Loans and receivables[1]	13		0	12	25	55
Financial liabilities at amortized cost	(494)				(494)	(386)
Total	**(650)**	**130**	**0**	**12**	**(508)**	**(650)**

1) Net income (loss) for 2010 amounting to EUR 55 m includes currency translation effects. The impact of these effects was shown in the 2010 consolidated financial statements.

As shown above, net gains and losses include interest and dividends, changes in fair value recognized in profit or loss, impairment losses and impairment reversals, as well as currency translation effects. Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and interest expense on financial debt, respectively (see Note 3.5).

The net loss on financial assets and liabilities held for trading of EUR 40 m (prior year: EUR 320 m) relates almost entirely to derivatives. EUR 101 m (prior year: EUR 282 m) of this net loss is included in interest expense on interest rate derivatives, while income of EUR 61 m (prior year: expenses of EUR 38 m) has been recognized in other income and expense. Interest expense on interest rate derivatives of EUR 101 m (prior year: EUR 282 m) includes EUR 69 m in income from fair value changes (prior year: expenses of EUR 30 m) and EUR 170 m in expenses due to compensation payments (prior year: EUR 252 m).

In 2011, Schaeffler incurred net foreign exchange gains of EUR 12 m (prior year: EUR 27 m) on loans and receivables and financial liabilities accounted for at amortized cost. The impairment loss on financial assets classified as loans and receivables consists of an impairment reversal of EUR 3 m (prior year: EUR 8 m) and an impairment loss of EUR 3 m (prior year: EUR 4 m) and relates entirely to the trade receivables class. There was no net effect of impairment losses on financial assets in the other loans receivable class (prior year: EUR 12 m reversal).

Financial risk management

Overview

Due to its global business activities and the resulting financing requirements, the Schaeffler Group is exposed to the following risks from its use of financial instruments:

(1) Credit risk

(2) Liquidity risk

(3) Market risk (currency, interest rate, and other price risk)

The Schaeffler Group's executive board has overall responsibility for establishing and overseeing the group's risk management system. The finance organization is responsible for developing and monitoring this risk management system and reports regularly to the CFO on its activities in this area.

Group wide risk management policies are in place to identify and analyze Schaeffler's risks, to set appropriate risk limits and controls as well as to monitor risks and adherence to limits. Risk management procedures and systems are reviewed regularly to reflect changes in market conditions and Schaeffler's activities.

See the discussion in section 10.4 of the group management report for further details on financial risk management.

(1) Credit risk

The risk of financial loss to the Schaeffler Group due to a customer or a counterparty defaulting is referred to as credit risk and arises predominantly from trade receivables and other financial assets. Among Schaeffler's major customers in the Automotive segment are various OEM's. Within trade receivables there is a concentration of credit risk with regard to these business relationships (see Note 5.4).

Credit risk arising on trade receivables is managed by constant monitoring of customers' financial status, creditworthiness and payment history. Efficient collection procedures and classification of customers in defined risk categories are additional components of Schaeffler's credit risk management. Appropriate credit limits are set and commercial credit insurance policies further reduce credit risk. Depending on the customer's creditworthiness, these insurance policies cover up to 80% of receivables outstanding. All relevant rules are outlined in a Schaeffler Group guideline.

The carrying amounts of financial assets represent the maximum credit exposure at the end of each reporting period as follows:

	Carrying amount	
	December 31,	
in € millions	**2011**	**2010**
Trade receivables	1,607	1,443
Other investments	14	8
Other assets		
• Marketable securities	4	3
• Other loans receivable	103	107
• Derivatives designated as hedging instruments	0	43
• Derivatives not designated as hedging instruments	13	77
Cash and cash equivalents	397	733
Total financial assets	**2,138**	**2,414**

The Schaeffler Group's executive board does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Management has determined that there are no indications that the counterparties to other financial assets, i. e. marketable securities, other loans and derivative financial assets will be unable to meet their future contractual obligation.

(2) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its financial obligations as they become due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they become due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to Schaeffler's reputation.

Liquidity risk is closely monitored by the finance organization based on a short-term (4 weeks) and medium-term (12 months) rolling timeframe. Both liquidity status and liquidity forecast are reported regularly to the CFO.

The Schaeffler Group ensures its ability to meet the financing requirements of its operations and its financial obligations by using equity, cash pooling arrangements, intercompany loans and existing lines of credit based on the relevant legal and tax regulations.

The Schaeffler Group's contractual payments of interest and principal on financial debt and derivative financial liabilities are summarized as follows:

in € millions	**Carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-5 years**	**More than 5 years**
December 31, 2011					
Non-derivative financial liabilities	**8,553**	**9,126**	**1,810**	**7,309**	**7**
• Financial debt	7,485	8,058	751	7,307	0
• Trade payables	873	873	873	0	
• Other liabilities	195	195	186	2	7
Derivative financial liabilities	**316**	**320**	**176**	**144**	
Total	**8,869**	**9,446**	**1,986**	**7,453**	**7**
December 31, 2010					
Non-derivative financial liabilities	**7,289**	**8,820**	**1,269**	**7,547**	**4**
• Financial debt	6,477	7,993	456	7,537	0
• Trade payables	729	744	737	3	4
• Other liabilities	83	83	76	7	
Derivative financial liabilities	**444**	**433**	**218**	**215**	**0**
Total	**7,733**	**9,253**	**1,487**	**7,762**	**4**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans.

(3) Market risk

Market risk is defined as the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Schaeffler Group's net income or the value of its financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters while optimizing returns.

The Schaeffler Group enters into derivatives in order to manage market risk. All such transactions are carried out within the risk management strategy approved by the executive board. The finance organization closely monitors, actively manages, and reports market risk to the CFO.

Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases and loans payable and receivable that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risks from operations in respect of forecasted sales and purchases over the next twelve months using forward exchange contracts, currency swaps and related options. Where necessary, forward exchange contracts are rolled over at maturity.

Loans between group entities denominated in a currency other than the functional currency of one of the entities involved are fully hedged using forward contracts with the same maturity as the loans. Schaeffler's investments in subsidiaries are not hedged as those currency exposures are considered to be long-term in nature.

The Schaeffler Group's significant expected currency risk exposures by currency based on face values as of the end of each reporting period are as follows:

in € millions	USD	RON	JPY	HUF
December 31, 2011				
Estimated currency risk from operations	1,062	(190)	108	(93)
Forward exchange contracts	(639)	152	(82)	76
Currency options	(156)	0	0	0
Remaining currency risk from operations	**267**	**(38)**	**26**	**(17)**
December 31, 2010				
Estimated currency risk from operations	852	(198)	98	(84)
Forward exchange contracts	(599)	157	(78)	67
Currency options	(225)	0	0	0
Remaining currency risk from operations	**28**	**(41)**	**20**	**(17)**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance organization. Thus, this exposure represents the difference between recognized hedged items and hedged items in the form of expected future foreign currency cash flows that have not yet been recognized on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (e. g. China, Brazil) is monitored by Schaeffler's finance organization. The most significant currency risk in these countries arises on the USD and amounts to an estimated EUR -314 m (prior year: EUR -227 m).

Forward exchange contracts in certain currencies are accounted for as cash flow hedges with nearly perfect effectiveness. Changes in the fair value of these derivatives are recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to other income or other expense in the consolidated income statement when the hedged transaction (hedged item) affects net income. Both the majority of the forecast transactions and the resulting impact on net income occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk changed as follows:

in € millions	2011	2010
Balance as of January 1	**38**	**8**
Additions	(170)	48
Reclassified to income statement		
• to other income	84	21
• to other expenses	(8)	(39)
Balance as of December 31	**(56)**	**38**

Currency risk arising from foreign currency loans is fully hedged economically and does not result in any significant additional currency risk exposure.

The sensitivity analysis for currency risk is based on a hypothetical 10% weakening of the Euro against each of the significant foreign currencies as of December 31. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk and assumes that all other variables, particularly interest rates, remain constant.

The following table shows the effect on net income and shareholders' equity of translating balances at the closing rate and of measurement at fair value:

	December 31, 2011		December 31, 2010	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	15	(77)	(23)	(4)
JPY	(4)	(6)	(1)	0
HUF	(5)	8	0	0
RON	(18)	16	1	0

Conversely, a 10% rise in the Euro against the significant foreign currencies as at December 31 would have had the same but opposite effect, again holding all other variables constant.

Interest rate risk

Schaeffler's interest-bearing financial instruments can be summarized by type of interest as follows as of each December 31:

	Carrying amount	
	December 31,	
in € millions	2011	2010
Variable interest instruments	**6,964**	**6,304**
• Financial debt	6,964	6,304
Fixed interest instruments	**521**	**173**
• Financial debt	521	173

The Schaeffler Group enters into interest rate swaps, caps and collars to minimize its exposure to changes in interest rates on the variable interest debt under the Senior Facility Agreement (SFA). These instruments are used to economically hedge EUR 6,122 m of the principal of the variable rate debt. EUR 3,500 m of the hedges are interest rate swaps, EUR 300 m are interest rate collars and EUR 2,322 m represents an interest rate cap.

The interest rate swaps and the interest rate cap were accounted for using hedge accounting in accordance with IAS 39 (cash flow hedge) in 2011. The effective portion of changes in the fair value of these hedging instruments is thus recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to interest income or interest expense when the hedged transaction (hedged item) affects net income. As a result, accumulated other comprehensive income includes accumulated expenses of EUR 13 m arising from fair value changes on designated financial instruments as at December 31, 2011. The interest payments hedged will be expensed in 2012 and 2013.

The hedging relationships are proven to be effective both prospectively and retrospectively by regularly performing tests of effectiveness. Retrospective effectiveness is tested using both the dollar offset method, which compares the fair value changes of the hedged item to those of the hedging instrument, and regression analysis, which determines market sensitivities on the basis of a parallel shift in the yield curve by +/- 150 basis points (Bp).

As the test results show effectiveness to be within a range of 80% – 125%, the hedging relationship is considered to be highly effective. There was no ineffectiveness related to designated cash flow hedges that would have to be recognized in net income in 2011.

The equity reserve of EUR -286 m accumulated up to November 20, 2009 for the cash flow hedge relationship is being amortized to profit or loss using the effective interest method. In 2011, this resulted in an interest expense of EUR 75 m (prior year: EUR 91 m).

The Schaeffler Group has neither classified any fixed rate financial assets and liabilities as at fair value through profit or loss nor has it designated any derivatives as fair value hedges.

With regard to variable interest instruments a shift in the yield curve of 100 Bp as at December 31, 2011 would affect (increase/decrease) net income and shareholder's equity by the following amounts. This analysis assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0%.

	Net income (loss)		**Shareholders' equity**	
in € millions	**Plus 100 Bp**	**Minus 100 Bp**	**Plus 100 Bp**	**Minus 100 Bp**
As of December 31, 2011				
Variable interest instruments	(27)	27		
Interest rate derivatives designated as hedging instruments	16	(2)	96	(94)
Interest rate derivatives not designated as hedging instruments	5	(5)		
Total	**(6)**	**20**	**96**	**(94)**
As of December 31, 2010				
Variable interest instruments	(65)	36		
Interest rate derivatives not designated as hedging instruments	260	(213)		
Total	**195**	**(177)**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income and shareholders' equity from interest rate derivatives is entirely due to fair value changes. The impact of fair value changes of interest rate derivatives designated as hedging instruments on net income is EUR 16 m and EUR -2 m and the effect on the reserve in accumulated other comprehensive income (loss) is EUR 96 m and EUR -94 m. The impact of interest rate derivatives not designated as hedging instruments on net income is EUR 5 m and EUR -5 m.

Due to the hedging relationship of the variable interest payments under the Senior Facility Agreement, both economic and for accounting purposes, sensitivities for the variable interest instruments have been determined based on the net interest rate risk exposure. In the prior year, the line item variable interest instruments reflected only interest expense on the Senior Facility Agreement. The impact of interest on interest rate derivatives was shown under interest rate derivatives not designated as hedging instruments.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from changes in interest rates or exchange rates.

Other price risk required to be disclosed under IFRS 7 normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IAS 39, which is not the case for the Schaeffler Group. Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses. Derivative financial instruments are not used in this context.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

4.16 Capital structure

At the end of the reporting period, the Schaeffler Group has the following capital structure:

	December 31,	
in € millions	**2011**	**2010**
Equity attributable to shareholders of the parent company	1,661	3,294
• in % of total capital	18.2	33.7
Non-current financial debt	7,168	6,413
Current financial debt	317	64
• in % of total capital	81.8	66.3
Total capital	**9,146**	**9,771**

The overriding objective of the Schaeffler Group's capital management is to ensure that Schaeffler is able to repay its debt and to provide access to sufficient financial resources. The most important instrument in this context is a detailed liquidity management at group company level; it is designed to ensure that sufficient liquidity reserves are available at all times to service the financial debt incurred under the bank financing agreement (see Note 4.10).

This financing agreement subjects the Schaeffler Group to certain financial covenants (see Note 4.10). Compliance with these covenants is continually monitored at group level. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from the consolidated financial statements.

The Schaeffler Group has complied with the agreed financial covenants both in 2011 and in 2010. Based on the current forecast, the Schaeffler Group also expects to comply with the financial covenants under the agreements entered into in January 2012 in 2012, 2013 and 2014.

In addition to the ratio of EBITDA to interest expense (senior interest cover) and cash flow to debt service (senior cash flow cover), the ratio of net debt to EBITDA (senior debt leverage) is an important indicator for the group. This ratio is defined as follows:

	December 31,	
in € millions	**2011**	**2010**
Current financial debt	317	64
Non-current financial debt	7,168	6,413
Total financial debt	**7,485**	**6,477**
Shareholder loans	420	33
Total financial debt excluding shareholder loans	**7,065**	**6,444**
Cash and cash equivalents	397	733
Total liquidity	**397**	**733**
Total net financial debt	**7,088**	**5,744**
Net financial debt excluding shareholder loans	**6,668**	**5,711**
EBITDA	**2,243**	**2,097**
Net financial debt excluding shareholder loans to EBITDA ratio	**3.0**	**2.7**

Capital management objectives, policies and processes for the reporting period are unchanged from the prior year.

4.17 Leases

The Schaeffler Group's obligations under finance leases are not significant.

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

	December 31,	
in € millions	**2011**	**2010**
Less than one year	44	34
Between one and five years	72	50
More than five years	4	4
Total	**120**	**88**

The obligations consist primarily of rental agreements for real estate, leases of company vehicles, and contracts for IT and logistics services.

In 2011, expenses of EUR 57 m (prior year: EUR 50 m) related to operating rental and lease agreements were recognized in the consolidated income statement.

5. Other disclosures

5.1 Commitments

At December 31, 2011, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 261 m (prior year: EUR 101 m). These commitments are expected to be settled as follows:

	December 31,	
in € millions	**2011**	**2010**
Less than one year	249	101
Between one and five years	12	0
More than five years	0	0
Total	**261**	**101**

5.2 Contingent liabilities

in € millions	December 31, 2011	2010
Obligations under guarantees and warranties	10	11
Security pledged to third parties	0	1
Other	34	18
Total	**44**	**30**

As in the prior year, obligations under guarantees and warranties consist primarily of security given and payment guarantees.

Other contingent liabilities consist primarily of claims raised by current and former employees as well as possible reassessments issued by taxation authorities. Due to the remote probability of an outflow of resources in each of these cases, they do not meet the conditions to be recognized as provisions.

In late 2011, several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. To date, the investigations have not yet been specified in more detail. There is a risk that the antitrust authorities will impose penalties, and that third parties may claim damages. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

5.3 Additional disclosures on the consolidated statement of cash flows

The consolidated statement of cash flows has been adjusted for exchange differences arising on translation to the Euro, as these amounts do not represent cash flows.

in € millions	2011	2010
Interest received	13	10
Interest paid	(686)	(644)
Income taxes paid	(238)	(298)

Free cash flow for 2011 amounts to EUR 319 m (prior year: EUR 566 m). The significant decline in free cash flow in 2011 compared to the prior year was driven by the very substantial increase in cash outflows for capital expenditures.

Cash flows from operating activities were EUR 1,084 m (prior year: EUR 890 m). This inflow results primarily from improved earnings in 2011 as reflected in EBIT of EUR 1,689 m (prior year: EUR 1,509 m).

In 2011, cash totaling EUR 765 m was used in investing activities (prior year: EUR 324 m). Capital expenditures on intangible assets and property, plant and equipment amount to EUR 773 m, significantly more than the EUR 361 m spent in the prior year due to the growth-related expansion of capacity.

Cash of EUR 646 m (prior year: EUR 200 m) was used in financing activities. The dividend of EUR 400 m paid to Schaeffler Verwaltungs GmbH and the repayment of a loan due to Schaeffler Verwaltungs GmbH of EUR 186 m were the largest cash outflows. Other payments also include the repayment of a loan due to a IHO Group company (see Note 5.5 for this term) of EUR 30 m.

At December 31, 2011, cash and cash equivalents amount to EUR 397 m (prior year: EUR 733 m), including EUR 95 m (prior year: EUR 168 m) held by subsidiaries in Argentina, Brazil, China, Chile, Colombia, India, Indonesia, South Korea, South Africa, Taiwan, the Philippines, Venezuela and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to the parent entity is restricted.

5.4 Segment reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler Group executive board. Schaeffler engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group executive board and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

Schaeffler's operating segments are reported in a manner consistent with the internal reporting provided to the Schaeffler Group executive board. The Schaeffler Group is divided into the two segments Automotive and Industrial as described below, each focusing on a specific customer group worldwide. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations of each of the Schaeffler Group's two reportable segments:

Automotive: Product and service business with customers in the automotive sector. These include manufacturers of passenger cars and their suppliers (OEM, Tier 1 and Tier 2) as well as companies focusing on the distribution of spare parts for passenger cars and commercial vehicles (aftermarket). Products range from wheel bearings as well as chassis and steering components through transmission systems and developments to engine components and valve control systems.

Industrial: Product and service business with manufacturers of investment goods. These customers operate in the production machinery, rail traffic, wind power, consumer goods, heavy industries, power transmission and industrial aftermarket (MRO) sectors. The business with customers in the aerospace industry, i. e. aircraft manufacturers and their suppliers, is also included in this segment. The key products of this segment are rolling and plain bearings, linear guidance systems and direct drives.

Significant customers

In 2011, Schaeffler generated revenue of EUR 1,154 m (prior year: EUR 991 m) from one key customer, representing approximately 10.8% (prior year: 10.4%) of total group revenue and approximately 16.1% (prior year: 15.7%) of Automotive segment revenue.

Since segment reporting information is based on internal management accounting requirements and not all items can be allocated, the information for segment reporting purposes differs from that reported in accordance with IFRS.

Revenue from transactions in connection with materials provided to external service providers (contract manufacturing and subcontracting) is not allocated to the segments.

Information on the operating activities of the two reportable segments is included below. Performance is measured based on EBIT as the executive board believes that such information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

The amounts for revenue, EBIT, assets, capital expenditures, as well as amortization, depreciation, and impairments are reported based on the current allocation of customers to segments. In the past, assets, capital expenditures and amortization, depreciation, and impairments were reported based on an allocation of products to segments. Prior year figures were adjusted accordingly for comparability. Gains on transactions between operating segments are not included.

The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer structure.

Reconciliation to earnings before income taxes **in € millions**	**2011**	**2010**
EBIT Automotive[1]	1,074	990
EBIT Industrial[1]	615	519
EBIT	**1,689**	**1,509**
Financial result	(409)	(1,159)
Earnings before income taxes	**1,280**	**350**

1) Prior year information presented based on 2011 segment structure.

The reportable divisions Automotive and Industrial are managed on a global basis and operate production and distribution facilities in the geographical areas Germany, Europe excluding Germany, North America, South America and Asia/Pacific.

Information about geographical areas

			Non-current assets[2]	
	Revenue[1]		**December 31,**	
in € millions	**2011**	**2010**	**2011**	**2010**
Germany	2,856	2,575	1,690	1,415
Europe excluding Germany	3,452	3,037	969	1,064
North America	1,409	1,253	352	363
South America	628	602	177	220
Asia/Pacific	2,349	2,028	693	554
Total	**10,694**	**9,495**	**3,881**	**3,616**

1) Revenue by customer location. Prior year information presented based on 2011 segment structure.

2) Non-current assets by production location.
Non-current assets consist of property, plant and equipment and intangible assets.

For purposes of reporting information by geographical area, revenue is allocated to geographical areas based on the geographic location of customers, while assets are allocated based on the geographic location of the assets.

5.5 Related parties

Under the definitions of IAS 24, Maria-Elisabeth Schaeffler and Georg F.W. Schaeffler are related parties of the Schaeffler Group.

Related parties of the Schaeffler Group include the members of the executive board of Schaeffler AG: The members of the statutory board of directors Dr Juergen M. Geissinger, Wolfgang Dangel (since October 13, 2011), Professor Dr Peter Gutzmer, Kurt Mirlach, Klaus Rosenfeld, and Robert Schullan, as well as the other members of the executive board Rainer Hundsdoerfer, Norbert Indlekofer, Oliver Jung, Professor Dr Peter Pleus and Dr Gerhard Schuff.

The Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler AG, which, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: Professor Dr Hans-Joerg Bullinger, Dr Eckhard Cordes, Dr Hubertus Erlen, Professor Dr Bernd Gottschalk, Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr Siegfried Luther, Thomas Moelkner, Wolfgang Mueller, Tobias Rienth (since March 28, 2011), Stefanie Schmidt, Dirk Spindler, Robin Stalker, Juergen Stolz (until March 28, 2011), Salvatore Vicari, Juergen Wechsler, Dr Otto Wiesheu, and Juergen Worrich.

The Schaeffler Group's related companies consist of the direct and indirect parent companies of Schaeffler AG as well as other companies controlled by these parent companies. These related companies are referred to as "parent IHO companies" below.

In addition, the Continental AG Group companies are related to the Schaeffler Group.

The following table summarizes income and expenses from transactions with related parties recognized in the Schaeffler Group consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period.

	Receivables		Payables	
	December 31,		December 31,	
in € millions	**2011**	**2010**	**2011**	**2010**
Parent IHO companies	1	0	422	33
Continental Group companies	10	12	4	3

	Expenses		Income	
in € millions	**2011**	**2010**	**2011**	**2010**
Parent IHO companies	12	5	1	1
Continental Group companies	24	19	75	72

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. The immediate parent company of Schaeffler AG is Schaeffler Verwaltungs GmbH. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG (IHO).

In 2011 and 2010, Schaeffler Group companies had various business relationships with the parent IHO companies. These include fees for bank guarantees of bills of exchange and various services recharged to the Schaeffler Group as well as shareholder loans from a parent IHO company. The shareholder loans consist primarily of the EUR 417 m loan from Schaeffler Verwaltungs GmbH discussed in Note 4.10.

In 2011, 12,043,528 Continental AG shares were distributed to Schaeffler Verwaltungs GmbH as a dividend in kind (see Notes 2.1 and 4.9) and a derivative financial instrument with a positive fair value was assigned on an arm's length basis to Schaeffler Verwaltungs GmbH for EUR 8 m.

Related-party business relationships exist with Continental Group companies in the form of the supply of vehicle components and tools, the rendering of development and other services, and the lease of commercial real estate. The transactions with the Continental AG Group were entered into at arm's length conditions.

In addition, on August 20, 2008, the Schaeffler Group entered into an investor agreement with Continental AG which is non-cancellable until the close of the Continental AG annual general meeting in 2014. The agreement stipulates, among other things, that Schaeffler AG commit itself to restricting its investment in Continental AG to 49.99% until August 31, 2012 and to compensating Continental AG for certain tax disadvantages resulting from Continental AG losing the ability to utilize certain tax loss carryforwards.

In 2010, Schaeffler AG acquired a non-controlling interest in Schaeffler Immobilien GmbH & Co. KG consisting of 5.1% of the limited partner shares from Georg F. W. Schaeffler for a purchase price of EUR 13 m. Mr Schaeffler converted the purchase price to an interest-free loan that was outstanding at December 31, 2011 and was repaid in January 2012.

The Schaeffler Group does not have any other significant direct business relations with Maria-Elisabeth and Georg F. W. Schaeffler.

In 2011, short-term employee benefits of EUR 17 m (prior year: EUR 16 m) were paid to members of the Schaeffler AG executive board, including EUR 10 m to members of the statutory board of directors (prior year: EUR 16 m to members of the executive management board). Post-employment benefit expenses of EUR 2 m (prior year: EUR 1 m) were recognized for members of the executive board. No termination benefits were incurred in 2011 (prior year: EUR 4 m). Total executive board remuneration for 2011 was EUR 19 m.

No advances or loans were granted to members of Schaeffler AG's executive board or supervisory board. The composition of the executive board of Schaeffler AG (in 2011: executive board of Schaeffler AG/executive management board of Schaeffler GmbH) has changed from the prior year (executive management board of Schaeffler GmbH).

The supervisory board was created in August 2010 due to legal requirements regarding employee co-determination. Short-term benefits paid to members of Schaeffler AG's supervisory board amounted to EUR 1 m in 2011 (prior year: EUR 0.4 m).

Former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies received remuneration of EUR nil in 2011 (prior year: EUR 1 m).

Provisions for pension obligations, net of related plan assets, for former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies amount to EUR 6 m at December 31, 2011 (prior year: EUR 6 m).

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2011 and required to be disclosed by section 314 (1)(9) HGB total EUR 3,948 thousand (prior year: EUR 3,252 thousand) and consist of EUR 1,674 thousand (prior year: EUR 1,407 thousand) for financial statement audit services, EUR 1,068 thousand (prior year: EUR nil) for other attestation services, EUR 242 thousand (prior year: EUR 759 thousand) for tax advisory services, and EUR 964 thousand (prior year: EUR 1,086 thousand) for other services.

These fees were paid for services rendered to Schaeffler AG and its German subsidiaries. KPMG AG Wirtschaftspruefungsgesellschaft is considered to be the auditor. Prior year figures were adjusted to ensure comparability because they included fees paid to other firms of KPMG's European network.

5.7 Exemptions under section 264 (3) HGB

The following domestic subsidiaries meet the requirements set out in section 264 (3) HGB to be eligible for the exemption for 2011 and are availing themselves of that exemption:

- AFT Atlas Fahrzeugtechnik GmbH, Werdohl
- AS Auslandsholding GmbH, Buehl
- Duerkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach
- IAB Verwaltungs GmbH, Herzogenaurach
- INA Automotive GmbH, Herzogenaurach
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Buehl mbH, Buehl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach

- LuK Auslandsholding GmbH, Buehl
- LuK Beteiligungsgesellschaft mbH, Buehl
- LuK Vermoegensverwaltungsgesellschaft mbH, Buehl
- PD Qualifizierung und Beschaeftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach

5.8 Events after the reporting period

On January 27, 2012, Schaeffler AG entered into a new EUR 8 billion loan agreement with eight banks. The new agreement replaces the existing loan agreements dated November 2009, improves the maturity profile of the financial debt and the collateral package and optimizes Schaeffler's debt financing.

The new loan agreement replaces the existing credit facility totaling EUR 7.7 billion, which would have been available until the end of June 2014 including the option to extend it by one year. The new refinancing package includes EUR 5.0 billion in loans repayable at maturity (Term Loans), one tranche to be replaced by corporate bonds, and a revolving credit facility of EUR 1.0 billion. The loans have staggered maturities of up to five years.

The new loan agreement became effective on February 9, 2012. As the Schaeffler Group issued corporate bonds with a total volume of EUR 2.0 billion at the same time, the tranche that was to be replaced by the corporate bonds did not need to be drawn upon.

The corporate bonds consist of two Euro- and two Dollar-denominated tranches. The two Euro-tranches totaling EUR 1.2 billion carry maturities of five and seven years and bear interest at 7.75% p.a. and 8.75% p.a. The two Dollar-tranches totaling approximately EUR 1.1 billion also carry maturities of five and seven years and bear interest at 7.75% p.a. and 8.50% p.a.

In addition, Schaeffler AG plans to place parts of the loan with additional banks and institutional investors. Schaeffler has already been able to syndicate a total volume of EUR 1.4 billion, consisting of a EUR 450 m Euro-tranche and a Dollar-tranche of approximately USD 1.3 billion, to institutional investors in mid-February 2012. This transaction enabled the Schaeffler Group to obtain favorable terms: A margin of 500 basis points above EURIBOR for the Euro-tranche and a margin of 475 basis points above LIBOR for the Dollar-tranche.

On February 20, 2012, Continental AG announced its intention to propose a dividend of EUR 1.50 per share for 2011 to its annual general meeting. This would result in a gross dividend of approximately EUR 108 m on the investment in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG.

No other material events occurred after December 31, 2011 that we expect to have a significant impact on the company's net assets, financial position and results of operations of Schaeffler AG.

5.9 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG with its registered office located in Herzogenaurach.

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (50)			
AFT Atlas Fahrzeugtechnik GmbH	Werdohl	DE	100.00
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA – Drives & Mechatronics GmbH & Co. oHG (since 1/1/2012: INA – Drives & Mechatronics AG & Co. KG)	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	Herzogenaurach	DE	100.00
KWK Kraftfahrzeug-Werkstatt-Konzept Verwaltungsgesellschaft mbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00
LuK Vermoegensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschaeftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
REDON Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.90
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Elfershausen GmbH & Co. oHG (since 1/1/2012: Schaeffler Elfershausen AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Europa Logistik GmbH	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien GmbH & Co. KG (since 1/1/2012: Schaeffler Immobilien AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente GmbH & Co. KG (since 1/1/2012: Schaeffler Motorenelemente AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Technologies GmbH & Co. KG (since 1/1/2012: Schaeffler Technologies AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00
II. Foreign (104)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf – St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L' Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
FAG Servicos Industriais Ltda.	São Paulo	BR	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
HYDREL GmbH	Romanshorn	CH	100.00
INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
LuK-Aftermarket Service s.r.o.	Prague	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
RODISA, S.A.	Elgoibar	ES	100.00
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00

Entity	Location	Country code	Group ownership interest in %
FAG France SAS	Chatillon	FR	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (Hereford) Limited	Hereford	GB	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LUK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
FAG Bearings India Ltd.	Baroda	IN	51.33
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Madras	IN	100.00
FAG Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Seoul	KR	100.00
INA Mexico S.A. de C.V.	Mexico City	MX	100.00
LuK Puebla, S.A. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S.A. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, a.s.	Kysucke Nove Mesto	SK	100.00
INA Skalica spol. s.r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Valencia	VE	100.00
Schaeffler Vietnam Co., Ltd.	Ho Chi Minh City	VN	100.00
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

Entity	Location	Country code	Group ownership interest in %
B. Associated companies/Joint ventures			
I. Germany (5)			
Contitech-INA Beteiligungsgesellschaft mbH[1]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG[1]	Hanover	DE	50.00
IFT Ingenieurgesellschaft fuer Triebwerkstechnik mbh	Clausthal-Zellerfeld	DE	49.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG[1][2]	Herzogenaurach	DE	100.00
II. Foreign (4)			
Eurings Rt.	Debrecen	HU	37.00
Endorsia International AB	Gothenburg	SE	30.00
Colinx, LLC	Greenville	US	25.00
Roland Corporate Housing LLC	Cheraw	US	49.00

1) Joint ventures accounted for using the equity method.

2) Schaeffler Beteiligungsholding GmbH & Co. KG holds 36,14% of the voting interest in Continental AG, Hanover.

Entity	Location	Country code	Group ownership interest in %
C. Entities not consolidated and investments			
I. Germany (11)			
Bauverein Schweinfurt eG	Schweinfurt	DE	0.05
GKS – Gemeinschaftskraftwerk Schweinfurt GmbH	Schweinfurt	DE	10.31
GSB Sonderabfall-Entsorgung Bayern GmbH	Baar-Ebenhausen	DE	0.18
GURAS Beteiligungs GmbH	Pullach	DE	1.00
IAV GmbH Ingenieurgesellschaft Auto und Verkehr	Berlin	DE	10.00
PARTSLIFE Recycling Systems GmbH	Neu-Isenburg	DE	9.68
SupplyOn AG	Hallbergmoos	DE	15.25
TECCOM GmbH	Ismaning	DE	1.70
TECDOC Informations System GmbH	Cologne	DE	3.03
twin-gears AG i. L.[3]	Schweinfurt	DE	100.00
Wohnungsbaugenossenschaft Hammelburg eG	Hammelburg	DE	3.00
II. Foreign (1)			
Consolidated Bearings Co. Ltd.	Cedar Knolls	US	10.00

3) Further details omitted in accordance with section 313 (2)(4)(3) HGB.

5.10 Preparation of consolidated financial statements

The statutory board of directors of Schaeffler AG prepared the consolidated financial statements on March 13, 2012 and released them for submission to the supervisory board. The supervisory board is responsible for examining and approving the consolidated financial statements.

Herzogenaurach, March 13, 2012

The Executive Board

INDEPENDENT AUDITORS' REPORT

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by Schaeffler AG, Herzogenaurach, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and the notes, together with the group management report for the business year from January 1, 2011 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and the results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Munich, March 13, 2012

KPMG AG
Wirtschaftspruefungsgesellschaft

Kozikowski
Wirtschaftspruefer

Sailer
Wirtschaftspruefer

Audited consolidated financial statements of Schaeffler AG as of and for the year ended December 31, 2010

1. Consolidated income statement

In € millions	Note	2010	2009	Change in %
Revenue	3.1	9,495	7,336	29.4
Cost of sales		(6,506)	(5,552)	17.2
Gross profit		**2,989**	**1,784**	**67.5**
Research and development expenses		(467)	(384)	21.6
Selling expenses		(645)	(526)	22.6
Administrative expenses		(366)	(405)	(9.6)
Other income	3.2	375	458	(18.1)
Other expenses	3.3	(377)	(481)	(21.6)
Earnings before financial result and income taxes (EBIT)		**1,509**	**446**	**238.3**
Share of net income (loss) of associated companies	2.2	(349)	(591)	(40.9)
Interest income	3.5	51	39	30.8
Interest expense	3.5	(861)	(968)	(11.1)
Financial result	**3.5**	**(1,159)**	**(1,520)**	**(23.8)**
Earnings before income taxes		**350**	**(1,074)**	**(132.6)**
Income taxes	3.6	(277)	(125)	121.6
Net income (loss)		**73**	**(1,199)**	**(106.1)**
Attributable to shareholders of the parent company		63	(1,204)	(105.2)
Attributable to non-controlling interests		10	5	100.0

2. Consolidated statement of comprehensive income

In € millions	2010 Before taxes	2010 Taxes	2010 After taxes	2009 Before taxes	2009 Taxes	2009 After taxes
Net income (loss)	**350**	**(277)**	**73**	**(1,074)**	**(125)**	**(1,199)**
Foreign currency translation differences for foreign operations	199	0	199	81	0	81
Effective portion of changes in fair value of cash flow hedges	121	(32)	89	(53)	45	(8)
Net change in fair value of available-for-sale financial assets	1	0	1	(2)	0	(2)
Defined benefit plan actuarial gains / losses	10	(9)	1	(118)	15	(103)
Other comprehensive income (loss) before associated companies	**331**	**(41)**	**290**	**(92)**	**60**	**(32)**
Share of other comprehensive income (loss) from associated companies accounted for under the equity method	126	0	126	(6)	5	(1)
Total other comprehensive income (loss)	**457**	**(41)**	**416**	**(98)**	**65**	**(33)**
Total comprehensive income (loss) for the period	**807**	**(318)**	**489**	**(1,172)**	**(60)**	**(1,232)**
Total comprehensive income (loss) attributable to shareholders of the parent company	794	(318)	476	(1,177)	(60)	(1,237)
Total comprehensive income (loss) attributable to non-controlling interests	13	0	13	5	0	5
Total comprehensive income (loss) for the period	**807**	**(318)**	**489**	**(1,172)**	**(60)**	**(1,232)**

See notes to the consolidated financial statements.

3. Consolidated statement of financial position

In € millions	Note	As of December 31, 2010	2009	Change in %
ASSETS				
Intangible assets	4.1	575	618	(7.0)
Property, plant and equipment	4.2	3,041	3,129	(2.8)
Investments in associated companies	4.3	5,252	5,472	(4.0)
Other investments		8	8	0.0
Other assets	4.7	166	255	(34.9)
Deferred tax assets	4.4	289	248	16.5
Total non-current assets		**9,331**	**9,730**	**(4.1)**
Inventories	4.5	1,482	1,162	27.5
Trade receivables	4.6	1,443	1,144	26.1
Other assets	4.7	257	183	40.4
Income tax receivables	4.7	98	39	151.3
Cash and cash equivalents	4.8	733	350	109.4
Total current assets		**4,013**	**2,878**	**39.4**
Total assets		**13,344**	**12,608**	**5.8**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	0	–
Other reserves		2,801	3,239	(13.5)
Accumulated other comprehensive income (loss)		(7)	(421)	(98.3)
Equity attributable to shareholders of the parent company		**3,294**	**2,818**	**16.9**
Non-controlling interests		47	34	38.2
Total shareholders' equity	4.9	**3,341**	**2,852**	**17.1**
Provisions for pensions and similar obligations	4.11	1,111	1,120	(0.8)
Provisions	4.12	127	135	(5.9)
Financial debt	4.10	6,413	6,420	(0.1)
Income tax payables	4.14	102	24	325.0
Other liabilities	4.14	423	473	(10.6)
Deferred tax liabilities	4.4	116	75	54.7
Total non-current liabilities		**8,292**	**8,247**	**0.5**
Provisions	4.12	317	306	3.6
Financial debt	4.10	64	61	4.9
Trade payables	4.13	729	425	71.5
Income tax payables	4.14	115	102	12.7
Other liabilities	4.14	486	615	(21.0)
Total current liabilities		**1,711**	**1,509**	**13.4**
Total shareholders' equity and liabilities		**13,344**	**12,608**	**5.8**

4. Consolidated statement of cash flows

In € millions	2010	2009	Change in %
Operating activities			
EBIT	1,509	446	238.3
Interest paid	(644)	(686)	(6.1)
Interest received	10	8	25.0
Income taxes paid	(298)	(161)	85.1
Depreciation, amortization and impairments	588	657	(10.5)
Gains/losses from the disposal of assets	(2)	0	–
Other non-cash items	(3)	(1)	200.0
Changes in:	0	0	–
Inventories	(257)	573	(144.9)
Trade receivables	(241)	73	(430.1)
Trade payables	271	(100)	(371.0)
Provisions for pensions and similar obligations	(55)	(59)	(6.8)
Other assets, liabilities and provisions	12	(153)	(107.8)
Cash flows from operating activities[1]	**890**	**597**	**49.1**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	25	50	(50.0)
Capital expenditures on intangible assets	(21)	(51)	(58.8)
Capital expenditures on property, plant and equipment	(340)	(270)	25.9
Investments in associated companies	(4)	(3,905)	(99.9)
Acquisition / disposal of cash settled swaps	0	2,112	(100.0)
Other (de-) investing activities	16	67	(76.1)
Cash flows from investing activities	**(324)**	**(1,997)**	**(83.8)**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	0.0
Receipts from loans	3	2,150	(99.9)
Repayments of loans	(83)	(250)	(66.8)
Payments to Schaeffler Verwaltungs GmbH/change in financial allocation account	(134)	(592)	(77.4)
Receipts/payments from other financing activities	15	(144)	(110.4)
Cash flows from financing activities	**(200)**	**1,163**	**(117.2)**
Net increase / decrease in cash and cash equivalents	**366**	**(237)**	**(254.4)**
Effects of foreign exchange rate changes on cash and cash equivalents	17	2	750.0
Cash and cash equivalents as of beginning of period	350	585	(40.2)
Cash and cash equivalents as of end of period	**733**	**350**	**109.4**

1) Excluding interest payments, cash flows from operating activities for the period from 1/1 to 12/31/2010 amount to EUR 1,534 m (prior year: EUR 1,283 m).

See notes to the consolidated financial statements.

5. Consolidated statement of changes in shareholders' equity

In € millions	Share capital[1]	Partners' interests[1]	Other reserves[1]	Accumulated other comprehensive income (loss)[3]				Subtotal	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses			
Balance as of January 1, 2009	**0**	**4,435**	**0**	**(340)**	**(187)**	**1**	**138**	**4,047**	**29**	**4,076**
Net income (loss)	0	(1,204)	0	0	0	0	0	(1,204)	5	(1,199)
Other comprehensive income (loss)	0	0	0	150	(19)	(1)	(163)	(33)	0	(33)
Total comprehensive income (loss) for the period	**0**	**(1,204)**	**0**	**150**	**(19)**	**(1)**	**(163)**	**(1,237)**	**5**	**(1,232)**
Other items from associated companies recognized directly in shareholders' equity	0	8	0	0	0	0	0	8	0	8
Founding of Schaeffler GmbH on September 29, 2009[2]	0	(3,239)	3,239	0	0	0	0	0	0	0
Balance as of December 31, 2009	**0**	**0**	**3,239**	**(190)**	**(206)**	**0**	**(25)**	**2,818**	**34**	**2,852**
Balance as of January 1, 2010	**0**	**0**	**3,239**	**(190)**	**(206)**	**0**	**(25)**	**2,818**	**34**	**2,852**
Net income (loss)	0	0	63	0	0	0	0	63	10	73
Other comprehensive income (loss)	0	0	(1)	369	86	1	(42)	413	3	416
Total comprehensive income (loss) for the period	**0**	**0**	**62**	**369**	**86**	**1**	**(42)**	**476**	**13**	**489**
Transfer	500	0	(500)	0	0	0	0	0	0	0
Acquisitions in stages	0	0	(6)	0	0	0	0	(6)	0	(6)
Other items from associated companies recognized directly in shareholders' equity	0	0	6	0	0	0	0	6	0	6
Balance as of December 31, 2010	**500**	**0**	**2,801**	**179**	**(120)**	**1**	**(67)**	**3,294**	**47**	**3,341**

1) See Note 4.9 for details of shareholders' equity.

2) See Note 1.2 for details.

3) Including the effect of the acquisition of shares in Continental AG.

See notes to the consolidated financial statements.

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler GmbH (until June 28, 2010: Schaeffler Verwaltung Zwei GmbH), Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1-3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 12116). The consolidated financial statements of Schaeffler GmbH as at December 31, 2010 comprise Schaeffler GmbH and its subsidiaries, investments in associated companies and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). Schaeffler is a supplier to automotive, aerospace and other manufacturing customers with operations worldwide.

1.2 Reorganization of Group

The Schaeffler Group with its parent company INA-Holding Schaeffler GmbH & Co. KG ("IHO Group") was extensively reorganized in terms of its legal structure in 2009 and 2010. The objective of the reorganization was to establish structures suitable for the capital markets, with Schaeffler GmbH as holding company.

The reorganization of the Group included a number of company law-related transactions. A significant milestone was the hive-down of the interests in the subsidiaries and associated entities comprising the operations of IHO Group from Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH to Schaeffler GmbH. In addition to the interests in subsidiaries, the transfer to Schaeffler GmbH in connection with the hive-down also included the shares in Continental AG (representing 42.17% of the capital stock of Continental AG on December 31, 2010) as well as part of IHO Group's liabilities (Senior Facility Agreement).

The hive-down took the form of a capital increase in kind at Schaeffler GmbH in return for new shares totaling EUR 500 m. The hive-down of Schaeffler GmbH was entered in the Commercial Register on June 28, 2010. Following completion of the Group reorganization the entire operating activities of IHO Group are concentrated in the Schaeffler Group.

Schaeffler GmbH is jointly and severally liable under par. 133 of the German Reorganization of Companies Act ["Umwandlungsgesetz"] for the liabilities of the transferring legal entities for a period of five years.

1.3 Basis of preparation and presentation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU"). The term IFRS includes all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

As permitted by section 315a (3) HGB (German Commercial Code), the Company has chosen to prepare its consolidated financial statements under IFRS. These financial statements are the first consolidated financial statements in accordance with commercial law since the reorganization of the Group (see Note 1.2). Consolidated financial information for the comparative period was derived from combined financial statements that were voluntarily prepared based on a carve-out.

Presentation of reporting periods prior to the legal creation of the Schaeffler Group

For legal purposes, the Schaeffler Group was created upon the entry of the hive-down in the Commercial Register on June 28, 2010. As a result, both the comparative reporting period 2009 and part of the reporting period ending on December 31, 2010 occurred before the current structure of the Schaeffler Group legally existed.

Financial data for the periods prior to June 28, 2010 have been derived from the consolidated IFRS financial statements of the IHO Group (carve-out). The operations of the Schaeffler Group are presented as if the legal structure created by the hive-down had already existed before June 28, 2010.

Assets, liabilities, expenses and income allocated to the Schaeffler Group were transferred from the consolidated IFRS financial statements of the IHO Group (predecessor accounting) at their carrying values. For the periods prior to the legal creation of the Schaeffler Group, the assets and liabilities transferred to the Schaeffler Group were recognized and measured in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as well as the former Standing Interpretations Committee (SIC), as adopted by the EU and effective at the end of the reporting periods.

Assets, liabilities, expenses and income were generally allocated to the Schaeffler Group based on the hive-down agreement dated May 25, 2010. The transfer to Schaeffler GmbH in connection with the hive-down included the interests in the subsidiaries and associated entities comprising the operating business of the IHO Group, the shares in Continental AG (42.17% of the capital stock of Continental AG), the derivative financial instruments of the IHO Group, certain cash and cash equivalents as well as the obligations under the Senior Facility Agreement.

In addition, certain financial statement line items were allocated appropriately based on certain assumptions, estimates and the principle of substance over form. The assumptions and estimates made affect the recognition, measurement and presentation of assets and liabilities as well as the amounts and presentation of the corresponding items of income and expense. Schaeffler Group management considers the allocation methods applied to be appropriate and justifiable.

Legal and consulting fees incurred in connection with refinancing and reorganizing the IHO Group were allocated pro-rata to the Schaeffler Group based on an appropriate allocation formula.

As required by the hive-down agreement, the Schaeffler Group was allocated all financial debt and financial expenses related to the Senior Facility Agreement. The financial debt and the related expenses of the IHO Group prior to the refinancing on November 20, 2009 (Syndicated Loan Agreement) were allocated based on the proportion of the amount of the Senior Facility Agreement to the amount of the entire refinancing agreement.

All IHO Group interest rate hedging instruments were transferred to the Schaeffler Group in accordance with the hive-down agreement. The portion of the hedging reserve of the IHO Group that is related to hedges of interest rate risk which cannot reasonably be attributed to the Senior Facility Agreement is accounted for retrospectively as if it had arisen from stand-alone derivatives.

IHO Group cash and cash equivalents were also allocated in accordance with the hive-down agreement.

The liquidity requirements of IHO Group companies not consolidated by the Schaeffler Group have been recognized in a financial allocation account prior to the hive-down. For periods prior to the legal creation of the Schaeffler Group, the financial allocation account represents the liquidity requirements of these companies. Starting with a balance of zero at the legal date of the hive-down (June 28, 2010), the balance of the financial allocation account for each of the periods prior to the hive-down was derived using a retrograde calculation.

In the statement of financial position, the financial allocation account is included in other liabilities. In the statement of cash flows, the liquidity transfer arising from changes in the financial allocation account is shown under financing activities as "Payments to Schaeffler Verwaltungs GmbH / change in financial allocation account".

Since the date Schaeffler GmbH was legally founded, the Schaeffler Group's shareholders' equity includes a share capital of EUR 25,000. The difference between this balance and the net assets and liabilities of the Schaeffler Group is presented as "other reserves" as at December 31, 2009. On the date the hive-down was entered in the Commercial Register, the Schaeffler Group's share capital increased to EUR 500,025,000.

The carrying amounts of accumulated other comprehensive income and non-controlling interests of the IHO Group, including any related carve-out adjustments, were transferred to the Schaeffler Group in accordance with the predecessor accounting approach.

Income taxes of Schaeffler GmbH and its subsidiaries for the carve-out period were determined based on allocated earnings (separate return approach). This approach included a notional re-calculation of income taxes on the basis of the historical legal structures and reflects an appropriate allocation of the relevant income and expenses.

Future taxable income may differ from taxable income arrived at under the separate return approach. It was possible to directly attribute deferred taxes on temporary differences and loss carryforwards to the Schaeffler Group based on the hive-down agreement dated May 25, 2010.

New accounting pronouncements

In 2010, the following new Standards and Interpretations and amendments to Standards and Interpretations adopted by the EU as European law were required to be applied for the first time:

The revised Standards IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" were issued by the IASB in January 2008 and adopted as European law in June 2009. They contain significant changes to the accounting for business combinations and transactions with non-controlling shareholders.

The revised Standards are to be applied prospectively to business combinations for which the acquisition date falls within an annual reporting period beginning on or after July 1, 2009. IAS 27 is to be applied prospectively for annual reporting periods beginning on or after July 1, 2009. The Schaeffler Group has adopted revised IFRS 3 and IAS 27 effective January 1, 2010. There were no business combinations within the scope of IFRS 3 in 2010. The requirements of revised IAS 27 were applied to two acquisitions of non-controlling interests. The main amendments to IFRS 3 include:

- In accounting for non-controlling interests, the Standard provides the option to measure such interests either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This option is available for each separate business combination.
- For business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the time control is obtained, and the resulting gain or loss, if any, is recognized in earnings. For purposes of calculating goodwill, these interests are then treated as part of the consideration transferred.
- Contingent consideration is included in consideration transferred and measured at fair value at the acquisition date. It is classified as either equity or liability and subsequently remeasured in accordance with this classification. Goodwill is not adjusted for such subsequent remeasurement.
- Acquisition-related costs are expensed.

Revisions to IAS 27 include the following:

- Changes in ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.
- When an entity loses control of a subsidiary, any non-controlling interest retained is initially recognized at fair value. The resulting difference is recognized in earnings as part of the gain or loss on disposal.

- Non-controlling interests are allocated their proportionate share of losses, even if this results in the non-controlling interests having a deficit balance.

The revision of IFRS 3 and IAS 27 resulted in consequential amendments to IFRS 7, IAS 7, IAS 21, IAS 28 and IAS 31. These amendments are effective for annual reporting periods beginning on or after July 1, 2009. The Schaeffler Group has adopted them effective January 1, 2010.

In addition to the revised Standards IFRS 3 and IAS 27, the Schaeffler Group had to apply the following new or amended Standards and Interpretations for the first time for the 2010 fiscal year. This initial application had either no or no significant effect.

Standard / Interpretation	Effective date	Subject of Standard/Interpretation or amendment
IFRS 1	1/1/2010	Change in structure of Standard (IFRS 1 rev. 2008)
	1/1/2010	Additional exemptions regarding IFRS 6 and IFRIC 4
IFRS 2	1/1/2010	Accounting for group cash-settled share-based payment transactions
IAS 39	7/1/2009	Clarification: Eligible hedged items for hedge accounting purposes
IFRIC 12	3/29/2009	Service concession arrangements
IFRIC 15	1/1/2010	Agreements for the construction of real estate (scope of IAS 11, IAS 18)
IFRIC 16	7/1/2009	Hedges of a net investment in a foreign operation
IFRIC 17	11/1/2009	Distributions of non-cash assets to owners
IFRIC 18	11/1/2009	Transfers of assets from customers
Annual Improvements 2009		
IFRS 2	1/1/2010	Scope of IFRS 2 and revised IFRS 3
IFRS 5	1/1/2010	Disclosures on non-current assets held for sale and discontinued operations
IFRS 8	1/1/2010	Clarification of disclosure requirements for segment assets
IAS 1	1/1/2010	Classification of the liability component of a convertible instrument as current
IAS 7	1/1/2010	Conditions for presentation of expenditures as cash flows from investing activities
IAS 17	1/1/2010	Leases of real estate: Elimination of assumption that land element is classified as operating lease
IAS 36	1/1/2010	Definition of cash-generating unit for goodwill impairment tests
IAS 38	1/1/2010	Determining fair value in a business combination
IAS 39	1/1/2010	Scope issue regarding forward agreements that will result in a business combination; treating loan prepayment penalties as embedded derivatives; cash flow hedges
IFRIC 9	1/1/2010	Scope of IFRIC 9 in light of revised IFRS 3
IFRIC 16	1/1/2010	Elimination of the restriction that only the parent company can hold the hedging instrument in a hedge of a net investment in a foreign operation
Annual Improvements 2008		
IFRS 5	7/1/2009	Classification of assets and liabilities of a subsidiary as held for sale where a non-controlling interest is retained

The International Accounting Standards Board (IASB) and the IFRIC have issued the following Standards, Interpretations, and amendments of existing Standards which are not yet effective and are not applied early by the Schaeffler Group. Application of these IFRS is contingent on adoption by the EU under its IFRS endorsement process.

The following summary lists the Standards adopted by the EU as at the date these consolidated financial statements are authorized for issue by the Schaeffler Group executive management board. The Schaeffler Group will apply all of these Standards beginning in the 2011 fiscal year.

Standard / Interpretation	**Effective date**	**Subject of Standard/Interpretation or amendment**	**Expected impact on the Schaeffler Group**
IFRS 1, IFRS 7	7/1/2011	Elimination of certain comparative IFRS 7 disclosures upon first-time adoption of IFRS	none
IAS 24	1/1/2011	Exemptions for entities controlled, jointly controlled, or significantly influenced by the state	none
IAS 32	2/1/2010	Rights issues in foreign currency	none
IFRIC 14	1/1/2011	Prepayments of a minimum funding requirement	none
IFRIC 19	7/1/2010	Extinguishing financial liabilities with equity instruments	none
Annual Improvements 2010			
IFRS 1	1/1/2011	Minor amendments	none
IFRS 3	7/1/2010	Amendment of revised IFRS 3 with respect to measuring non-controlling interests, share-based payment awards and contingent consideration	none
IFRS 7	1/1/2011	Amendments to various disclosures about risks arising from financial instruments	Minor changes to notes disclosures
IAS 1	1/1/2011	Clarification of statement of changes in equity	none
IAS 21, IAS 28, IAS 31	7/1/2010	Prospective application of amendments of revised IFRS 3	none
IAS 34	1/1/2011	Changed wording with respect to significant events and transactions	none
IFRIC 13	1/1/2011	Additional interpretive guidance (application guidance, basis for conclusions)	none

In addition, the IASB has issued new Standards and amendments of existing Standards and Interpretations which have not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue by Schaeffler Group management. The Schaeffler Group has not applied any of the following new Standards or amendments to existing Standards and Interpretations early:

Standard / Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1	7/1/2011	Aspects of first-time adoption of IFRS with respect to financial instruments and hyperinflation	none
IFRS 7	7/1/2011	Disclosure requirements related to transfers of financial assets	More extensive disclosures on a case by case basis
IFRS 9	1/1/2013	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments
IAS 12	1/1/2012	Deferred taxes on investment property measured at fair value through profit or loss	none

Basis of preparation

These consolidated financial statements have been prepared in Euros, the functional and presentation currency of the parent company of the Schaeffler Group. Unless stated otherwise, all amounts are in millions of Euros (EUR m).

Schaeffler classifies assets as current if they are expected to be realized within twelve months after the reporting period. Similarly, liabilities are classified as current if they are expected to be settled within twelve months after the reporting period.

As amounts (in millions of Euros) and percentages have been rounded, rounding differences may occur.

Measurement bases

Except for the following, these consolidated financial statements have generally been prepared on the historical cost basis:

- derivative financial instruments,
- financial instruments at fair value through profit or loss, and
- available-for-sale financial assets,

These instruments were measured at fair value.

Estimation uncertainty and management judgment

In the preparation of financial statements in accordance with IFRS, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

Both estimates and the basis assumptions are made on are reviewed regularly. Changes in estimates are recognized in the period in which the changes are made as well as in all subsequent periods affected by the changes.

The following issues affected by estimation uncertainty in the application of accounting policies have the most significant impact on amounts recognized in the consolidated financial statements:

- determination of the useful lives of intangible assets and property, plant and equipment,
- determination of valuation allowances on inventories,
- impairment tests of goodwill and non-current assets and determination of recoverable amount and the underlying assumptions (e.g. discount rate),
- accounting for employee benefits, including actuarial assumptions,
- recognition and measurement of other provisions, particularly restructuring provisions,
- assessment of the recoverability of deferred tax assets, and
- measurement of financial instruments with respect to assessing recoverability and determining fair values.

The following issues in particular are affected by the application of management's professional judgment:

- identification of cash-generating units,
- classification of lease agreements as finance or operating leases.

In 2010, there was no significant impact from adjustments of assumptions made in the past or the resolution of previously existing uncertainties related to the above issues.

1.4 Accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements. The financial statements of all Schaeffler Group entities have been prepared as of the same date as these consolidated financial statements.

Consolidation principles

Subsidiaries are entities Schaeffler controls. Control exists if Schaeffler has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights that are currently exercisable are taken into account when assessing control. In accordance with SIC 12 "Consolidation – Special Purpose Entities", Schaeffler's consolidated financial statements also include companies that Schaeffler controls without holding a majority of the voting rights, e.g. where Schaeffler in substance retains the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities. Subsidiaries' financial statements are included in the consolidated financial statements from the date Schaeffler obtains control until the date Schaeffler loses control. Entities have an accounting policy choice regarding whether to consolidate entities over which they may have "de-facto-control", e.g. because they hold a majority of the votes represented at the annual general meeting. Such entities may either be fully consolidated as subsidiaries ("de facto control" concept) or accounted for using the equity method as associated companies ("power to govern" concept). Schaeffler applies the "power to govern" concept and, therefore, accounts for these entities using the equity method.

Associated companies are those entities over which Schaeffler has significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over the investee. Significant influence is presumed to exist if Schaeffler holds, directly or indirectly, between 20% and 50% of the voting power of an investee. Where Schaeffler's direct or indirect holdings represent less than 20% of the voting rights, significant influence is presumed not to exist unless such influence can be clearly demonstrated.

Investments in associated companies and joint ventures are accounted for using the equity method. Under this method, the investment is initially recognized at cost. The carrying amount of Schaeffler's investments in associated companies includes goodwill identified on acquisition of an associated company. After initial recognition, the carrying amount of the investment is increased or decreased by the investor's share of the investee's net income or loss and other comprehensive income or loss from the date that significant influence commences until the date significant influence ceases. If Schaeffler's share of losses of an associated company reaches or exceeds the amount of the investment, the carrying amount of that investment is reduced to zero and no further losses are recognized except to the extent that Schaeffler has incurred a legal or constructive obligation to make payments or has made payments on behalf of the associated company.

Balances and transactions with consolidated subsidiaries and any related income and expenses are completely eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associated companies are eliminated against the carrying amount of the investment in the associated company to the extent of Schaeffler's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent there is no evidence of impairment. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Foreign currency translation

Foreign currency transactions
Upon initial recognition, purchases and sales in foreign currencies are translated at the exchange rate applicable at the time of the transaction. Since receivables and payables denominated in foreign currencies arising from these transactions are monetary items within the scope of IAS 21, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. The resulting exchange gains and losses are recognized in the entity's separate and in the consolidated income statement of Schaeffler Group.

Translation of foreign currency financial statements
The Schaeffler Group presents its financial statements in Euro, the functional currency of Schaeffler GmbH. Assets and liabilities of subsidiaries whose functional currency is not the Euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and income statement items are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in accumulated other comprehensive income and reclassified to the income statement upon disposal of the subsidiary.

The following table illustrates the most significant exchange rates used in preparing the consolidated financial statements:

Currencies 1 € in		Closing rate December 31, 2010	Closing rate December 31, 2009	Average rate 2010	Average rate 2009
Brazil	BRL	2.22	2.51	2.33	2.77
Canada	CAD	1.33	1.51	1.37	1.59
Switzerland	CHF	1.25	1.48	1.38	1.51
China	CNY	8.82	9.84	8.98	9.51
United Kingdom	GBP	0.86	0.89	0.86	0.89
Hong Kong	HKD	10.39	11.17	10.31	10.80
Hungary	HUF	277.95	270.42	275.36	280.69
India	INR	59.76	67.04	60.61	67.35
Japan	JPY	108.65	133.16	116.46	130.22
South Korea	KRW	1,499.06	1,666.97	1,532.89	1,772.50
Mexico	MXN	16.55	18.92	16.75	18.79
Romania	RON	4.26	4.24	4.21	4.24
Sweden	SEK	8.97	10.25	9.55	10.62
Singapore	SGD	1.71	2.02	1.81	2.02
U.S.A.	USD	1.34	1.44	1.33	1.39
South Africa	ZAR	8.86	10.67	9.71	11.70

Revenue recognition

Revenues from the ordinary business activities of the Schaeffler Group are shown as revenue and recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates based on the general terms and conditions. Other revenues such as from equipment sales and rental income are included in other income.

Revenue from the sale of goods is recognized when, based on the arrangement with the customer, (1) the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, (2) it is sufficiently probable that the economic benefits from the sale will flow to Schaeffler, (3) the costs associated with the sale and possible return of goods can be estimated reliably, (4) Schaeffler has no continuing managerial involvement with the goods, and (5) the amount of revenue can be measured reliably. Depending on the specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery, provided that the conditions listed above are met.

Product-related expenses

Product-related expenses comprise all direct costs attributable to the process of producing goods and rendering services as well as allocated production-related overheads.

Costs incurred for advertising, sales promotion and other selling related activities are expensed as incurred. Warranty provisions are recognized on a case-by-case basis taking into account the related specific legal and contractual agreements.

Research and development expenses

Research and development expenses include costs incurred for research and development and expenditures for customer-specific applications, prototypes, and testing.

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge are recognized as expenses as incurred.

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Related development costs are only capitalized as intangible assets if (1) technical feasibility can be demonstrated, (2) Schaeffler intends to complete the intangible asset and use or sell it, (3) Schaeffler has the ability to use or sell the intangible asset, (4) future economic benefits from sale or use of the intangible asset can be demonstrated to exist, (5) adequate technical, financial and other resources are available to complete the development and for the subsequent sale or use, and (6) the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalized costs include costs directly attributable to the development process and development-related overheads. Capitalized development expenditures are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the average expected useful life of six years and is presented in cost of sales. In contrast to costs of developing new or substantially improved products, advance development costs and costs incurred to produce customer-specific applications (i.e. to customize existing products without substantial improvement) are not capitalized, but instead expensed as incurred.

Goodwill

Goodwill results from the acquisition of a subsidiary. It is calculated as the excess of total consideration transferred over the net identifiable assets of the acquiree, with acquisition cost defined as the aggregate of the fair value of (1) consideration transferred, (2) non-controlling interests, and (3), in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. Non-controlling interests in the acquired company are measured either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Goodwill is not amortized, but is instead tested for impairment at least annually and when an indication exists. It is measured at cost less accumulated impairment losses. For associated companies, goodwill is included in the carrying amount of the investment in the associated company and, therefore, is tested for impairment as part of the investment when an indication exists.

Other intangible assets

Purchased intangible assets including software and patents are capitalized at acquisition cost, internally generated intangible assets meeting the requirements of IAS 38 regarding capitalization, including software and development projects, at production cost. Intangible assets with a determinable useful life are amortized on a straight-line basis over their estimated useful lives of three years for software, six years for development costs and ten years for patents. Amortization commences when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. In addition, other intangible assets are tested for impairment when there is an indication that the asset may be impaired.

The Schaeffler Group does not have any intangible assets with indefinite useful lives.

Subsequent expenditures are only capitalized when they increase the future economic benefits of the asset to which they relate. All other expenditures, including expenditures for internally generated goodwill and brands, are expensed as incurred.

Amortization expense and impairment losses related to an intangible asset are presented in the income statement within the functional area in which the intangible asset is utilized.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all costs directly attributable to the acquisition of the asset. Self-constructed assets are initially measured at the directly attributable construction cost that is necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the consideration received with the carrying amount of the asset. They are presented net in other income or other expenses, respectively.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Estimated useful lives range from 15 to 25 years for buildings and outside facilities, from 2 to 10 years for technical equipment and machinery and from 3 to 8 years for other equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the asset's useful life. Land is not depreciated. Depreciation expense and impairment losses are presented in the income statement under the appropriate functional area.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period. Useful lives are derived by estimating the period during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological developments.

Leases

Leases that transfer substantially all risks and rewards of ownership to Schaeffler are classified as finance leases. The leased asset is initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A liability is recognized at the same amount. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. Finance cost is allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases under which the lessor retains substantially all risks and rewards of ownership are classified as operating leases, and the related lease payments are expensed on a straight-line basis over the lease term.

Impairment

Financial assets
Financial assets are tested for impairment individually at the end of each reporting period and when objective evidence of impairment exists. Impairment losses in respect of a financial asset measured at amortized cost are calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the effective interest rate originally determined at initial recognition (discounted cash flow method). An impairment loss in respect of an available-for-sale financial asset is calculated based on its fair value.

All impairment losses are recognized in profit or loss. If an impairment is recognized in respect of an available-for-sale financial asset, any cumulative losses previously recognized in other comprehensive income related to that asset are reclassified from accumulated other comprehensive income to profit or loss.

An impairment loss is reversed if the reversal of the impairment loss can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognized in other comprehensive income.

Non-financial assets
IAS 36 requires the carrying amounts of non-financial assets to be tested for impairment on the basis of individual assets or the smallest unit with largely independent cash inflows (cash-generating units). The Schaeffler Group's cash-generating units are its segments, Automotive and Industrial.

If there is an indication of impairment, intangible assets and property, plant and equipment are tested for impairment during the year. In addition, goodwill and intangible assets not yet available for use are also tested for impairment at the end of the reporting period.

Recoverable amount is the higher of fair value less costs to sell and value in use. Initially, Schaeffler determines recoverable amount under the value in use concept using the discounted cash flow method. If value in use does not exceed the carrying amount of the cash-generating unit, the second step taken is to determine recoverable amount using fair value less costs to sell.

Expected cash flows of the cash-generating units are based on a three-year-forecast and a projection which is reviewed regularly by the Schaeffler Group executive management board. The medium-term forecast is based on specific assumptions regarding macroeconomic indicators, external sales expectations and internal assessments of requirements and projects, as well as sales prices, commodity price trends, and capital expenditures. Projections beyond the detailed forecast horizon are made using a growth rate for each segment.

An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses (except on goodwill) are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

If the resulting impairment loss exceeds the amount of recognized goodwill, goodwill is fully impaired first. The remaining impairment loss is allocated to the other assets in the cash-generating unit.

The discount rate reflects current market expectations and the risks specific to the asset.

At the end of each reporting period, the Schaeffler Group assesses whether there is any indication that its equity method investments may be impaired. If such an indication exists, Schaeffler is required to test that equity method investment for impairment. An equity method investment is impaired when its carrying amount exceeds the higher of its value in use and fair value less costs to sell.

Financial instruments

In accordance with IAS 32 a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include (1) non-derivative financial instruments and (2) derivative financial instruments. Regular-way sales and purchases of financial assets are recognized using settlement date accounting.

Please refer to Note 4.15 for an analysis of the Schaeffler Group's financial instruments by class as required by IFRS 7.6.

(1) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and receivables, and trade and other payables. Non-derivative financial instruments are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

Schaeffler classifies its financial instruments in one of the following categories set out in IAS 39:

Available-for-sale financial assets
Except for investments in associated companies (IAS 28), Schaeffler's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein—other than impairment losses and exchange differences on available-for-sale monetary assets—are recognized in other comprehensive income (including related deferred taxes). Fair values are derived from market prices unless no quoted prices are available or there is no active market; in these cases, fair value is determined using valuation techniques such as the discounted cash flow method. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be measured reliably are recognized at cost.

When an available-for-sale financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Loans and receivables
Loans and receivables are measured at amortized cost less any impairment losses. Trade and other receivables within this category are carried at face value. Impairment losses on trade and other receivables are recognized in profit or loss unless the receivable is covered by credit insurance. Non-interest bearing receivables with a maturity of more than one year are discounted. Loans and receivables sold to third parties are derecognized if and when substantially all risks and rewards associated with the loans and receivables sold have been transferred.

This category also includes cash and cash equivalents. Schaeffler considers all liquid investments with a maturity of less than three months from the date of acquisition to be cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities
With the exception of derivative financial instruments, Schaeffler measures all financial liabilities at amortized cost, which includes any transaction costs attributable to the liability. Obligations under finance leases are initially measured at an amount equal to the lower of the fair value of the leased asset and the present value of minimum lease payments.

(2) Derivative financial instruments

Schaeffler holds derivative financial instruments to hedge its currency and interest rate risk exposures inherent in assets and liabilities and in future cash flows.

In accordance with IAS 39, derivatives are initially recognized as an asset or liability at fair value; attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss. The Schaeffler Group does not have any fair value hedges or hedges of a net investment in a foreign operation.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized directly in other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. Otherwise, the amount is reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value. Acquisition cost of raw materials, supplies and purchased merchandise is determined using the weighted average method. Work in progress and manufactured finished goods (including goods in transit) are valued at production cost consisting of direct material and labor costs as well as production-related overheads. Net realizable value is defined as the estimated selling price in the ordinary course of business less estimated costs of completion and estimated necessary selling costs.

Income taxes

Income tax expense for the period includes current and deferred taxes. Income taxes are recognized in profit or loss, except for income taxes relating to items recognized directly in equity or in accumulated other comprehensive income, which are also recognized in equity or in accumulated other comprehensive income.

Current taxes are calculated based on local tax rules and regulations effective at the end of the reporting period or shortly thereafter in the countries in which the subsidiaries and associated companies operate and generate taxable income. Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and, where appropriate, recognizes provisions based on amounts expected to be payable to taxation authorities.

Under IAS 12 "Income Taxes", deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets and liabilities are recognized on temporary differences that will result in taxable or deductible amounts in determining taxable profit of future periods, unless the differences are the result of the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has affected neither pre-tax profit or loss nor taxable profit (initial differences). IAS 12 also requires the recognition of deferred tax assets on tax loss carryforwards and tax credits.

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that future taxable profit will be available.

Deferred tax liabilities arising on temporary differences associated with investments in subsidiaries and associated companies are recognized unless the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future as a result of this control.

Deferred taxes are measured using tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period and that are expected to apply to the period when the deferred tax asset is expected to be realized or the deferred tax liability is expected to be settled. The effects of changes in tax rates or tax laws on deferred tax assets and liabilities are recognized in profit or loss unless the deferred tax assets and liabilities were originally recognized outside profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right of offset exists and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend to settle net.

Provisions for pensions and similar obligations

Employee benefits include both defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market assessments regarding the expected return on plan assets and anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets. If plan assets exceed the related pension obligation, the pension asset is presented under other assets to the extent Schaeffler is entitled to a refund or reduction of future contributions to the fund.

Schaeffler immediately recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income. Interest expense on provisions for pensions and similar obligations and interest income on plan assets are included in interest income and interest expense.

For defined contribution plans, Schaeffler pays fixed contributions to a third party without any legal or constructive obligation to make additional contributions. The contributions are recognized as personnel expense within the appropriate functional expenses.

Provisions

A provision is recognized if, as a result of a past event, Schaeffler has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the recognition criteria for provisions are not met, a contingent liability is disclosed in the notes to the financial statements provided certain criteria are met.

Estimating future costs is subject to a large degree of uncertainty, particularly for restructuring measures involving several parties and extending over a long period of time.

Non-current provisions are recognized at present value by discounting expected future cash outflows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest, including effects of changes in interest rates, is shown in financial result.

2. Principles of consolidation

2.1 Scope of consolidation

In 2010, the Schaeffler Group includes, in addition to Schaeffler GmbH, 152 (prior year: 162) fully consolidated subsidiaries and special purpose entities; 50 (prior year: 57) companies are domiciled in Germany and 102 (prior year: 105) are foreign entities. Two newly founded companies were consolidated for the first time in 2010. Twelve entities were removed from the consolidation due to liquidations and mergers.

Two foreign subsidiaries (prior year: two) are consolidated because the Schaeffler Group has the ability to control these companies, although it does not hold the majority of the voting rights.

In the consolidated financial statements as at December 31, 2010, nine (prior year: nine) associated companies (including two joint ventures) are accounted for using the equity method. Except for the investment in Continental AG, over which the Schaeffler Group obtained significant influence at the end of 2008, the impact of associated companies on the overall presentation of the financial statements is not significant.

See Note 5.8 for details of the Schaeffler Group's investments.

2.2 Associated companies

As at December 31, 2009, Schaeffler Group held 84,333,986 shares or 49.90% of the voting interest in Continental AG. In January 2010, Continental AG increased its capital and issued 31,000,000 new shares. The Schaeffler Group did not participate in this capital increase.

After completion of the capital increase, the Schaeffler Group's voting interest was diluted to 42.17%. During the remainder of the reporting period and as at December 31, 2010, the Schaeffler Group holds 42.17% of the voting interest in Continental AG.

Continental AG is a leading automotive supplier with worldwide operations, headquartered in Hanover, Germany. The following table provides summarized financial information about the Continental Group:

In € millions	2010	2009
Assets (as of Dec. 31)	24,391	23,049
Liabilities (as of Dec. 31)	18,188	18,988
Revenue (Jan. 1 – Dec. 31)	26,047	20,096
Net income (loss) (Jan. 1 – Dec. 31)	646	(1,607)

The associated companies have the same balance sheet date as the Schaeffler Group.

Purchase price allocation

In accordance with the equity method, the cost of the acquisition was allocated to the Schaeffler Group's interest in the fair value of the assets and liabilities of Continental AG.

Share of net income (loss) of associated companies

The share of net income (loss) of associated companies is mainly attributable to the shares directly held in Continental AG. The Schaeffler Group's pro-rata share of depreciation, amortization and impairments on fair value adjustments, the share of Continental AG's net income (loss), and the dilution loss arising on the capital increase which the Schaeffler Group did not participate in, net of offsetting deferred tax effects and after non-recurring items related to the purchase price allocation, have led to a loss of EUR 348 m. The effect on net income (loss) of the Schaeffler Group is as follows:

In € millions	2010	2009
Depreciation, amortization and impairments of fair value adjustments	(296)	(432)
Share of net income (loss) of Continental AG	246	(822)
Goodwill impairment loss recognized by Continental AG	0	437
Dilution of ownership interest due to non-participation in Continental AG capital increase	(396)	0
Effect on net income (loss) before income taxes	**(446)**	**(817)**
Deferred taxes	83	121
Effect on net income (loss) before non-recurring items[1]	**(363)**	**(696)**
Non-recurring items[1]		
– Reversal of step down of financial debt recognized at the time of the PPA	(5)	0
– Reversal of cash flow hedges existing at the time of the PPA	12	0
– Recognition of Continental AG pension obligations at fair value	8	9
– Adjustment of impairment losses on investments in associated companies	0	42
– Adjustment of unrecognized deferred taxes related to change of shareholder[2]	0	54
Effect on net income (loss) after non-recurring items[1]	**(348)**	**(591)**

1) Realized through purchase price allocation.

2) According to section 8c KStG (German Corporate Tax Law).

Non-recurring items realized through purchase price allocation reflect adjustments to transactions that have since been realized by Continental AG.

Share of other comprehensive income (loss) from associated companies

The Schaeffler Group's share of other comprehensive income (loss) of Continental AG, which has not affected the income statement, amounts to EUR 181 m (prior year: EUR 58 m).

The adjustment to reflect the use of uniform methods in accounting for pension obligations of EUR 43 m (prior year: EUR 59 m) and the adjustment to cash flow hedges of EUR 12 m (prior year: nil) had an offsetting effect that did not impact the income statement.

In total, these items have increased other comprehensive income by EUR 126 m after tax (prior year: decrease of EUR 1 m) without affecting the income statement.

In addition, certain members of the management of Continental AG have exercised share options, which has directly increased retained earnings by EUR 6 m (prior year: EUR 8 m).

Nature and extent of significant restrictions

Debt covenants restrict Continental AG's ability to pay dividends. Continental AG paid a dividend of EUR 2 per share for 2007, representing a total dividend distribution of EUR 323 m. As its retained earnings were negative, Continental AG did not pay any dividends for 2008 and 2009.

Market capitalization

The fair value of the Continental AG shares held by the Schaeffler Group (42.17%) on December 31, 2010 was EUR 4,988 m. On December 31, 2009, the fair value of the Continental AG shares held by the Schaeffler Group (49.90%) was EUR 3,177 m.

3. Notes to the consolidated income statement

3.1 Revenue

In € millions	2010	2009
Revenue from the sale of goods	9,223	7,153
Other revenue	272	183
Total	**9,495**	**7,336**

Revenue from the sale of goods consists of invoiced sales of goods to customers, net of early payment discounts. Other revenue includes revenue from the sale of tools, special machines, revenue from scrap sales and revenue from other services consisting mainly of research and development services totaling EUR 93.8 m (prior year: EUR 43.7 m).

3.2 Other income

In € millions	2010	2009
Exchange gains	308	386
Reversal of provisions	4	5
Reduction of allowances	8	7
Gains on disposal of assets	5	9
Miscellaneous income	50	51
Total	**375**	**458**

The decrease in exchange gains in 2010 compared to 2009 is primarily due to the increased proportion of derivative financial instruments accounted for using hedge accounting.

3.3 Other expenses

In € millions	2010	2009
Exchange losses	319	427
Increase in allowances	4	11
Losses on disposal of assets	3	7
Miscellaneous expenses	51	36
Total	**377**	**481**

In 2010, exchange losses include realized and unrealized losses of EUR 319 m (prior year: EUR 427 m). Similar to exchange gains presented in other income, exchange losses have decreased mainly due to the increased proportion of derivative financial instruments accounted for using hedge accounting.

3.4 Personnel expense and headcount

In 2010, the Schaeffler Group had an average of 65,041 employees (prior year: 62,355) and 488 temporary staff (prior year: 232).

Number of employees	2010	2009
Germany	27,457	27,327
Europe excluding Germany	19,016	17,547
North America	5,505	5,178
South America	4,368	4,288
Asia/Pacific	8,695	8,015
Total	**65,041**	**62,355**

Number of employees	2010	2009
Production	50,886	48,299
Research and development	4,902	4,875
Selling	5,366	5,197
General administration	3,887	3,984
Schaeffler Group	**65,041**	**62,355**

The Schaeffler Group's personnel expense can be analyzed as follows:

In € millions	2010	2009
Wages and salaries	2,264	1,861
Social security contributions	437	385
Pensions and similar benefit expenses	57	53
Total	**2,758**	**2,299**

The increase in personnel expense in 2010 is mainly due to the global economic recovery experienced since early 2010 and the related increase in staffing levels in all regions.

Pensions and similar benefit expenses consist mainly of expenses related to defined benefit pension plans, contributions to defined contribution pension plans, expenses in connection with the "Pensionssicherungsverein" (German pension assurance association), and other employee benefits.

3.5 Financial result

In € millions	2010	2009
Interest income on pension plan assets	25	22
Interest income on financial assets	12	16
Miscellaneous financial income	14	1
Interest income	**51**	**39**
Interest expense on financial debt	(386)	(602)
Interest expense from compounding of pensions and other provisions	(84)	(97)
Interest expense on interest rate derivatives	(373)	(247)
Miscellaneous financial expense	(18)	(4)
Losses on securities	0	(18)
Interest expense	**(861)**	**(968)**
Share of net income (loss) of associated companies	(349)	(591)
Financial result	**(1,159)**	**(1,520)**

The Schaeffler Group's financial result comprises interest income of EUR 51 m (prior year: EUR 39 m) and interest expense of EUR 861 m (prior year: EUR 968 m) as well as the share of net income (loss) of associated companies of EUR -349 m (prior year: EUR -591 m). The share of net income (loss) of associated companies consists mainly of Schaeffler's share of the net income (loss) of Continental AG, which is accounted for using the equity method. It includes a non-recurring dilution loss of EUR 396 m on the capital increase of Continental AG in January 2010, which the Schaeffler Group did not participate in. Excluding this dilution loss, share of net income (loss) of associated companies amounts to EUR 48 m.

Miscellaneous financial income includes primarily income from the reversal of impairment losses on financial assets in the class "other loans receivable".

Interest expense on financial debt of EUR 386 m (prior year: EUR 602 m) includes mainly interest payments for the Senior Facility Agreement of EUR 282 m (prior year: EUR 33 m) and expenses of EUR 30 m (prior year: EUR 4 m) relating to transaction costs amortized over the term of the financial debt.

Interest expense on interest rate derivatives includes EUR 30 m (prior year: EUR 2 m) related to non-cash unrealized fair value losses on interest rate hedging derivatives and EUR 252 m (prior year: EUR 245 m) in compensation payments on interest rate derivatives which are due primarily to the continued low interest rate levels. Since the date the refinancing arrangement was entered into in 2009, the interest rate hedging instruments no longer qualified for hedge accounting under IFRS. The reserve of EUR -286 m accumulated up to November 20, 2009 for cash flow hedge accounting is being amortized to profit or loss using the effective interest method. In 2010, this resulted in non-cash interest expense on interest rate derivatives of EUR 91 m (prior year: EUR 10 m).

3.6 Income taxes

Income taxes consist of the following:

In € millions	2010	2009
Current income taxes	314	146
Deferred income taxes	(37)	(21)
Income taxes	**277**	**125**

Income taxes of Schaeffler GmbH and its subsidiaries for the prior year were determined based on the separate return approach.

As a corporation, Schaeffler GmbH was subject to German corporation tax and trade tax during the reporting period. Trade tax is levied by municipalities.

The average domestic tax rate for corporations was 27.9% in 2010 (prior year: 27.9%). This tax rate consists of corporation tax and the solidarity surcharge of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.0% (prior year: 12.0%). Partnerships located in Germany are only subject to trade tax.

In 2010, the current income tax expense related to prior years amounts to EUR 19 m (prior year: EUR 12 m) and mainly reflects the impact of tax audits. In addition, Schaeffler incurred deferred tax income of EUR 20 m related to prior years.

Deviations from the expected tax rate result primarily from differing country-specific tax rates applicable to German and foreign entities.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to reported income tax expense. The calculation for 2010 is based on a 28.0% effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler GmbH.

In € millions	**2010**	**2009**
Net income before tax	**350**	**(1,074)**
Expected tax expense / income	98	(302)
Addition / reduction due to deviating local tax bases	4	(18)
Foreign / domestic tax rate differences	(1)	(22)
Non-recognition of deferred tax assets	7	60
Change in tax rate and law	(5)	(2)
Non-deductible expenses	146	210
Non-taxable income	0	(15)
Result from associated company accounted for at equity	54	166
Taxes for previous years	(1)	12
Other	(25)	36
Reported tax expense	**277**	**125**

The additional income tax on non-deductible expenses is almost entirely caused by non-deductible interest expense resulting from the interest deduction cap (German Zinsschranke). No deferred taxes were recognized on interest carryforwards.

Results from associated companies accounted for at equity relate primarily to the investment in Continental AG, Hanover.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

In € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as of January 1, 2009	**473**	**996**	**208**	**0**	**1,677**
Additions	10	5	35	1	51
Disposals	0	(8)	(26)	0	(34)
Transfers	0	5	(5)	0	0
Foreign currency translation	0	0	0	0	0
Balance as of December 31, 2009	**483**	**998**	**212**	**1**	**1,694**
Balance as of January 1, 2010	**483**	**998**	**212**	**1**	**1,694**
Additions	0	6	15	0	21
Disposals	0	(11)	(17)	(1)	(29)
Transfers	0	0	0	0	0
Foreign currency translation	0	4	1	0	5
Balance as of December 31, 2010	**483**	**997**	**211**	**0**	**1,691**
Accumulated amortization and impairment losses					
Balance as of January 1, 2009	**0**	**933**	**65**	**0**	**998**
Additions	0	43	43	0	86
Disposals	0	(8)	0	0	(8)
Transfers	0	0	0	0	0
Foreign currency translation	0	0	0	0	0
Balance as of December 31, 2009	**0**	**968**	**108**	**0**	**1,076**
Balance as of January 1, 2010	**0**	**968**	**108**	**0**	**1,076**
Additions	0	16	32	0	48
Disposals	0	(11)	0	0	(11)
Transfers	0	0	0	0	0
Foreign currency translation	0	3	0	0	3
Balance as of December 31, 2010	**0**	**976**	**140**	**0**	**1,116**
Net carrying amounts					
As of January 1, 2009	**473**	**63**	**143**	**0**	**679**
As of December 31, 2009	**483**	**30**	**104**	**1**	**618**
As of January 1, 2010	**483**	**30**	**104**	**1**	**618**
As of December 31, 2010	**483**	**21**	**71**	**0**	**575**

Additions to goodwill of EUR 10 m in 2009 represent mainly subsequent acquisition cost related to the acquisition of the Raybestos clutch lining business in 2008.

At the end of 2010, intangible assets purchased from third parties have a net carrying amount of EUR 21 m (prior year: EUR 30 m). Additions in 2010 totaled EUR 6 m (prior year: EUR 5 m).

At the end of 2010, internally generated intangible assets include EUR 45 m (prior year: EUR 72 m) in capitalized development costs. Additions in 2010 amounted to EUR 3 m (prior year: EUR 31 m) and amortization totaled EUR 13 m (prior year: EUR 19 m).

In addition, internally generated intangible assets include EUR 26 m (prior year: EUR 33 m) in internally generated software, mainly relating to the implementation of SAP. In 2010, additions of EUR 12 m (prior year: EUR 4 m) are offset by amortization of EUR 19 m (prior year: EUR 24 m).

In the consolidated income statement, amortization of intangible assets of EUR 48 m (prior year: EUR 86 m) is presented in cost of sales, research and development expenses and in selling and administrative expenses. Cost of sales includes no impairment losses (prior year: EUR 7 m) resulting from changes in the purchasing behavior of several customers.

Internally generated intangible assets with a carrying amount of EUR 13 m (prior year: EUR 30 m) are not subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 467 m (prior year: EUR 384 m) were recognized in the income statement in 2010.

At December 31, 2010, intangible assets with a carrying amount of EUR 88 m (prior year: EUR 112 m) have been pledged as collateral for bank loans.

Goodwill

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under "General Information" (Note 1.4 "Accounting policies"). To determine the recoverable amount, cash flows beyond the detailed forecast horizon are based on an annual growth rate of 0.5% (prior year: 1.0%) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 13.05% (prior year: 13.8%) as the weighted average cost of capital. This corresponds to a post-tax interest rate of 9.12% for the Automotive segment (prior year: 9.9%) and 9.18% for the Industrial segment (prior year: 9.9%).

Valuation assumptions are normally identical across cash-generating units.

As the value in use of the cash-generating units exceeds their carrying amount both for the current and the prior year, they are not impaired. Even adjusting an assumption the forecast cash flows are based upon, e.g. by reducing forecast EBIT by 15% or increasing cost of capital by 5%, does not result in an impairment loss.

The carrying amounts of goodwill allocated to the cash-generating units are unchanged from the prior year, amounting to EUR 275 m (prior year: EUR 275 m) (Automotive) and EUR 208 m (prior year: EUR 208 m) (Industrial).

4.2 Property, plant and equipment

In € millions	Land and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as of January 1, 2009	**1,866**	**5,189**	**845**	**392**	**8,292**
Additions	28	158	18	70	274
Disposals	(7)	(161)	(54)	(12)	(234)
Transfers	81	194	8	(283)	0
Foreign currency translation	19	86	7	0	112
Balance as of December 31, 2009	**1,987**	**5,466**	**824**	**167**	**8,444**
Balance as of January 1, 2010	**1,987**	**5,466**	**824**	**167**	**8,444**
Additions	16	160	36	153	365
Disposals	(12)	(188)	(72)	(10)	(282)
Transfers	5	92	4	(101)	0
Foreign currency translation	57	167	18	6	248
Balance as of December 31, 2010	**2,053**	**5,697**	**810**	**215**	**8,775**
Accumulated depreciation and impairment losses					
Balance as of January 1, 2009	**779**	**3,454**	**636**	**14**	**4,883**
Depreciation	69	420	63	0	552
Impairment losses	5	6	0	7	18
Impairment reversals	0	(2)	0	0	(2)
Disposals	(5)	(152)	(50)	(3)	(210)
Transfers	(1)	1	0	0	0
Foreign currency translation	7	61	6	0	74
Balance as of December 31, 2009	**854**	**3,788**	**655**	**18**	**5,315**
Balance as of January 1, 2010	**854**	**3,788**	**655**	**18**	**5,315**
Depreciation	67	414	57	0	538
Impairment losses	0	2	0	0	2
Impairment reversals	0	0	0	(5)	(5)
Disposals	(10)	(183)	(69)	0	(262)
Transfers	0	(1)	1	0	0
Foreign currency translation	18	113	15	0	146
Balance as of December 31, 2010	**929**	**4,133**	**659**	**13**	**5,734**
Net carrying amounts					
As of January 1, 2009	**1,087**	**1,735**	**209**	**378**	**3,409**
As of December 31, 2009	**1,133**	**1,678**	**169**	**149**	**3,129**
As of January 1, 2010	**1,133**	**1,678**	**169**	**149**	**3,129**
As of December 31, 2010	**1,124**	**1,564**	**151**	**202**	**3,041**

At EUR 365 m (prior year: EUR 274 m), the Schaeffler Group incurred significantly higher capital expenditures in 2010 than in 2009.

Due to the world wide economic slump, capital expenditures focused mainly on replacement in 2009.

In addition, various ongoing capital expenditure projects were continued or completed. In 2010, the exceptionally positive market trend particularly in the Engine Systems and Transmissions sectors and the resulting increase in customer demand led to increased capital expenditures both for expanding existing production capacity and for establishing new production facilities.

In addition to Germany, capital expenditures focused on the production facilities in China and Korea.

At December 31, 2010, property, plant and equipment with a carrying amount of EUR 1,627 m (prior year: EUR 1,581 m) has been pledged as collateral for bank loans.

In 2010, impairment losses of EUR 2 m (prior year: EUR 18 m) have been recognized in cost of sales. Impairment losses were incurred mainly on technical equipment and machinery in Romania and China. The recoverable amount of these assets is their fair value less costs to sell. Impairment losses of EUR 5 m on assets under construction in Brazil were reversed in 2010 due to the positive market trend. The reversal is shown in other income.

4.3 Investments in associated companies

In € millions	December 31, 2010	December 31, 2009
Continental AG	5,248	5,468
Other	4	4
Total	**5,252**	**5,472**

Please refer to the discussion in Note 2.2 for details of changes in investments in associated companies.

4.4 Deferred tax assets and liabilities

Total deferred tax assets and liabilities result from the following items:

In € millions	December 31, 2010	December 31, 2009
Intangible assets	(19)	(27)
Property, plant and equipment	(92)	(74)
Financial assets	(1)	4
Inventories	17	16
Trade receivables and other assets	(57)	57
Provisions for pensions and similar obligations	106	84
Other provisions and other liabilities	173	120
Loss carryforwards	25	40
Other	21	(47)
Deferred taxes, net	**173**	**173**
Deferred tax assets	289	248
Deferred tax liabilities	(116)	(75)

In the prior year financial statements, unrecognized deferred taxes were not allocated to the related balance sheet line items and loss carryforwards.

In accordance with IAS 12, deferred taxes are calculated using tax rates effective or substantively enacted at the end of the reporting period and expected to apply when the deferred taxes are realized. In 2010, an average trade tax rate of 12.0% (prior year: 12.0%) was used for German partnerships, a combined tax rate of 27.9% (prior year: 27.9%) including corporation tax, solidarity surcharge, and trade tax was used for German corporations, and the applicable local tax rates were used for foreign entities.

In 2010, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 19 m (prior year: EUR 41 m). Recovery of these net deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2010, gross loss carryforwards for corporation tax and trade tax amount to EUR 192 m (prior year: EUR 423 m), including EUR 70 m (prior year: EUR 203 m) on which no deferred taxes have been recognized. In addition, the Group had carryforwards under the interest deduction cap amounting to EUR 429 m (prior year: EUR 126 m) at the end of the reporting period, on which deferred taxes have not been recognized. The majority of the unrecognized loss carryforwards and the interest carryforwards can be utilized indefinitely.

At December 31, 2010, the accumulated amount of deferred taxes recognized in accumulated other comprehensive income (loss) is EUR 38 m (prior year: EUR 79 m) and mainly relates to derivatives, pensions and similar obligations.

No Schaeffler Group subsidiary is expected to be disposed of within the foreseeable future. As a result, deferred taxes were only recognized for planned dividends.

4.5 Inventories

	December 31,	
In € millions	**2010**	**2009**
Raw materials and supplies	283	220
Work in progress	401	302
Finished goods and merchandise	792	637
Advance payments	6	3
Total	**1,482**	**1,162**

In 2010, Schaeffler recognized a valuation allowance of EUR 200 m (prior year: EUR 203 m) on inventories. The allowance includes a provision for slow-moving and obsolete items as well as all evident storage and inventory risks. Inventories of EUR 6,423 m (prior year: EUR 5,465 m) were recognized as an expense in the consolidated income statement during the reporting period.

Inventories of EUR 1,035 m (prior year: EUR 790 m) have been pledged as collateral for liabilities.

4.6 Trade receivables

	December 31,	
In € millions	**2010**	**2009**
Trade receivables	1,443	1,144

All trade receivables are current.

At December 31, 2010, trade receivables of EUR 795 m (prior year: EUR 554 m) have been pledged as collateral for liabilities.

The Schaeffler Group recognizes impairment allowances for uncollectible receivables as well as for general credit risks on an individual basis. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. In that case, the impairment loss is recognized directly against the gross amount of the receivable. Movements in impairment allowances on trade receivables can be reconciled as follows:

In € millions	**2010**	**2009**
Impairment allowances as of January 1	**25**	**26**
Additions	3	11
Allowances used to cover write-offs	(2)	(5)
Reversals	(4)	(7)
Impairment allowances as of December 31	**22**	**25**

Trade receivables past due are summarized as follows:

In € millions		December 31, 2010	2009
Carrying amount		**1,443**	**1,144**
Not past due		1,355	1,052
	up to 60 days	81	85
	61-120 days	5	5
Past due	121-180 days	0	2
	181-360 days	1	0
	more than one year	1	0

Trade receivables past due, both gross and net of impairment allowances, changed as follows during the year:

	Past due				
In € millions	up to 60 days	61 – 120 days	121 – 180 days	181 – 360 days	more than one year
December 31, 2010					
Gross	81	8	1	3	10
Impairment allowance	0	3	1	2	9
Net	**81**	**5**	**0**	**1**	**1**
December 31, 2009					
Gross	89	7	3	5	8
Impairment allowance	4	2	1	5	8
Net	**85**	**5**	**2**	**0**	**0**

Please refer to Note 5.5 for related party receivables.

4.7 Other assets and income tax receivables

	December 31, 2010			December 31, 2009		
In € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	46	0	46	29	0	29
Marketable securities	3	0	3	2	0	2
Loans receivable and financial receivables	22	0	22	23	1	24
Tax receivables	21	112	133	27	67	94
Derivative financial assets	43	77	120	149	32	181
Miscellaneous assets	31	68	99	25	83	108
Total	**166**	**257**	**423**	**255**	**183**	**438**

Changes in derivative financial assets are primarily due to changes in the fair value of derivative financial instruments used to economically hedge the Schaeffler Group's interest rate and currency risk. They consist of an interest rate hedging instrument of EUR 43 m (prior year: EUR 148 m) and positive fair values of currency hedging instruments.

Other balances included here comprise mainly value-added tax and other tax receivables, the pension asset and loans receivable and financial receivables.

At December 31, 2010, other assets and income tax receivables of EUR 52 m (prior year: EUR 43 m) have been pledged as collateral for liabilities.

Income tax receivables of EUR 98 m have increased by EUR 59 m compared to December 31, 2009 and are entirely current.

4.8 Cash and cash equivalents

At December 31, 2010, cash and cash equivalents amount to EUR 733 m (prior year: EUR 350 m) and consist primarily of bank balances.

At December 31, 2010, cash and cash equivalents of EUR 531 m (prior year: EUR 208 m) have been pledged as collateral for liabilities.

4.9 Shareholders' equity

The Schaeffler Group's shareholders' equity consists of the following:

	December 31,	
In € millions	**2010**	**2009**
Share capital[1]	500	0
Other reserves	2,801	3,239
Accumulated other comprehensive income (loss)	(7)	(421)
Equity attributable to shareholders of the parent company	**3,294**	**2,818**
Non-controlling interests	47	34
Total shareholders' equity	**3,341**	**2,852**

1) As of December 31, 2009, Schaeffler GmbH (at that time named Schaeffler Verwaltung Zwei GmbH) had a share capital of EUR 25,000.

Schaeffler GmbH was founded on September 29, 2009 with share a capital of EUR 25,000. All of the shares in Schaeffler GmbH are held by Schaeffler Verwaltungs GmbH.

The Schaeffler Group's equity prior to the founding of Schaeffler GmbH on September 29, 2009 is shown as the net amount of assets and liabilities of the Schaeffler Group and, after deducting accumulated other comprehensive income, is presented as "partners' interests". Since the date Schaeffler GmbH was legally founded, the Schaeffler Group's shareholders' equity includes share capital of EUR 25,000. The difference between this balance and the net assets and liabilities of the Schaeffler Group is presented as "other reserves".

As of the date the capital increase related to the hive-down was entered in the Commercial Register, the Schaeffler Group's share capital increased to EUR 500,025,000.

In December 2010, an advance dividend of EUR 400 m payable to Schaeffler Verwaltungs GmbH, the shareholder of Schaeffler GmbH, was declared. No liability due to the shareholder was recognized for this dividend as at December 31, 2010. The dividend was paid in January 2011.

Accumulated other comprehensive income (loss) consists of the following reserves:

- Translation reserve

  The translation reserve comprises all foreign currency differences arising on translation of the financial statements of foreign operations.

- Hedging reserve

  The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

- Fair value reserve

  The fair value reserve comprises all accumulated net changes in the fair value of available-for-sale financial assets incurred until these assets are derecognized or impaired.

- Reserve for actuarial gains and losses Schaeffler immediately recognizes all actuarial gains and losses arising on defined benefit plans in other comprehensive income (loss).

Non-controlling interests represent interests in the equity of consolidated subsidiaries held by third parties.

4.10 Current / Non-current financial debt

	December 31, 2010			December 31, 2009		
In € millions	**Total**	**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**
Financial debt	**6,477**	64	6,413	**6,481**	61	6,420

At December 31, 2010, the Schaeffler Group had financial debt of EUR 6,477 m (prior year: EUR 6,481 m), consisting of EUR 6,413 m (prior year: EUR 6,420 m) in non-current bank debt and EUR 64 m (prior year: EUR 61 m) in current bank debt, both accounted for at amortized cost.

As part of the efforts to rearrange the debt financing, the loan agreements to refinance the financing of the acquisition of Continental AG shares were signed on November 20, 2009. The resulting Senior Facility Agreement (SFA) is included in Schaeffler GmbH's financial debt.

The SFA principal amount of EUR 7,143 m consists of a term loan of EUR 6,350 m and a revolver of EUR 793 m. They are due on June 30, 2013 and bear interest at EURIBOR plus 425 basis points. The carrying amount of EUR 6,271 m (prior year: EUR 6,241 m) as at December 31, 2010 differs from the principal amount due to unamortized transaction costs of EUR 79 m (prior year: EUR 109 m) and because the revolver has not been utilized. In addition, Schaeffler obtained an annuity loan to finance the purchase of an interest rate hedging instrument. At year-end, the loan has a carrying amount of EUR 140 m (prior year: EUR 174 m). Financial debt due in up to one year includes primarily accrued interest related to the SFA.

The SFA contains certain constraints including a requirement to meet certain financial covenants relating to debt leverage, interest cover, cash flow cover and capital expenditures. Under the SFA, the creditors have the right to call the debt before maturity if the covenants are not met and also for certain other reasons. If the debt is called, it becomes due immediately.

Extensive security has been provided to the banks in connection with the loan agreement. Where these have to be disclosed, the disclosure is made in the notes for the various assets concerned.

4.11 Provisions for pensions and similar obligations

Employee benefits include defined benefit plans, both funded and unfunded, and defined contribution plans. While defined contribution plans entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are presented as follows in the statement of financial position:

	December 31,	
In € millions	**2010**	**2009**
Provisions for pensions (liabilities net of related plan assets)	1,110	1,118
Provisions for obligations similar to pensions	2	2
Provisions for pensions and similar obligations	**1,112**	**1,120**
Pension asset (plan assets net of related liabilities)	46	29
Net defined benefit obligation	**1,066**	**1,091**

These amounts reconcile to the defined benefit obligation and plan assets as follows:

In € millions	December 31, 2010	December 31, 2009
Present value of unfunded obligations	1,041	1,118
Present value of funded obligations	501	356
Present value of defined benefit obligations (total)	**1,542**	**1,474**
Fair value of plan assets	478	385
Net pension obligation recognized in the statement of financial position	**1,064**	**1,089**
Other employee benefits similar to pensions	2	2
Net defined benefit obligation	**1,066**	**1,091**

The Schaeffler Group grants its employees various types of pension benefits. The defined benefit pension obligations are primarily towards beneficiaries in Germany and most of them are unfunded. Exceptions are pension arrangements where employees acquire rights to additional pension benefits by way of deferred compensation. Under these arrangements, Schaeffler agrees to accumulate additional capital using the compensation deferred, which is then paid out to the employee upon retirement, either in full or in installments. Deferred compensation is invested in specific funds.

In addition to the German pension plans, the most significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. In these countries, the Schaeffler Group's pension obligations are financed by separate pension funds. At the end of 2010, approximately 90% (prior year: 81%) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

Plan assets consist of the following:

In € millions	December 31, 2010	December 31, 2009
Equity instruments	172	134
Debt instruments	183	147
Real estate	14	12
Cash	2	1
Other (incl. reimbursement insurance)	107	91
Total	**478**	**385**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments.

The opening and closing balances of the present value of the defined benefit obligation can be reconciled as follows:

In € millions	2010	2009
Defined benefit obligation as of January 1	**1,474**	**1,292**
Benefits paid	(81)	(81)
Current service cost	25	23
Interest cost	77	76
Contributions by plan participants	9	8
Transfers in / out	(1)	8
Curtailments	0	(5)
Past service cost – vested	4	0
Past service cost – non-vested	1	0
Actuarial gains and losses recognized in other comprehensive income/loss	8	143
Foreign currency translation	26	10
Defined benefit obligation as of December 31	**1,542**	**1,474**

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

In € millions	2010	2009
Fair value of plan assets as of January 1	**385**	**329**
Contributions by employer / employee	52	24
– Employer contribution	44	16
– Employee contribution	8	8
Benefits paid	(20)	(22)
Expected return on plan assets	25	22
Transfers in / out	(1)	(1)
Actuarial gains and losses recognized in other comprehensive income/loss	16	22
Foreign currency translation	21	11
Fair value of plan assets as of December 31	**478**	**385**

The actual return on plan assets for 2010 amounted to EUR 41 m (prior year: EUR 44 m).

For 2011, Schaeffler expects to make contributions to plan assets totaling EUR 29 m.

The following amounts were recognized in profit or loss:

In € millions	2010	2009
Current service cost	25	23
Interest cost	77	76
Expected return on plan assets	(25)	(22)
Curtailment gains	0	(5)
Amortization of past service cost	4	0
Net pension cost	**81**	**72**

The amounts are included in the following income statement line items:

In € millions	2010	2009
Cost of sales	18	10
Research and development expenses	4	3
Selling expenses	3	3
Administrative expenses	4	2
Included in EBIT	**29**	**18**
Interest cost	77	76
Expected return on plan assets	(25)	(22)
Included in financial result	**52**	**54**
Total	**81**	**72**

The following expenses are recognized as personnel expense within the appropriate functional expenses:

In € millions	2010	2009
Expenses related to defined benefit plans	29	18
Contributions to defined contribution plans	12	13
Total	**41**	**31**

The following summarizes the actuarial gains and losses recognized in other comprehensive income. The amounts presented include related foreign currency translation gains and losses but not deferred tax effects.

In € millions	2010	2009
Accumulated balance as of January 1	**(34)**	**(152)**
Gains / losses on defined benefit obligations, current year	8	139
Gains / losses on plan assets, current year	(17)	(21)
Accumulated balance as of December 31	**(43)**	**(34)**

Assumptions used to arrive at the defined benefit obligation, in particular discount rates, salary increases and expected long-term rates of return on plan assets, are determined separately for each country.

The weighted averages of the principal actuarial assumptions for the Schaeffler Group as a whole are as follows:

	2010	2009
Discount rate as of December 31	5.3%	5.4%
Expected return on plan assets	6.0%	6.6%
Future salary increases	3.3%	3.1%
Future pension increases	1.7%	1.7%

The actuarial assumptions for the major countries are as follows:

Germany	2010	2009
Discount rate as of December 31	5.3%	5.3%
Expected return on plan assets	4.2%	4.5%
Future salary increases	3.3%	3.3%
Future pension increases	1.5%	1.5%

U.S.A.	2010	2009
Discount rate as of December 31	5.5%	5.8%
Expected return on plan assets	8.2%	8.1%
Future salary increases	n.a.	n.a.
Future pension increases	n.a.	n.a.

United Kingdom	2010	2009
Discount rate as of December 31	5.5%	5.8%
Expected return on plan assets	6.2%	6.9%
Future salary increases	n.a.	0.0%
Future pension increases	3.0%	3.3%

The expected total long-term return on plan assets amounts to 6.0% (prior year: 6.6%) and is based on the return on the portfolio as a whole and not on the sum of the returns on individual asset categories. It has been determined on the basis of historical returns without adjustments.

Mortality assumptions are based on published statistics and country-specific mortality tables.

Experience adjustments on pension obligations and plan assets have been as follows:

	December 31,				December 31,
In € millions	2010	2009	2008	2007[1]	2006[1]
Present value of defined benefit obligation	1,542	1,474	1,292	1,403	1,523
Fair value of plan assets	478	385	329	405	415
Net unfunded benefit obligation	**1,064**	**1,089**	**963**	**998**	**1,108**
Experience adjustments arising on plan liabilities	7	14	10	(13)	(7)
Experience adjustments arising on plan assets	15	20	(74)	(5)	6

1) Amounts disclosed represent those in the consolidated IFRS financial statements of IHO Group.

Experience adjustments are caused by differences between actuarial assumptions made at the beginning of the period and those made at the end of the period.

4.12 Provisions

In € millions	Employee benefits	Restruc-turing	Sales market risks	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as of January 1, 2010	**212**	**39**	**57**	**47**	**9**	**17**	**60**	**441**
Additions	74	1	69	36	28	11	41	260
Utilization	(86)	(13)	(50)	(14)	(2)	(7)	(28)	(200)
Changes in scope of consolidation	0	0	0	0	0	(1)	(2)	(3)
Reversals	(9)	(21)	(7)	(20)	0	(3)	(9)	(69)
Interest	4	0	0	0	0	0	1	5
Foreign currency translation	2	1	1	1	1	1	3	10
Balance as of December 31, 2010	**197**	**7**	**70**	**50**	**36**	**18**	**66**	**444**

Provisions have the following current and non-current portions:

In € millions	December 31, 2010 Non-current	Current	Total	December 31, 2009 Non-current	Current	Total
Employee benefits	117	80	197	120	92	212
Restructuring	0	7	7	2	37	39
Sales market risks	0	70	70	0	57	57
Warranties	0	50	50	0	47	47
Other taxes	0	36	36	0	9	9
Liability and litigation risks	0	18	18	0	17	17
Other	10	56	66	13	47	60
Total	**127**	**317**	**444**	**135**	**306**	**441**

Employee benefits and restructuring

Provisions for employee benefits include provisions for partial retirement, net of the related plan assets, of EUR 100 m (prior year: EUR 103 m). The obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are determined using the mortality tables “Richttafeln 2005 G” by Klaus Heubeck. The discount rate is 2.75% at December 31, 2010, and future salary increases were assumed to be 3.25%. The provision for employee benefits also includes obligations arising from the adjustment funds (German Entgeltrahmenabkommen, ERA) based on a collective bargaining agreement with the metalworking and electrical engineering industry in Germany, long-time service awards, as well as other personnel and payroll-related provisions, particularly for early retirement, death and temporary assistance benefits.

At December 31, 2010, restructuring provisions of EUR 7 m (prior year: EUR 39 m) have been recognized primarily for expenses expected in connection with human resources measures. In the prior year, extensive restructuring provisions had been recognized as a result of the global economic downturn.

Sales market risks

The provisions for sales market risks consist of provisions for selling costs (particularly customer bonuses, early-payment discounts and rebates).

Warranties

Warranty provisions are recognized on a case-by-case basis for each sales transaction.

Other taxes

Tax provisions have been recognized for current and prior year taxes other than income taxes. Additions during the reporting period mainly relate to provisions for land transfer tax incurred in connection with the restructuring of the Group in 2010.

Liability and litigation risks

Provisions for liability and litigation risks are recognized if, as a result of a past transaction or event, Schaeffler has a legal or constructive obligation for which an outflow of resources representing economic benefits is probable and which can be reliably estimated. Such provisions are recognized at their expected settlement amount, taking into account all identifiable risks, and are not offset against reimbursements.

Other

Other provisions include provisions for environmental risks, the audit of the consolidated and separate financial statements, document retention and other items to be provided for.

4.13 Trade payables

At December 31, 2010, the Schaeffler Group has trade payables of EUR 729 m (prior year: EUR 425 m), all of which are current. At December 31, 2010, the amount includes EUR 25 m (prior year: EUR 14 m) in notes payable.

The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15 on financial instruments.

4.14 Other liabilities and income tax payables

	December 31,	
In € millions	**2010**	**2009**
Other liabilities	909	1,088
Income tax payables	217	126

At December 31, 2010, income tax payables amount to EUR 217 m (prior year: EUR 126 m), including non-current balances of EUR 102 m (prior year: EUR 24 m).

Other liabilities consist of the following:

	December 31, 2010			December 31, 2009		
In € millions	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Financial allocation account	0	0	0	0	135	135
Amounts payable to staff	0	272	272	0	155	155
Social security contributions payable	8	28	36	9	30	39
Advance payments received	0	20	20	0	21	21
Other tax payables	0	74	74	6	63	69
Derivative financial liabilities	409	35	444	455	59	514
Miscellaneous liabilities	6	57	63	3	152	155
Total	**423**	**486**	**909**	**473**	**615**	**1,088**

The change of EUR 179 m in 2010 to EUR 909 m (prior year: EUR 1,088 m) is primarily due to changes in derivative financial instruments, amounts payable to staff, and the financial allocation account.

Derivative financial instruments include in particular forward exchange contracts, currency options and interest rate hedging instruments used to economically hedge the Schaeffler Group's currency and interest rate risk. The financial allocation account referred to above represents the liquidity requirements up to the date of the legal hive-down (see Note 1.2) of companies not included in the Schaeffler Group consolidated financial statements. Amounts payable to staff comprise overtime accounts, accrued vacation as well as profit sharing accruals. The increase in this balance is mainly the result of an increase in profit sharing accruals.

The Schaeffler Group's exposure to currency and liquidity risk related to other liabilities is disclosed in Note 4.15 on financial instruments.

4.15 Financial instruments

The following summarizes the carrying amounts and fair values of financial instruments by balance sheet class and by category per IFRS 7.8. Derivatives designated as hedging instruments are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

		As of December 31,			
		2010		2009	
In € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,443	1,443	1,144	1,144
Other investments[1]	AfS	8	–	8	–
Other assets					
– Marketable securities	AfS	3	3	2	2
– Other loans receivable[2]	LaR	107	107	109	109
– Derivatives designated as hedging instruments	n.a.	43	43	13	13
– Derivatives not designated as hedging instruments	HfT	77	77	168	168
Cash and cash equivalents	LaR	733	733	350	350
Financial liabilities, by class					
Financial debt	FLAC	6,477	6,555	6,481	6,481
Trade payables	FLAC	729	729	425	425
Other liabilities					
– Derivatives designated as hedging instruments	n.a	4	4	5	5
– Derivatives not designated as hedging instruments	HfT	440	440	509	509
– Other liabilities[2]	FLAC	83	83	306	306
Summary by category					
Available-for-sale financial assets (AfS)		11	–	10	–
Financial assets held for trading (HfT)		77	–	168	–
Loans and receivables (LaR)		2,283	–	1,603	–
Financial liabilities at amortized cost (FLAC)		7,289	–	7,212	–
Financial liabilities held for trading (HfT)		440	–	509	–

1) Investments accounted for at cost.

2) Includes other assets / liabilities in the scope of IAS 39/IFRS 7

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in limited liability companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2010, and no (partial) disposals are planned for the foreseeable future.

Marketable securities consist almost entirely of equity instruments in the form of shares in investment funds mostly investing in government bonds.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. Hedging instruments used are forward exchange contracts, options and swaps. Interest rate risk is hedged using interest rate options and swaps. However, hedge accounting is not applied to these instruments. The fair values of derivatives are shown in the table above and are calculated using valuation models with all significant inputs observable in the market.

The carrying amounts of trade payables and other liabilities are assumed to represent their fair value. The fair value of financial debt is the present value of the expected future cash flows, discounted using discount rates in effect at the end of the reporting period.

Please refer to the notes on the various balance sheet line items for details of the amount of financial assets pledged as collateral.

Financial assets and liabilities measured at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in arriving at the measurements (Level 1 – Level 3). The classification is based on the method used to determine fair value. According to the levels of the hierarchy, the fair value of a financial instrument is determined using the following inputs:

- Level 1: Quoted prices in active markets for identical assets or liabilities. This includes Schaeffler's marketable securities, where the fair value can be derived from the exchange-quoted price of the investment funds at the end of the reporting period.
- Level 2: Based on a valuation method for which all significant inputs are based on observable market data. This level includes existing forward exchange contracts and currency options as well as interest rate hedging instruments, i.e. interest rate swaps, caps and collars, which are measured using valuation models based on input variables observable in the market.
- Level 3: Based on a valuation method for which significant inputs are not based on observable market data. The Schaeffler Group does not have any financial instruments in this level.

In € millions	Level 1	Level 2	Level 3	Total
December 31, 2010				
Marketable securities	3	0	0	3
Derivatives designated as hedging instruments	0	43	0	43
Derivatives not designated as hedging instruments	0	77	0	77
Total financial assets	**3**	**120**	**0**	**123**
Derivatives designated as hedging instruments	0	4	0	4
Derivatives not designated as hedging instruments	0	440	0	440
Total financial liabilities	**0**	**444**	**0**	**444**
December 31, 2009				
Marketable securities	2	0	0	2
Derivatives designated as hedging instruments	0	13	0	13
Derivatives not designated as hedging instruments	0	168	0	168
Total financial assets	**2**	**181**	**0**	**183**
Derivatives designated as hedging instruments	0	5	0	5
Derivatives not designated as hedging instruments	0	509	0	509
Total financial liabilities	**0**	**514**	**0**	**514**

No transfers were made between the various levels of the fair value hierarchy (Level 1-3).

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

In € millions	Interest and dividends	Subsequent measurement: At fair value	Subsequent measurement: Impairment loss	Net income (loss) 2010	Net income (loss) 2009
Available-for-sale financial assets	1	0	0	1	1
Financial assets and liabilities held for trading	(252)	(68)	0	(320)	(263)
Loans and receivables	12	0	16	28	(6)
Financial liabilities at amortized cost	(386)	0	0	(386)	(614)
Total	**(625)**	**(68)**	**16**	**(677)**	**(882)**

As shown above, net gains and losses include interest, dividends, impairment losses and impairment reversals as well as changes in fair value recognized in profit or loss. Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and interest expense on financial debt, respectively (see Note 3.5). The net loss on financial assets and liabilities held for trading relates almost entirely to derivatives. EUR 282 m (prior year: EUR 247 m) (including EUR 30 m from fair value changes (prior year: EUR 2 m), EUR 252 m in compensation payments (prior year: EUR 245 m)) of this amount is included in interest expense on interest rate derivatives, while EUR 38 m (prior year: EUR 16 m) has been recognized in other comprehensive income.

In 2010, Schaeffler incurred net foreign exchange gains of EUR 27 m (prior year: net foreign exchange losses of EUR 26 m) on loans and receivables and financial liabilities accounted for at amortized cost. The net reversal of impairment losses of EUR 16 m (prior year: net impairment loss EUR 22 m) on financial assets classified as loans and receivables relates to the classes trade receivables (EUR 4 m impairment loss, EUR 8 m reversal) and other loans receivable (EUR 12 m reversal).

Financial risk management

Overview

Due to its global business activities and the resulting financing requirements, the Schaeffler Group is exposed to the following risks from its use of financial instruments:

(1) Credit risk

(2) Liquidity risk

(3) Market risk (currency, interest rate, and other price risk)

The Schaeffler Group's executive management board has overall responsibility for establishing and overseeing the Group's risk management system. The Finance Organization is responsible for developing and monitoring this risk management system and reports regularly to the CFO on its activities in this area.

Group wide risk management policies are in place to identify and analyze Schaeffler's risks, to set appropriate risk limits and controls as well as to monitor risks and adherence to limits. Risk management procedures and systems are reviewed regularly to reflect changes in market conditions and Schaeffler's activities.

See the discussion in section 7.4 of the management report for further details on financial risk management.

(1) Credit risk

The risk of financial loss to the Schaeffler Group due to a customer or a counterparty defaulting is referred to as credit risk and arises predominantly from trade receivables and other financial assets. Among Schaeffler's major customers in the Automotive segment are various OEM's. Within trade receivables there is a concentration of credit risk with regard to these business relationships (see Note 5.4).

Credit risk arising on trade receivables is managed by constant monitoring of customers' financial status, creditworthiness and payment history. Efficient collection procedures and classification of customers in defined risk categories are additional components of Schaeffler's credit risk management. Appropriate credit limits are set and commercial credit insurance policies further reduce credit risk. All relevant rules are outlined in a Schaeffler Group guideline.

The carrying amounts of financial assets represent the maximum credit exposure at the end of each reporting period as follows:

	Carrying amount	
	December 31,	
In € millions	**2010**	**2009**
Trade receivables	1,443	1,144
Other investments	8	8
Other assets		
– Marketable securities	3	2
– Other loans receivable	107	109
– Derivatives designated as hedging instruments	43	13
– Derivatives not designated as hedging instruments	77	168
Cash and cash equivalents	733	350
Total financial assets	**2,414**	**1,794**

The Schaeffler Group executive management board does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Management has determined that there are no indications that the counterparties to other financial assets, i.e. marketable securities, other loans and derivative financial assets will be unable to meet their future contractual obligation.

(2) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its financial obligations as they become due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they become due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to Schaeffler's reputation.

Liquidity risk is closely monitored by the Finance Organization based on a short-term (4 weeks) and medium-term (12 months) rolling timeframe. Both liquidity status and liquidity forecast are reported regularly to the CFO.

The Schaeffler Group ensures its ability to meet the financing requirements of its operations and its financial obligations by using equity, cash pooling arrangements, intercompany loans and existing lines of credit based on the relevant legal and tax regulations.

The Schaeffler Group's contractual payments of interest and principal on financial debt and derivative financial liabilities are summarized as follows:

In € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2010					
Non-derivative financial liabilities	**7,289**	**8,820**	**1,269**	**7,547**	**4**
– Financial debt	6,477	7,993	456	7,537	0
– Trade payables	729	744	737	3	4
– Other liabilities	83	83	76	7	0
Derivative financial liabilities	**444**	**433**	**218**	**215**	**0**
Total	**7,733**	**9,253**	**1,487**	**7,762**	**4**
December 31, 2009					
Non-derivative financial liabilities	**7,212**	**9,132**	**1,216**	**7,912**	**4**
– Financial debt	6,481	8,330	436	7,893	1
– Trade payables	425	495	475	17	3
– Other liabilities	306	307	305	2	0
Derivative financial liabilities	**514**	**812**	**279**	**533**	**0**
Total	**7,726**	**9,944**	**1,495**	**8,445**	**4**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans.

(3) Market risk

Market risk is defined as the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Schaeffler Group's net income (loss) or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

In order to manage market risk, the Schaeffler Group purchases and sells derivatives and incurs financial liabilities. All such transactions are carried out within the risk management strategy approved by the executive management board. The Finance Organization closely monitors, actively manages, and reports market risk to the CFO.

Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases and loans payable and receivable that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

At any point in time the Schaeffler Group hedges a major portion of its estimated foreign currency exposure in respect of forecast sales and purchases over the next twelve months using forward exchange contracts, currency swaps and related options. Where necessary, forward exchange contracts are rolled over at maturity.

Loans between group entities denominated in a currency other than the functional currency of one of the entities involved are fully hedged using forward contracts with the same maturity as the loans. Schaeffler's investments in subsidiaries are not hedged as those currency exposures are considered to be long-term in nature.

The Schaeffler Group's significant currency exposures by currency based on face values as of the end of each reporting period are as follows:

In € millions	USD	RON	JPY	HUF
December 31, 2010				
Estimated operating exposure	852	(198)	98	(84)
Forward exchange contracts	(599)	157	(78)	67
Currency options	(225)	0	0	0
Net exposure	**28**	**(41)**	**20**	**(17)**
December 31, 2009				
Estimated operating exposure	568	(59)	108	(83)
Forward exchange contracts	(271)	47	(54)	64
Currency options	(167)	0	(30)	0
Net exposure	**130**	**(12)**	**24**	**(19)**

The estimated operating exposure represents the forecast net exposure from operations and from investment activities within twelve months after the end of each reporting period. The net exposure above shows the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's Finance Organization. Thus, the net exposure shown represents the difference between hedged items in the form of expected future foreign currency cash flows that have not yet been recognized and hedging instruments that have been recognized in the statement of financial position. Currency risk in countries with foreign exchange restrictions (e.g. China, Brazil) is monitored by Schaeffler's Finance Organization. The most significant currency risk in these countries arises on the USD with an estimated net exposure of EUR 227 m in 2010 (prior year: EUR -254 m).

Forward exchange contracts in certain currencies are accounted for as hedging instruments in cash flow hedges with nearly perfect effectiveness. Changes in the fair value of these derivatives are recognized directly in other comprehensive income. Gains and losses on hedging instruments are reclassified to other income or other expense in the income statement when the hedged transaction (hedged item) affects net income. Both the majority of the forecast transactions and the resulting impact on net income occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk changed as follows:

In € millions	2010	2009
Balance as of January 1	**8**	**0**
Additions	48	15
Reclassified to income statement		
– to other income	21	15
– to other expenses	(39)	(22)
Balance as of December 31	**38**	**8**

Currency risk arising from foreign currency loans is fully hedged economically and does not result in any significant additional currency risk exposure.

The sensitivity analysis for currency risk is based on a hypothetical 10% weakening of the Euro against each of the significant foreign currencies as of December 31. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk and assumes that all other variables, particularly interest rates, remain constant. The following table shows the effect on net income (loss) and shareholders' equity of translating balances at the closing rate and of measurement at fair value.

	December 31, 2010		December 31, 2009	
In € millions	**Profit / Loss for the period**	**Shareholders' equity**	**Loss for the period**	**Shareholders' equity**
USD	(23)	(4)	(13)	(11)
JPY	(1)	0	(3)	(2)
HUF	0	0	0	0
RON	1	0	1	0

Conversely, a 10% rise in the Euro against the significant foreign currencies as at December 31 would have had the same but opposite effect, again holding all other variables constant.

Interest rate risk

Schaeffler's interest-bearing financial instruments can be summarized by type of interest as follows as of each December 31:

	Carrying amount	
	December 31,	
In € millions	**2010**	**2009**
Variable interest instruments	**6,304**	**6,301**
Financial debt	6,304	6,301
Fixed interest instruments	**173**	**180**
Financial debt	173	180

The Schaeffler Group enters into interest rate swaps, caps and collars to minimize its exposure to changes in interest rates on variable interest debt, which arises mainly from the refinancing arrangement entered into on November 20, 2009.

The Schaeffler Group has neither classified any fixed rate financial assets and liabilities as at fair value through profit or loss nor has it designated any derivatives as fair value hedges.

Since cash flow hedge accounting for interest rate risk was terminated as at November 20, 2009, the date the Schaeffler Group entered into its new financing arrangement, fair value changes of interest rate derivatives are recognized entirely in profit or loss. The equity reserve of EUR -268 m accumulated up to November 20, 2009 for cash flow hedge accounting is being amortized to profit or loss using the effective interest method. In 2010, this resulted in an interest expense of EUR 91 m (prior year: EUR 10 m).

With regard to variable interest instruments a change in the relevant reference rates (1-month-Euribor) by 100 basis points (Bp) as at December 31, 2010 would have affected (increased/decreased) net income (loss) by the following amounts. This analysis assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0%.

In € millions	(Loss)/profit for the period	
	Plus 100 Bp	Minus 100 Bp
As of December 31, 2010		
Variable interest instruments	(65)	36
Interest rate derivatives not designated as hedging instruments	260	(213)
Total	**195**	**(177)**
As of December 31, 2009		
Variable interest instruments	(64)	28
Interest rate derivatives not designated as hedging instruments	327	(323)
Total	**263**	**(295)**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income (loss) from interest rate derivatives not designated as hedging instruments consists of both fair value changes of EUR 191 m (prior year: EUR 320 m) and EUR -178 m (prior year: EUR -320 m), respectively, and an increase and decrease in interest of EUR 69 m (prior year: EUR 7 m) and EUR -35 m (prior year: EUR -3 m), respectively.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from changes in interest rates or exchange rates.

Other price risk required to be disclosed under IFRS 7 normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IAS 39, which is not the case for the Schaeffler Group. Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses. Derivative financial instruments are not used in this context.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

4.16 Capital management

At the end of the reporting period, the Schaeffler Group has the following capital structure:

In € millions	December 31, 2010	December 31, 2009
Equity attributable to shareholders of the parent company	3,294	2,818
– in % of total capital	33.7	30.3
Non-current financial debt	6,413	6,420
Current financial debt	64	61
– in % of total capital	66.3	69.7
Total capital	**9,771**	**9,299**

The overriding objective of the Schaeffler Group's capital management is to ensure that Schaeffler has the ability to repay its debt and remain financially stable. The most important instrument in this context is a detailed liquidity management at Group company level; it is designed to ensure that sufficient liquidity reserves are available at all times to service the financial debt incurred under the bank financing agreement (see Note 4.10).

This financing agreement subjects the Schaeffler Group to certain financial covenants (see Note 4.10). Compliance with these covenants is continually monitored at Group level. The definition of the covenants was amended in 2010 compared to 2009 to reflect the changes in the Schaeffler Group's net assets, financial position and results of operations. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from the consolidated financial statements.

The Schaeffler Group has complied with the agreed financial covenants both in 2010 and in 2009. Based on the current forecast, the Schaeffler Group also expects to comply with the financial covenants in 2011, 2012 and 2013.

In addition to the ratio of EBITDA to interest expense (interest cover) and cash flow to debt service (cash flow cover), the ratio of net debt to EBITDA (debt leverage) is an important indicator for the group. This ratio is defined as follows:

	December 31,	
In € millions	**2010**	**2009**
Current financial debt	64	61
Non-current financial debt	6,413	6,420
Total debt	**6,477**	**6,481**
Cash and cash equivalents	733	350
Total liquidity	**733**	**350**
Total net debt	**5,744**	**6,131**
EBITDA	**2,097**	**1,103**
Net debt to EBITDA ratio	**2.7**	**5.6**

4.17 Leases

The Schaeffler Group's obligations under finance leases are not significant.

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

	December 31,	
In € millions	**2010**	**2009**
Less than one year	34	46
Between one and five years	50	39
More than five years	4	5
Total	**88**	**90**

In 2010, expenses of EUR 50 m (prior year: EUR 48 m) related to operating rental and lease agreements were recognized in the income statement.

The Schaeffler Group's obligations under rental and lease agreements consist primarily of rental payments for real estate, leases for company vehicles, and an IT service contract that includes monthly payments for operations, services charged for based on hourly rates, IT projects and a user helpdesk.

5. Other disclosures

5.1 Capital commitments

At December 31, 2010, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 101 m (prior year: EUR 65 m). These commitments are expected to be settled as follows:

In € millions	December 31, 2010	December 31, 2009
Less than one year	101	63
Between one and five years	0	2
More than five years	0	0
Total	**101**	**65**

5.2 Contingent liabilities

In € millions	December 31, 2010	December 31, 2009
Obligations under guaranties and warranties	11	17
Security pledged to third parties	1	3
Other	18	18
Total	**30**	**38**

As at December 31, 2010, contingent liabilities for guaranties and warranties include primarily guarantees provided in connection with legal cases and loan collateralizations.

Other contingent liabilities consist primarily of claims raised by current and former employees as well as reassessments issued by taxation authorities. These issues relate to the Schaeffler Group's Indian entities. Due to the remote probability of an outflow of resources in each of these cases, they do not meet the conditions to be recognized as provisions.

Please see the discussion of shareholders' equity (Note 4.9) for the advance dividend declared in December 2010.

5.3 Additional disclosures on the consolidated statement of cash flows

The consolidated statement of cash flows has been adjusted for exchange differences arising on translation to the Euro, as these amounts do not represent cash flows.

In € millions	2010	2009
Interest received	10	8
Interest paid	(644)	(686)
Income taxes paid	(298)	(161)

Free cash flow for 2010 amounts to EUR 566 m (prior year: EUR -1,400 m). When comparing to the prior year, it should be noted that the improvement in free cash flow is due in particular to cash paid in 2009 to acquire shares in Continental AG: There were no comparable cash outflows in 2010. In 2009, cash used in investing activities before M&A activities was EUR 211 m.

Cash flows from operating activities were EUR 890 m (prior year: EUR 597 m). This inflow results primarily from improved earnings in 2010 as reflected in EBIT of EUR 1,509 m (prior year: EUR 446 m).

In 2010, cash totaling EUR 324 m was used in investing activities (prior year: EUR 1,997 m). Cash paid for property, plant and equipment and intangible assets totals EUR 361 m, compared to EUR 321 m in the prior year.

At December 31, 2010, cash and cash equivalents amount to EUR 733 (prior year: EUR 350 m), including EUR 168 m (prior year: EUR 88 m) held by subsidiaries in Argentina, Brazil, China, Colombia, India, Indonesia, South Korea, South Africa, Taiwan, the Philippines, Venezuela and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to the parent entity is restricted.

5.4 Segment reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler Group executive management board. Schaeffler engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group executive management board and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

Schaeffler's operating segments are reported in a manner consistent with the internal reporting provided to the Schaeffler Group executive management board. The Schaeffler Group is divided into the two reportable segments Automotive and Industrial as described below, each focusing on a specific customer group worldwide. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations of each of the Schaeffler Group's two reportable segments:

Automotive: Product and service business with customers in the automotive sector. These include manufacturers of passenger cars and their suppliers (OEM, Tier 1 and Tier 2) as well as companies focusing on the distribution of spare parts for passenger cars and commercial vehicles (Aftermarket). Products range from wheel bearings as well as chassis and steering components through transmission systems and developments to engine components and valve control systems.

Industrial: Product and service business with manufacturers of investment goods. These customers operate in the production machinery, rail traffic, wind power, consumer goods, heavy industries, power transmission and industrial aftermarket (MRO) sectors. The business with customers in the aerospace industry, i.e. aircraft manufacturers and their suppliers, is also included in this segment.

The key products of this segment are rolling and plain bearings, linear guidance systems and direct drives.

Significant customers

In 2010, Schaeffler generated revenue from one key customer totaling EUR 991 m (prior year: EUR 776 m), representing approximately 10.4% (prior year: 10.6%) of total Schaeffler Group revenue and approximately 15.6% (prior year: 16.4%) of the Automotive segment revenue.

Reconciling items: Since segment reporting information is based on internal management accounting requirements and not all items can be allocated, the information for segment reporting purposes differs from that reported in accordance with IFRS. Specifically, the following items are not allocated to the segments:

- Revenue: Sales of scrap steel are not included here as these sales are treated as a reduction of cost of materials, resulting in the correct allocation of earnings to the segments. Also, revenue from transactions in connection with materials provided to external service providers (subcontracting) is not allocated to the segments.
- Inventories: Segment inventories are shown at gross amounts based on Group production cost which differ from IFRS carrying amounts. Goods in transit, advance payments on inventories and valuation allowances are not included in segment inventories. Inventories are allocated to

one or the other of the segments based on the primary character of the related product lines. Sales of these products, however, may have been made in the same or in the other segment, depending on the customer group.

- Trade receivables: Trade receivables are shown gross for segment reporting purposes. This presentation differs from measurement under IFRS, which also reflects impairment allowances and sales of receivables to third parties under asset backed securities programs. Smaller entities are not part of the segment reporting.
- Property, plant and equipment and capital expenditures: The difference between the information for segment reporting purposes and the amounts shown in the statement of financial position in accordance with IFRS is due to production facilities which exclusively produce components for use by other Group entities. These production facilities are internally referred to as "Operations". In addition, capital expenditures in the functional areas research and development, selling, and administration are not included in segment capital expenditures. Property, plant and equipment and the related depreciation and impairments are fully allocated to one or the other of the segments based on their main production activities. Revenue and earnings from goods produced using property, plant and equipment allocated in this way may, however, have been generated in the same or in the other segment, depending on the customer group.

Information on the operating activities of each reportable segment is included below. Performance is measured based on EBIT as the executive management board believes that such information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries. Financial information on segment assets, i.e. total reportable assets and depreciation, amortization and impairment losses as well as capital expenditures is allocated based on the products typically manufactured by each segment. These financial indicators and the related operating activities are managed on a product by product basis.

Therefore, revenue and EBIT are reported based on an allocation of customers to segments, while segment assets are reported based on an allocation of products to segments. Gains on transactions between operating segments are not included.

The allocation of customers and products to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer and product structure.

	Automotive		**Industrial**		**Other**		**Total**	
	Jan. 1 – Dec. 31		**Jan. 1 – Dec. 31**		**Jan. 1 – Dec. 31**		**Jan. 1 – Dec. 31**	
In € millions	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenue	6,341	4,743	3,012	2,513	142[1)]	80[1)]	9,495	7,336
Cost of sales	4,499	3,685	1,865	1,787	142	80	6,506	5,552
Gross profit	1,842	1,058	1,147	726	0	0	2,989	1,784
EBIT	1,005	283	504	163	0	0	1,509	446
– in % of revenue	15.8	6.0	16.7	6.5	0.0	0.0	15.9	6.1
Depreciation, amortization and impairments	347	424	241	233	0	0	588	657
Inventories[6)]	687	529	715	613	80[2)]	20[2)]	1,482	1,162
Trade receivables[6)]	980	796	461	362	2[3)]	(14)[3)]	1,443	1,144
Property, plant and equipment[6)]	1,446	1,500	1,335	1,341	260[4)]	288[4)]	3,041	3,129
Capital expenditures	156	88	104	125	126[5)]	112[5)]	386	325

1) The amount consists mainly of scrap sales and materials provided to subcontractors.

2) The amount includes primarily advance payments, valuation allowances and goods in transit as well as inventories not allocated to segments (Operations).

3) The amount comprises mainly impairment allowances.

4) This amount is exclusively made up of property, plant and equipment not allocated to segments as it is used to produce components for both segments (Operations).

5) The amount consists entirely of capital expenditures not allocated to segments, mainly in the Operations and in the non-production areas. In addition, eliminations of intercompany transfers are also included here.

6) Amounts as of December 31.

Reconciliation to earnings before income taxes	**2010**	**2009**
EBIT Automotive	1,005	283
EBIT Industrial	504	163
EBIT	**1,509**	**446**
Financial result	(1,159)	(1,520)
Earnings before income taxes	**350**	**(1,074)**

Although the reportable segments Automotive and Industrial are managed on a global basis, they operate production and distribution facilities in the geographical areas Germany, Europe excluding Germany, North America, South America and Asia/Pacific.

For purposes of reporting segment information by geographical area, revenue is allocated to geographical areas based on the geographic location of customers, while assets are allocated based on the geographic location of the assets.

Information about geographical areas

	Revenue[1)]		**Non-current assets[2)] December 31,**	
In € millions	**2010**	**2009**	**2010**	**2009**
Germany	2,565	2,080	1,415	1,592
Europe excluding Germany	3,049	2,552	1,064	1,116
North America	1,254	920	363	349
South America	599	452	220	204
Asia/Pacific	2,028	1,332	554	486
Total	**9,495**	**7,336**	**3,616**	**3,747**

1) Revenue by customer location; presentation changed compared to prior year financial statements (by production location). Prior year amounts have been adjusted to correspond with current year presentation.

2) Non-current assets by production location. Non-current assets consist of property, plant and equipment and intangible assets.

5.5 Related parties

Under the definitions of IAS 24, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler are related parties of the Schaeffler Group.

Related parties of the Schaeffler Group also include the members of the executive management board of Schaeffler GmbH Dr. Juergen M. Geissinger, Prof. Dr. Peter Gutzmer, Rainer Hundsdoerfer, Norbert Indlekofer, Oliver Jung, Kurt Mirlach, Dr. Peter Pleus, Klaus Rosenfeld, Dr. Gerhard Schuff, and Robert Schullan.

Furthermore, the Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler GmbH, which, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: Prof. Dr. Hans-Joerg Bullinger, Dr. Eckhard Cordes, Dr. Hubertus Erlen, Prof. Dr. Bernd Gottschalk, Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr. Siegfried Luther, Thomas Moelkner, Wolfgang Mueller, Stefanie Schmidt, Dirk Spindler, Robin Stalker, Juergen Stolz, Salvatore Vicari, Juergen Wechsler, Dr. Otto Wiesheu and Juergen Worrich.

The Schaeffler Group's related companies consist of the direct and indirect parent companies of Schaeffler GmbH as well as other companies controlled by these parent companies. These related companies are referred to as "parent IHO companies" below.

In addition, the Continental Group companies are related to the Schaeffler Group.

The following table summarizes income and expenses from transactions with related parties recognized in the Schaeffler Group consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period.

	Receivables		Payables	
	December 31,		December 31,	
In € millions	**2010**	**2009**	**2010**	**2009**
Parent IHO companies	0	0	33	152
Continental Group companies	12	9	3	1

	Expenses		Income	
In € millions	**2010**	**2009**	**2010**	**2009**
Parent IHO companies	5	1	1	1
Continental Group companies	19	16	72	52

The shares in Schaeffler GmbH are indirectly held by Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. The immediate parent company of Schaeffler GmbH is Schaeffler Verwaltungs GmbH, and the ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG (IHO).

In 2010 and 2009, Schaeffler Group companies had various business relationships with the parent IHO companies in addition to the transactions related to the reorganization of the Group (see Note 1.2). These include financing obtained from a parent IHO company, fees for bank guarantees of bills of exchange recharged to the Schaeffler Group, and various services.

At December 31, 2009, liabilities due to parent IHO companies include the balance in the financial allocation account (see Note 4.14). The above summary does not include the acquisition of real estate from a parent IHO company for EUR 5 m in 2010.

Business relationships with the Schaeffler Group's associated companies exist mainly with Continental Group companies in the form of the supply of vehicle components, the rendering of development services, and the lease of commercial real estate.

In addition, the Schaeffler Group entered into an investor agreement with Continental AG on August 20, 2008 which is non-cancellable until the close of the annual general meeting of Continental AG in 2014. The agreement stipulates, among other things, that Schaeffler GmbH commits itself to restricting its investment in Continental AG to 49.99% until August 31, 2012 and to compensating Continental AG for certain tax disadvantages resulting from Continental AG losing the ability to utilize certain tax loss carryforwards. In connection with this obligation, Schaeffler made a voluntary contribution of EUR 20 m to Continental AG's capital reserve in 2009. A further voluntary contribution of EUR 4 m to Continental AG's capital reserve was made in 2009 in accordance with section 272 (2)(4) HGB.

In 2010, Schaeffler GmbH acquired a non-controlling interest in Schaeffler Immobilien GmbH & Co. KG consisting of 5.1% of the limited partners' shares from Georg F. W. Schaeffler for a purchase price of EUR 13 m. The Schaeffler Group does not have any other significant direct business relations with Maria-Elisabeth and Georg F. W. Schaeffler.

In 2010, short-term employee benefits of EUR 16 m (prior year: EUR 11 m) and post-employment benefits of EUR 1 m (prior year: EUR 2 m) were paid to members of the Schaeffler Group executive management board. Termination benefits of EUR 4 m (prior year: nil) were expensed in 2010.

No advances or loans were granted to members of the Schaeffler GmbH executive management board or supervisory board. The composition of the executive management board has changed from the prior year.

The supervisory board was created in August 2010 due to legal requirements regarding employee co-determination. Short-term benefits paid to members of the Schaeffler Group's supervisory board amounted to EUR 0.4 m in 2010.

In 2010, former members of the Schaeffler Group executive management board and their surviving dependants received payments of EUR 1 m (prior year: EUR 1 m).

Provisions for pension obligations, net of related plan assets, for former members of the executive management board of the Schaeffler Group and the predecessor companies of Schaeffler GmbH as well as for their surviving dependants amount to EUR 6 m in 2010 (prior year: EUR 6 m).

5.6 Auditors' fees

Fees paid to the Group auditors and their related companies for services rendered in 2010 and required to be disclosed by section 314 (1)(9) HGB total EUR 3,504 k and consist of EUR 1,613 k for financial statement audit services, EUR 763 k for tax advisory services, and EUR 1,128 k for other services.

5.7 Events after the reporting period

Dividend paid to shareholder Schaeffler Verwaltungs GmbH

On January 5, 2011, the dividend of EUR 400 m declared as an advance dividend in December 2010 was paid to Schaeffler Verwaltungs GmbH, the company's shareholder.

There were no other material events after December 31, 2010 that would have had a significant impact on the company's net assets, financial position and results of operations.

5.8 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler GmbH with its registered office located in Herzogenaurach.

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (50)			
AFT Atlas Fahrzeugtechnik GmbH	Werdohl	DE	100.00
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA – Drives & Mechatronics GmbH & Co. oHG	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	Herzogenaurach	DE	100.00
KWK Kraftfahrzeug-Werkstatt-Konzept Verwaltungsgesellschaft mbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00
LuK Vermoegensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschaeftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
REDON Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.90
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen GmbH & Co. OHG	Herzogenaurach	DE	100.00
Schaeffler Europa Logistik GmbH	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e.V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00
II. Foreign (102)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf – St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
FAG Servicos Industriais Ltda.	Sao Paulo	BR	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
HYDREL GmbH	Romanshorn	CH	100.00
INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogota	CO	100.00
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
LuK-Aftermarket Service s.r.o.	Prague	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
RODISA, S.A.	Elgoibar	ES	100.00
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
FAG France SAS	Chatillon	FR	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
FAG (UK) Ltd.	Sutton Coldfield	GB	100.00
LuK (Hereford) Limited	Hereford	GB	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Aftermarket-Service Limited	Hereford	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Stocklook Limited	Swansea	GB	100.00

Entity	Location	Country code	Group ownership interest in %
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LUK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
FAG Bearings India Ltd.	Baroda	IN	51.33
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Madras	IN	100.00
FAG Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Seoul	KR	100.00
INA Mexico S.A. de C.V.	Mexico City	MX	100.00
LuK Aftermarket Service, S.A. de C.V.	Puebla	MX	100.00
LuK Puebla, S.A. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, a.s.	Kysucke Nove Mesto	SK	100.00
INA Skalica spol. s.r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00

Entity	Location	Country code	Group ownership interest in %
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Valencia	VE	100.00
Schaeffler Vietnam Co., Ltd.	Ho Chi Minh City	VN	100.00
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
LuK Africa (Proprietary) Limited	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

Entity	Location	Country code	Group ownership interest in %
B. Associated companies/Joint ventures			
I. Germany (5)			
Continental AG	Hanover	DE	42.17
Contitech-INA Beteiligungsgesellschaft mbH[1)]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG[1)]	Hanover	DE	50.00
IFT Ingenieurgesellschaft fuer Triebwerkstechnik mbh	Clausthal-Zellerfeld	DE	49.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
II. Foreign (4)			
Eurings Rt.	Debrecen	HU	37.00
Endorsia International AB	Gothenburg	SE	30.00
Colinx, LLC	Greenville	US	25.00
Roland Corporate Housing LLC	Cheraw	US	49.00

1) Joint ventures accounted for using the equity method.

Entity	Location	Country code	Group ownership interest in %
C. Entities not consolidated and investments			
I. Germany (10)			
Bauverein Schweinfurt eG	Schweinfurt	DE	0.05
GKS-Gemeinschaftskraftwerk Schweinfurt GmbH	Schweinfurt	DE	10.31
GSB – Sonderabfall-Entsorgung Bayern GmbH	Baar-Ebenhausen	DE	0.18
GURAS Beteiligungs GmbH	Pullach	DE	1.00
PARTSLIFE Recycling Systems GmbH	Neu-Isenburg	DE	9.68
SupplyOn AG	Hallbergmoos	DE	15.25
TECCOM GmbH	Ismaning	DE	1.70
TECDOC Informations System GmbH	Cologne	DE	3.03
twin-gears AG[2)]	Schweinfurt	DE	100.00
Wohnungsbaugenossenschaft Hammelburg eG	Hammelburg	DE	3.00
II. Foreign (4)			
FAG Export s.r.o.[2)]	Boskovice	CZ	100.00
ICSA Industria Cuscinetti S.p.A.	San Beningo	IT	9.52
Schaeffler Ukraine GmbH[2)]	Kiev	UA	100.00
Consolidated Bearings Co. Ltd.	Cedar Knolls	US	10.00

2) Further details omitted in accordance with section 313 (2)(4)(3) HGB

5.9 Preparation of consolidated financial statements

These financial statements were prepared and authorized for issue by the executive management board of Schaeffler GmbH.

Herzogenaurach, March 17, 2011

Executive management board

Dr. Juergen M. Geissinger
Prof. Dr. Peter Gutzmer
Rainer Hundsdoerfer
Norbert Indlekofer
Oliver Jung

Klaus Rosenfeld
Kurt Mirlach
Dr. Peter Pleus
Dr. Gerhard Schuff
Robert Schullan

The following auditor's report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the consolidated financial statements, comprising consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and notes, together with the group management report for the business year from January 1, 2010 to December 31, 2010. The group management report is not included in this prospectus.

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the Schaeffler GmbH, Herzogenaurach, comprising consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and notes, together with the group management report for the business year from January 1 until December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 17, 2011

KPMG AG
Wirtschaftspruefungsgesellschaft

Kozikowski	Sailer
Wirtschaftspruefer	Wirtschaftspruefer

Stand-alone audited annual financial statements (HGB) of Schaeffler Verwaltungs GmbH as of and for the year ended December 31, 2012

Schaeffler Verwaltungs GmbH, Herzogenaurach

Balance sheet at December 31, 2012

Assets

	December 31, 2012		December 31, 2011	
	EUR	EUR	EUR	EUR
A. Fixed assets				
Long-term financial assets				
1. Shares in affiliated companies	12,676,423,788.90		12,676,423,788.90	
2. Loans to affiliated companies	276,975,000.00		117,918,000.00	
3. Other equity investments	1,883,946,092.94		1,883,946,092.94	
4. Other financial assets	0.00		1,459,039,742.38	
		14,837,344,881.84		16,137,327,624.22
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	91,546,297.79		349,564,799.76	
2. Other assets	98,268,485.74		8,549,674.66	
II. Cash on hand at banks	100,596,562.24		25,000,000.00	
		290,411,345.77		383,114,474.42
		15,127,756,227.61		16,520,442,098.64

Shareholders' Equity and liabilities

		December 31, 2012	December 31, 2011
		EUR	EUR
A.	**Shareholders' Equity**		
	I. Share capital	500,025,000.00	500,025,000.00
	II. Capital reserves	4,419,306,246.05	4,419,306,246.05
	III. Retained profits brought forward	5,703,833,977.85	4,778,221,398.07
	IV. Net loss/net income for the financial year	(15,856,069.81)	925,612,579.78
		10,607,309,154.09	10,623,165,223.90
B.	**Provisions**		
	1. Tax provisions	10,182,882.00	14,925,177.60
	2. Other provisions	3,842,795.00	4,183,734.00
		14,025,677.00	19,108,911.60
C.	**Liabilities**		
	1. Bank debt	3,570,942,736.27	4,883,938,691.52
	2. Trade payables	0.00	318,765.23
	3. Liabilities to affiliated companies	792,671,378.83	837,551,175.03
	4. Other liabilities – including taxes of EUR 102,748.41 (prior year: EUR 243,289.28) –	102,748.41	13,104,334.51
		4,363,716,863.51	5,734,912,966.29
D.	**Deferred tax liabilities**	142,704,533.01	143,254,996.85
		15,127,756,227.61	16,520,442,098.64

Schaeffler Verwaltungs GmbH, Herzogenaurach

Income statement
January 1 to December 31, 2012

		2012	2011
		EUR	EUR
1.	General and administrative expenses	(14,702,533.37)	(29,266,615.62)
2.	Other operating income	699,444.60	0.00
3.	Other operating expenses	0.00	(335,078,239.10)
4.	Income from equity investments – including EUR 300,000,000.00 (prior year: EUR 1,997,763,294.72) from affiliated companies –	514,706,772.58	1,997,763,294.72
5.	Income from profit transfer agreements	47,915,767.30	47,720,362.17
6.	Other interest and similar income – including EUR 12,454,681.30 (prior year: EUR 6,315,993.33) from affiliated companies –	12,787,093.56	193,985,325.93
7.	Interest and similar expenses – including EUR 46,174,069.75 (prior year: EUR 51,142,799.24) from affiliated companies –	(445,962,572.02)	(986,700,152.89)
8.	Result from ordinary activities	115,443,972.65	888,423,975.21
9.	Extraordinary expense	(131,000,000.00)	0.00
10.	Extraordinary result	(131,000,000.00)	0.00
11.	Income taxes – including deferred taxes of EUR 550,463.84 (prior year: EUR 43,199,667.87) –	(300,042.46)	35,990,936.40
12.	Other taxes	0.00	1,197,668.17
13.	Net income (loss) for the year	(15,856,069.81)	925,612,579.78

Schaeffler Verwaltungs GmbH

Herzogenaurach

Notes
to the financial statements January 1 to December 31, 2012

A. General disclosures on the financial statements

These financial statements were prepared in accordance with pars. 242 *et seq.* and pars. 264 *et seq.* (additional requirements for companies limited by shares (*Kapitalgesellschaften*)) of the German Commercial Code ("*Handelsgesetzbuch*"; **HGB**).

Pursuant to par. 267 (1) HGB, the Company is subject to the provisions for small companies limited by shares and has made use of the size-based exemptions under pars. 274a, 276 and 288 (1) HGB.

The financial statements were prepared on the basis of the following accounting policies, which have remained unchanged.

B. Accounting policies

Details of the company's accounting policies are as follows:

Long-term financial assets are recognized at acquisition cost or at fair value or, where there is a lasting impairment, at their lower fair value.

Write-downs to the lower fair value are recognized when the impairment is expected to be permanent.

Receivables are recognised at face value.

Other assets are recognized at face value, settlement amount, or present value.

Cash at banks is measured at face value.

Deferred taxes are recognized on temporary differences between amounts recognized for financial reporting and for tax purposes for assets, liabilities, as well as prepaid expenses and deferred income. In addition to the temporary accounting differences, tax loss carryforwards are taken into account. Any resulting net future tax charge is recognized as a deferred tax liability in the balance sheet.

Tax provisions reflect all identifiable risks and uncertain obligations and have been recognized at the amount expected to be payable based on reasonable business judgment.

Other provisions reflect all identifiable risks and uncertain obligations. Provisions are measured at the settlement amount arrived at by a reasonable commercial estimate of the expenditures expected to be required to settle uncertain obligations. Future increases in prices and costs are taken into account if sufficient objective evidence of their occurrence exists. Provisions due in more than one year are discounted at the average of the previous seven years' market interest rate appropriate to their term to maturity.

Bank debt, trade payables, liabilities to affiliated companies, and other liabilities are recognized at their settlement amount.

C. Notes to the balance sheet

1. Fixed assets

1.1. Disclosures on shareholdings

Please refer to the separate appendix to these notes for the disclosure on shareholdings.

1.2. Other financial assets

As of December 31, 2011, this balance sheet line item included a 10.39% interests in Continental AG, which had been transferred to two financial institutions by Schaeffler. The interests were sold in the financial year 2012.

2. Receivables and other assets

Receivables and other assets are due in up to one year.

Receivables from affiliated companies include receivables from shareholders/partners in the amount of EUR 38,867 thousand (prior year: EUR 1,203 thousand).

3. Liabilities

Schedule of liabilities

December 31, 2012	Due in up to one year	Due between one to five years	Due in more than five years	Total
	(EUR thousands)	(EUR thousands)	(EUR thousands)	(EUR thousands)
1. Bank debt	0	2,354,802	1,216,141	3,570,943
2. Trade payables	0	0	0	0
3. Liabilities to affiliated companies	5,909	0	786,762	792,671
including trade payables	*2,051*	*0*	*0*	*2,051*
including amounts due to shareholder of	*2,051*	*0*	*0*	*2,051*
4. Other liabilities	103	0	0	103
	6,012	2,354,802	2,002,903	4,363,717

Prior year	Due in up to one year	Due between one to five years	Due in more than five years	Total
	(EUR thousands)	(EUR thousands)	(EUR thousands)	(EUR thousands)
1. Bank debt	0	3,029,255	1,854,684	4,883,939
2. Trade payables	319	0	0	319
3. Liabilities to affiliated companies	837,551	0	0	837,551
including trade payables	*2,427*	*0*	*0*	*2,427*
including amounts due to shareholder of	*50,766*	*0*	*0*	*50,766*
4. Other liabilities	13,104	0	0	13,104
	850,974	3,029,255	1,854,684	5,734,913

Bank debt secured by liens or similar rights (primarily long-term financial assets) total EUR 3,570,943 thousand (prior year: EUR 4,883,939 thousand).

D. Notes to the income statement

Income and expense from discounting/compounding

Other interest and similar income includes income from discounting of EUR 258 thousand (prior year: EUR 80 thousand).

E. Other disclosures

1. Contingent liabilities

The company has the following contingent liabilities:

	December 31, 2012	Prior year
	(EUR thousands)	(EUR thousands)
From the granting of security for third party liabilities	4,613,913	6,955,540
including amounts secured by liens of EUR 4,613,913 thousand (prior year: EUR 6,955,540 thousand)		
including security provided for liabilities of affiliated companies of EUR 4,613,913 thousand (prior year: EUR 6,955,540 thousand)		

Contingent liabilities were restructured in connection with the refinancing under the syndicated senior facility agreement of January 2012. As a result, the Company is no longer liable for this part of group financing.

The remaining liability for third party liabilities exists under the secondary liability under par. 133 UmwG.

As a result of the positive development of the Schaeffler Group and the joint liability of other companies of the Schaeffler Group, the company considers the risk of claims under guarantees for liabilities of others to be low.

2. Appropriation of profit

The management will propose to the shareholder meeting to carry forward the net loss reported for the financial year ended December 31, 2012 together with the retained profits brought forward to new account.

3. Control and profit transfer agreements

On October 29, 2010, a control and profit transfer agreement was concluded between Schaeffler Verwaltungs GmbH, Herzogenaurach, as the controlling company, and Schaeffler Vermögensverwaltungs GmbH, Herzogenaurach, as the controlled company, by applying par. 291 (1) of the German Stock Corporation Act (*Aktiengesetz*) by analogy. Under this agreement, Schaeffler Vermögensverwaltungs GmbH, Herzogenaurach, undertakes to transfer its results to Schaeffler Verwaltungs GmbH, Herzogenaurach.

4. Governing bodies of the company

Management

The managing directors of Schaeffler Verwaltungs GmbH are:

- Dr Juergen M. Geissinger, Pluederhausen, Chief Executive Officer of Schaeffler AG;
- Klaus Rosenfeld, Frankfurt am Main, Chief Financial Officer of Schaeffler AG;
- Maria-Elisabeth Schaeffler, Herzogenaurach, shareholder of INA-Holding Schaeffler GmbH & Co. KG;
- Georg F. W. Schaeffler, Herzogenaurach, shareholder of INA-Holding Schaeffler GmbH & Co. KG.

5. Group affiliation

The Company is included in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, which are filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlagsgesellschaft mbH, Cologne) and published in the Electronic

Federal Gazette (*Bundesanzeiger*). As a result, the Company is released from its obligation under par. 291 (1) HGB to prepare subgroup consolidated financial statements (*Teilkonzernabschluss*). The exempting consolidated financial statements are prepared by applying the accounting and consolidation policies under the International Financial Reporting Standards as adopted by the European Union.

Herzogenaurach, March 20, 2013

Schaeffler Verwaltungs GmbH

[*signature*]	[*signature*]
Maria-Elisabeth Schaeffler	Georg F. W. Schaeffler
[*signature*]	[*signature*]
Dr Juergen M. Geissinger	Klaus Rosenfeld

List of shareholdings Schaeffler Verwaltungs GmbH as at 12/31/2012

Entity	Location	Country code	Ownership interest in %	Shareholders' Equity in '000 EUR	Net income (loss) in '000 EUR
A. Affiliated companies					
I. Germany					
AFT Atlas Fahrzeugtechnik GmbH (from February 21, 2013: Schaeffler Engineering GmbH)[2]	Werdohl	DE	100.00	6,571	0
AS Auslandsholding GmbH[2]	Buehl	DE	100.00	20,369	0
CBF Europe GmbH	Wuppertal	DE	100.00	(4,863)	0
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00	37	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00	1,636	1,089
Duerkopp Maschinenbau GmbH[2]	Schweinfurt	DE	100.00	4,289	0
Egon von Ruville GmbH[2]	Hamburg	DE	100.00	59,835	0
FAG Aerospace GmbH	Schweinfurt	DE	100.00	37	2
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00	21,110	10,566
FAG Industrial Services GmbH[2]	Herzogenrath	DE	100.00	738	0
FAG Kugelfischer GmbH[2]	Schweinfurt	DE	100.00	726,565	0
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH-AMUS[2]	Homburg	DE	100.00	792	0
GURAS Beteiligungs GmbH & Co. Vermietungs- KG	Pullach	DE	99.00	(706)	237
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00	305	(25)
IAB Holding GmbH[2]	Herzogenaurach	DE	100.00	4,567,977	0
IAB Verwaltungs GmbH[2]	Herzogenaurach	DE	100.00	1,322,860	0
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00	27	(4)
INA-Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00	3,196	490
INA Automotive GmbH[2]	Herzogenaurach	DE	100.00	25	0
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	4,309,222	(2)
INA Beteiligungsverwaltungs GmbH[2]	Herzogenaurach	DE	100.00	1,248,248	0
Industrieaufbaugesellschaft Buehl mbH[2]	Buehl	DE	100.00	56,928	0
Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschraenkter Haftung[2]	Herzogenaurach	DE	100.00	558,435	0
KWK Verwaltungs GmbH	Langen	DE	100.00	32	(1)
LuK ASG GmbH	Buehl	DE	100.00	137	0
LuK Auslandsholding GmbH[2]	Buehl	DE	100.00	59,029	0
LuK Beteiligungsgesellschaft mbH[2]	Buehl	DE	100.00	34,342	0
LuK GmbH & Co. KG	Buehl	DE	100.00	677,316	266,513
LuK Management GmbH	Buehl	DE	100.00	72	18
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00	27,086	3,056
LuK Unna GmbH & Co. KG	Unna	DE	100.00	14,684	3,261
LuK Vermoegensverwaltungsgesellschaft mbH[2]	Buehl	DE	100.00	1,809,970	0
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00	50,994	6,367
PD Qualifizierung und Beschaeftigung GmbH[2]	Schweinfurt	DE	100.00	122	0

Entity	Location	Country code	Ownership interest in %	Shareholders' Equity in '000 EUR	Net income (loss) in '000 EUR
Raytech Composites Europe GmbH[2)]	Morbach	DE	100.00	15,781	0
REDON Beteiligungs GmbH & Co. Vermietungs- KG	Pullach	DE	99.90	25	870
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00	427,477	134,812
Schaeffler AG	Herzogenaurach	DE	100.00	8,085,707	3,228,250
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	463	16
Schaeffler Beteiligungsverwaltungs GmbH[2)]	Herzogenaurach	DE	100.00	40,841	0
Schaeffler Elfershausen AG & Co. KG	Herzogenaurach	DE	100.00	3,040	468
Schaeffler Europa Logistik GmbH[2)]	Herzogenaurach	DE	100.00	25	0
Schaeffler Friction Products GmbH[2)]	Morbach	DE	100.00	5,131	0
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00	809	(387)
Schaeffler Immobilien GmbH & Co. KG	Herzogenaurach	DE	100.00	81,637	10,245
Schaeffler Motorenelemente AG & Co. KG	Herzogenaurach	DE	100.00	2,885	(6,937)
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00	11,316,178	2,240,036
Schaeffler Vermoegensverwaltungs GmbH[2)]	Herzogenaurach	DE	100.00	799,682	0
Schaeffler Versicherungs-Vermittlungs GmbH[2)]	Herzogenaurach	DE	100.00	8,282	0
Schaeffler Verwaltungsholding Drei GmbH	Herzogenaurach	DE	100.00	1,893,239	322
Schaeffler Verwaltungsholding Eins GmbH	Herzogenaurach	DE	100.00	5,910,725	0
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00	25	0
Schaeffler Verwaltungsholding Zwei GmbH	Herzogenaurach	DE	100.00	446,112	2,006
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00	15,184	(1,653)
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00	55	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00	45,000	4,317
II. Foreign					
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00	24,386	(1,051)
FAG Aerospace Inc.	Stratford	CA	100.00	105,094	18,402
FAG Bearings India Ltd.	Baroda	IN	51.33	122,289	23,183
FAG Bearings LLC	Danbury	US	100.00	12,462	(11)
FAG France SAS	Chatillon	FR	100.00	1,222	103
FAG Holding LLC	Danbury	US	100.00	0	0
FAG Interamericana A.G.	Miami	US	100.00	15,994	1,696
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00	14,631	(235)
FAG Railway Products G.e.i.e.	Milan	IT	75.00	0	0
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83	783	218
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00	6,261	59
Grico Invest GmbH	Chur	CH	100.00	3,447	80

Entity	Location	Country code	Ownership interest in %	Shareholders' Equity in '000 EUR	Net income (loss) in '000 EUR
HYDREL GmbH	Romanshorn	CH	100.00	123,808	6,953
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00	81,406	19,987
INA Bearings India Private Limited	Pune	IN	100.00	8,168	271
INA Invest GmbH	Horn	CH	100.00	187	8,287
INA Kysuce, a.s.	Kysucke Nove Mesto	SK	100.00	151,537	5,849
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00	8,180	2,119
INA Mexico S.A. de C.V.	Mexico City	MX	100.00	2,303	369
INA Rolamentos Lda.	Porto	PT	100.00	6,339	66
INA Skalica spol. s.r.o.	Skalica	SK	100.00	91,536	7,544
LMC Bridgeport, Inc.	Danbury	US	100.00	8,577	870
LuK (Hereford) Limited	Hereford	GB	100.00	891	0
LuK (UK) Limited	Sheffield	GB	100.00	28,374	1,277
LuK Clutch Systems, LLC	Wooster	US	100.00	100,557	1,464
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00	663	(21)
LuK India Private Limited	Madras	IN	100.00	23,526	1,511
LuK Leamington Limited	Leamington Spa.	GB	100.00	25,778	139
LuK Norge AS	Oslo	NO	100.00	11,429	(21)
LuK Puebla, S.A. de C.V.	Puebla	MX	100.00	30,539	6,064
LUK Savaria Kft.	Szombathely	HU	100.00	75,438	42,908
LuK Transmission Systems LLC	Wooster	US	100.00	89,092	29,717
LuK USA LLC	Wooster	US	100.00	120,199	638
LuK-Aftermarket Service s.r.o.	Prague	CZ	100.00	246	(2)
LuK-Aftermarket Services, LLC	Valley City	US	100.00	(2,857)	0
Octon G.m.b.H.	Horn	CH	100.00	34,315	155
Radine B.V.	Barneveld	NL	100.00	1,720	574
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00	1,139	439
RODISA, S.A.	Elgoibar	ES	100.00	54,491	(162)
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00	150,399	(5,860)
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00	276,693	68,659
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00	44,783	(1,570)
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00	25,571	12,066
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00	26,664	2,175
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00	1,636	(263)
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00	32,334	5,235
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00	1,089	5
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00	64,277	13,141
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00	6,511	2,071
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00	14,857	1,173
Schaeffler Austria GmbH	Berndorf - St. Veit	AT	100.00	34,720	2,281
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100.00	51,535	8,331
Schaeffler Automotive Aftermarket Mexico, S.A. de C.V.	Puebla	MX	100.00	63,324	9,099
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00	5,821	792
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00	828	224
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00	40,385	1,469
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00	277,699	36,392
Schaeffler Bulgaria OOD	Sofia	BG	100.00	1,231	77
Schaeffler Canada Inc.	Oakville	CA	100.00	96,139	5,650
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00	7,061	(1,530)
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00	1,848	61

Entity	Location	Country code	Ownership interest in %	Shareholders' Equity in '000 EUR	Net income (loss) in '000 EUR
Schaeffler Colombia Ltda.	Bogota	CO	100.00	342	20
Schaeffler CZ s.r.o.	Prague	CZ	100.00	8,901	721
Schaeffler Danmark ApS	Aarhus	DK	100.00	3,520	934
Schaeffler Finance B.V.	Barneveld	NL	100.00	13,350	11,356
Schaeffler Finland Oy	Espoo	FI	100.00	4,431	1,045
Schaeffler France SAS	Haguenau	FR	100.00	50,017	5,889
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00	37,851	3,998
Schaeffler Group USA, Inc.	Fort Mill	US	100.00	554,098	8,821
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00	149,360	58,187
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00	(307)	(55)
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00	35,171	4,308
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00	161	(5)
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00	17,816	5,768
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00	38	7
Schaeffler Italia S.r.l.	Momo	IT	100.00	168,418	10,160
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00	26,514	5,131
Schaeffler Korea Corporation	Seoul	KR	100.00	296,369	77,493
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00	1,654	1,083
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00	(494)	(1,835)
Schaeffler Manufacturing Rus GmbH	Ulyanowsk	RU	100.00	126	(286)
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00	11,669	1,521
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00	791	1,783
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00	11,608	(681)
Schaeffler Middle East FZE	Jebel Ali	AE	100.00	8,801	1,802
Schaeffler Nederland B.V.	Barneveld	NL	100.00	9,761	1,053
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00	8,457	3,246
Schaeffler Norge AS	Oslo	NO	100.00	5,974	479
Schaeffler Philippines Inc.	Makati City	PH	100.00	3,002	376
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00	22,612	6,889
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00	18,424	1,253
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00	7,524	627
Schaeffler Russland GmbH	Moscow	RU	100.00	4,669	1,642
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00	522	89
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00	983	348
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00	13,821	10,175
Schaeffler Sverige AB	Arlandastad	SE	100.00	10,845	1,849
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00	2,153	157
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00	42,278	17,237
Schaeffler Ukraine GmbH	Kiev	UA	100.00	655	289
Schaeffler Venezuela, C.A.	Valencia	VE	100.00	222	4
Schaeffler Vietnam Co., Ltd.	Ho Chi Minh City	VN	100.00	8,517	503
Stocklook Limited	Swansea	GB	100.00	793	(4)
The Barden Corporation	Danbury	US	100.00	97,969	8,677
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00	43,874	10,868

Entity	Location	Country code	Ownership interest in %	Shareholders' Equity in '000 EUR	Net income (loss) in '000 EUR
B. Other equity investments					
I. Germany					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00	55	1
Contitech-INA GmbH & Co. KG	Hanover	DE	50.00	295	33
IFT Ingenieurgesellschaft fuer Triebwerkstechnik mbh[1)]	Clausthal-Zellerfeld	DE	49.00	4,446	814
PStec Automation and Service GmbH[1)]	Niederwerrn	DE	40.00	532	140
Schaeffler Beteiligungsholding GmbH & Co. KG	Herzogenaurach	DE	100.00	5,065,903	108,287
II. Foreign					
Colinx, LLC[1)]	Greenville	US	20.00	2,666	67
Endorsia International AB[1)]	Gothenburg	SE	30.00	4,302	(72)
Eurings Rt.[1)]	Debrecen	HU	37.00	3,648	533
Roland Corporate Housing LLC[1)]	Cheraw	US	49.00	959	58

(1) Financial year 2011 amounts.

(2) There is a profit and loss transfer agreement.

INDEPENDENT AUDITOR'S REPORT

To the Schaeffler Verwaltungs GmbH, Herzogenaurach

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system of Schaeffler AG, Herzogenaurach, for the business year from January 1st to December 31st, 2012. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records and the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

Munich, March 20th, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

[*signature*]
Sailer
Wirtschaftsprüfer

[*signature*]
Pritzer
Wirtschaftsprüfer

Unaudited opening balance sheet of Schaeffler Holding Finance B.V. as of July 1, 2013

Opening balance sheet as at 01.07.2013

Schaeffler Holding Finance B.V.

Barneveld, Netherlands

"Dutch GAAP"

	Actual 07/2013
	EUR
Balance Sheet	
ASSETS	
Cash and cash equivalents	18,000.00
Total assets	**18,000.00**
EQUITY	
Share capital (subscribed capital)	90,000.00
Subscribed capital (unpaid)	(72,000.00)
Total equity	**18,000.00**

ISSUER
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OFFERING MEMORANDUM

SCHAEFFLER

Schaeffler Holding Finance B.V.

€800,000,000 6.875% / 7.625% Senior Secured PIK Toggle Notes due 2018
$1,000,000,000 6.875% / 7.625% Senior Secured PIK Toggle Notes due 2018

Lead Bookrunners

Deutsche Bank J.P. Morgan BNP PARIBAS Citigroup Commerzbank HSBC UniCredit Bank