Not for General Distribution
in the United States of America

SCHAEFFLER GROUP

Schaeffler Finance B.V.

€400,000,000 2.50% Senior Secured Notes due 2020
€600,000,000 3.25% Senior Secured Notes due 2025
$600,000,000 4.75% Senior Secured Notes due 2023

Schaeffler Finance B.V., a private limited liability company established under the laws of the Netherlands (the "**Issuer**"), will issue on April 13, 2015 (the "**Issue Date**") €400,000,000 in aggregate principal amount of its 2.50% Senior Secured Notes due 2020 (the "**2020 Euro Notes**"), €600,000,000 in aggregate principal amount of its 3.25% Senior Secured Notes due 2025 (the "**2025 Euro Notes**" and, together with the 2020 Euro Notes, the "**Euro Notes**") and $600,000,000 in aggregate principal amount of its 4.75% Senior Secured Notes due 2023 (the "**Dollar Notes**" and, together with the Euro Notes, the "**Notes**").

The Issuer will pay interest at a rate of 2.50% on the 2020 Euro Notes, 3.25% on the 2025 Euro Notes and 4.75% on the Dollar Notes, in each case, semi-annually in arrears on February 15 and August 15 of each year, commencing August 15, 2015. The 2020 Euro Notes will mature on May 15, 2020, the 2025 Euro Notes will mature on May 15, 2025 and the Dollar Notes will mature on May 15, 2023. The Issuer may redeem the 2020 Euro Notes, the 2025 Euro Notes and the Dollar Notes in whole or in part at any time on or after May 15, 2017, May 15, 2020 and May 15, 2018, respectively, at the redemption prices specified herein. Prior to May 15, 2017, May 15, 2020 and May 15, 2018, the Issuer will be entitled, at its option, to redeem all or a portion of the 2020 Euro Notes, the 2025 Euro Notes and the Dollar Notes, respectively, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a "make-whole" premium. In addition, prior to May 15, 2017, May 15, 2020 and May 15, 2018, the Issuer may redeem at its option up to 40% of the 2020 Euro Notes, the 2025 Euro Notes and the Dollar Notes, respectively, using the proceeds of certain equity offerings.

Upon the occurrence of certain events constituting a change of control, the Issuer may be required to make an offer to purchase the Notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any. 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 and 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 unconditionally and irrevocably guaranteed (the "**Guarantees**") on a senior basis by Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) (the "**Parent Guarantor**" or the "**Company**") and certain of its subsidiaries (the "**Subsidiary Guarantors**" and, together with the Parent Guarantor, the "**Guarantors**"). Upon issuance, the Notes (together with the Parent Guarantor's and the Subsidiary Guarantors' obligations under certain credit facilities and hedging liabilities described in this offering memorandum (the "**Offering Memorandum**")) will be, subject to a security pooling and intercreditor agreement, secured by pledges over certain shares and certain assets held by the Parent Guarantor and the Subsidiary Guarantors as described in this Offering Memorandum (the "**Collateral**").

The validity and enforceability of the Guarantees and the security interests in the Collateral will be subject to certain legal and contractual limitations. See "*Risk factors—Risks related to the Notes*."

All or part of the Guarantees and 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 Guarantees 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 Guarantees 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 Guarantees 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 dated 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. Application has been made to have the Notes listed on the Official List of the Luxembourg Stock Exchange (the "**LuxSE**") and traded on the LuxSE's Euro MTF market (the "**Euro MTF Market**"), 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 Notes are expected to 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 2020 Euro Notes: 99.383% plus accrued interest, if any, from the Issue Date.
Price for the 2025 Euro Notes: 98.920% plus accrued interest, if any, from the Issue Date.
Price for the Dollar Notes: 100.000% plus accrued interest, if any, from the Issue Date.

Lead Bookrunners

BofA Merrill Lynch	**Deutsche Bank**	**Barclays**	**BayernLB**	**BNP PARIBAS**
Citigroup	**Commerzbank**	**HSBC**	**J.P. Morgan**	**UniCredit**

Offering Memorandum dated April 13, 2015.

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Important information about this Offering Memorandum

We have prepared this Offering Memorandum based on information obtained from sources we 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., Merrill Lynch International, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC, Bayerische Landesbank, BNP Paribas, BNP Paribas Securities Corp., Citigroup Global Markets Limited, Citigroup Global Markets Inc., Commerzbank Aktiengesellschaft, Commerz Markets LLC, HSBC Bank plc, J.P. Morgan Securities plc, J.P. Morgan Securities LLC 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. Neither we nor the Initial Purchasers have authorized anyone to provide you with any different information.

We are 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. Neither we nor 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 neither we nor 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.

We have applied to have the Notes listed on the Official List of the LuxSE and traded on the Euro MTF Market, which is not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments. We cannot guarantee that our application to the LuxSE for approval of this Offering Memorandum, or for the Notes to be admitted for trading on the Euro MTF Market, will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditional on obtaining this listing.

We accept responsibility for the information contained in this Offering Memorandum. We have made all reasonable inquiries and confirm to the best of our knowledge, information and belief that the information contained in this Offering Memorandum with regard to us and our 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 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 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 Schaeffler Group, the terms of the offering of the Notes and the merits and risks involved.

We 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 agree that you will hold the information contained in this Offering Memorandum and the transactions contemplated hereby in confidence. 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.

We 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 we accept responsibility for accurately summarizing the information concerning exchange rates, 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. 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 we accept responsibility for accurately summarizing the information concerning DTC, Euroclear and Clearstream, 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.

THE NOTES AND THE GUARANTEES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT. THE NOTES AND THE GUARANTEES 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 AND THE GUARANTEES 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 and the Guarantees 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 MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED 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 – 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 (as amended, including by Directive 2010/73/EU, and including any relevant implementing measures in the Relevant Member States, 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 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.

No prospectus is required in accordance with the Prospectus Directive and Regulation (EC) No. 809/2004. Any advertisement (as defined in Regulation (EC) No. 809/2004) in relation to any offering of the Notes in any Member State shall include a warning that no prospectus is required in accordance with the Prospectus Directive and Regulation (EC) No. 809/2004.

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, 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. The Notes will be offered in the Federal Republic of Germany based on an exemption – concerning qualified investors (*qualifizierte Anleger*) within the meaning of Section 2 no. 6 of the German Securities Prospectus Act – from the requirement to publish an approved securities prospectus under the German Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the German Securities Prospectus Act and other applicable laws. The Issuer has not filed and does not intend to file a securities prospectus with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) ("**BaFin**") or obtain a notification to BaFin from another competent authority of a member state of the European Economic Area, with which a securities prospectus may have been filed, pursuant to Section 17(3) of the German Securities Prospectus Act.

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, as amended.

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 or 1156 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 the Company. 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 the Company'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 "**Company**" and "**Parent Guarantor**" refer to Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) with its registered office in Herzogenaurach, Germany. The terms "**we**," "**us**," "**our**" and the "**Schaeffler Group**" refer to the Company 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 "**Schaeffler AG**" refers to Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**")). The term "**Issuer**" refers to Schaeffler Finance B.V. with its registered office in Barneveld, the Netherlands.

References to management, directors and executive officers are to the management, directors and executive officers of Schaeffler AG, the 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's audited annual financial statements as of and for the financial year ended December 31, 2014 included in this Offering Memorandum have been prepared on the basis of generally accepted accounting principles in the Netherlands ("**Dutch GAAP**") and have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**"). The Issuer does not prepare interim financial statements.

The consolidated financial statements of the Company as of and for the years ended December 31, 2013 and 2014 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.

Dutch GAAP and IFRS 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. The Company has not prepared a reconciliation of its 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 it 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 Company's financial information.

In this Offering Memorandum, references to "2012," "2013" and "2014" refer to the years ended December 31, 2012, 2013 and 2014, 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.

Except as noted otherwise, the financial information as of and for the fiscal year ended December 31, 2012 has been presented as in the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2013 and the financial information as of and for the fiscal year ended December 31, 2013 has been presented as in the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2014.

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**," 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

The following table shows, for the periods set forth below, the high, low, average 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 Bloomberg Composite Rate of the euro at 1:00 p.m. New York time on March 27, 2015 was $1.0917 per €1.00.

Year **U.S. dollars per €1.00**	**Period end**	**Average**	**High**	**Low**
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
2013	1.3743	1.3285	1.3804	1.2780
2014	1.2098	1.3285	1.3932	1.2098

Month **U.S. dollars per €1.00**	**Period end**	**Average**	**High**	**Low**
September 2014	1.2631	1.2895	1.3150	1.2631
October 2014	1.2524	1.2682	1.2837	1.2516
November 2014	1.2452	1.2475	1.2554	1.2375
December 2014	1.2098	1.2307	1.2511	1.2098
January 2015	1.1289	1.1630	1.2103	1.1205
February 2015	1.1196	1.1354	1.1481	1.1196
March 2015 (through March 27, 2015)	1.0917	1.0834	1.1184	1.0497

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, among others:

- Global Wind Energy Council, Global Wind Report – Annual Market Update 2013;
- Oxford Economics (Winter 2014);
- The Freedonia Group Inc., World Bearings Report (September 2014); and
- IHS Automotive (January 2015).

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 have 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 such holder, 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 a leading integrated global supplier to the automotive and industrial sectors. We supply high-quality and technologically-advanced components and systems to a broad range of automotive and industrial customers. Our precision components and systems for engines, transmissions and chassis, as well as rolling and plain bearing solutions for numerous industrial applications make us a key contributor to the "Mobility for tomorrow."

We are one of the largest family-owned technology companies in the world with approximately 82,000 employees and a network of manufacturing locations, research and development facilities, as well as distribution companies in approximately 170 locations in 50 countries (as of December 31, 2014). Our 74 manufacturing locations form the foundation of our operations.

In the fiscal year ended December 31, 2014, we had revenues of approximately €12.1 billion, and EBITDA of approximately €2.2 billion, respectively. 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 China and the rest of the Asia/Pacific region. 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 74% of our revenue in the fiscal year ended December 31, 2014, supplying more than 65,000 products to approximately 7,500 customers globally. We develop and manufacture state-of-the-art products for engine, transmission and chassis systems. As a partner to the automotive sector, we are at the forefront of developing and manufacturing a broad range of automotive applications. Our operating excellence relates to components and system solutions for vehicles with drive trains based on the internal combustion engine, as well as for hybrid and electric vehicles. Our main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units and electric drives. Our precision products are key to helping make engines use less fuel and comply with increasingly strict emission requirements. At the same time, they also increase driving comfort and dynamics and extend engine and transmission life. As one of the leading automotive suppliers worldwide, we offer comprehensive technical expertise for the entire drive train.

Our Industrial Division accounted for approximately 26% of our revenue in the fiscal year ended December 31, 2014, supplying approximately 85,000 products to approximately 14,500 customers in approximately 60 different industrial sectors. While working closely with our customers, we develop bespoke bearing solutions for numerous tailored applications. The product spectrum of the Industrial Division ranges from high-speed and high-precision bearings with very small diameters to large-size bearings over three meters in diameter. The bearings and related products manufactured by this division are used in applications in drive technology, production machinery and wind turbines, as well as in heavy industries. In the aerospace sector, we are a leading manufacturer of high-precision bearings for jet and helicopter engines, as well as for space travel applications.

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 generate good margins as well as stable and recurring revenues. In the fiscal year ended December 31, 2014, 23% 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, mostly 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. As of January 1, 2014, our business activities are divided into four regions—Europe, the Americas, Asia/Pacific and Greater China—which in turn are divided into various sub-regions and countries. In addition to the traditional core markets in Europe (57% of revenue in the fiscal year ended December 31, 2014; including 24% in Germany) and the Americas (20% of revenue in the fiscal year ended December 31, 2014), our business is increasingly significant in key growth markets, such as Asia/Pacific and Greater China, which together accounted for 23% of our revenues in the fiscal year ended December 31, 2014. 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 December 31, 2014, we operated 48 plants in Europe, 14 in the Americas, five in Asia/Pacific and seven in Greater China. 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 fiscal year ended December 31, 2014, aftermarket revenue from replacement parts and services represented approximately 23% 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 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.

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 65,000 components and systems to both OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in approximately 60 different sectors, selling approximately 85,000 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 December 31, 2014, we offered our products to approximately 7,500 automotive customers and 14,500 industrial customers in approximately 150 countries worldwide. In the fiscal year ended December 31, 2014, our top ten customers represented approximately 59% of automotive revenues and approximately 16% of industrial revenues. 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 74 production facilities in over 20 countries and sales and marketing offices in approximately 170 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.

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 2012 and 2013, we received, for example, General Motors' "Supplier Quality Excellence Award," Goldwind's "Excellent Quality Award," Nissan's "Global Quality Award," Renault's and Nissan's "Quality Award," Ford's "World Excellence Award 2012," Toyota's "Quality Achievement Performance Certificate" for suppliers and Nissan's "Excellent Quality Supplier Award." In 2014, we received, for example, General Motors' "Supplier Quality Excellence Award," Nissan's "Global Quality Award" and Honda's "Recognition 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, additions to intangible assets and property, plant and equipment amounted to approximately 6% of our consolidated revenues. To ensure future growth and customer proximity, additions to intangible assets and property, plant and equipment were primarily made for production start-ups, expanding capacity and localizations in the past years.

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 2012, 2013 and 2014, we spent approximately 5% of our total revenue on R&D in each period, to continuously improve our products and to position us at the forefront of our industry in terms of innovation and quality of design. In 2013, we were again awarded a large number of prizes for our innovations, one of which was the "Global Innovation Award" by Nissan. In connection with the "Global Innovation Award," we also received the "Nissan Global Supplier Award" for our highly efficient chain of a continuously variable transmission, receiving praise for our technological development. In 2014, we won the "2014 PACE Award" (Premier Automotive Suppliers' Contribution to Excellence) for our fuel-saving and vibration-reducing torque converter with centrifugal pendulum absorber for rear wheel drive.

As of December 31, 2014, approximately 6,000 R&D staff was employed at 16 R&D centers worldwide, developing new products, customer product applications, technologies, processes and methods for market-driven solutions. Our strong innovative ability is also illustrated by, among other things, the increase in the number of our patent applications in 2014 compared to the prior year. With 2,518 patent applications in 2014, we ranked second among Germany's most innovative companies according to the German Patent and Trademark Office (DPMA, *Deutsches Patent- und Markenamt*). In total, as of December 31, 2014, we held approximately 23,000 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 18% 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 management of working capital and capital expenditures as well as cost reductions. Over the last five fiscal years, we have achieved an average EBITDA margin of approximately 18%. As a result, we generated on average cash flow from operating activities of approximately €1.0 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 an integrated supplier to the automotive and industrial sectors and follow a growth strategy aimed at profitable above-market growth. At the core of our strategy are top quality, outstanding technology, and strong innovative ability in doing business with customers as well as in our internal processes.

Strategic concept "Mobility for tomorrow"

We have developed our strategic concept "Mobility for tomorrow" based on the megatrends driving our business. Under this concept, we focus on the four areas "eco-friendly drives," "urban mobility," "interurban mobility," and "energy chain" across all of our divisions and regions. We actively participate in shaping these focus areas with our own research and development and provide our customers and business partners with an attractive product range from a position as an innovative and technological leader.

Eco-friendly drives

One of the main objectives of the automotive industry is to develop energy-efficient and sustainable drives with no or low levels of emissions, making them environmentally friendly. With our broad range of products, we follow a multi-faceted strategy, serving all areas from improving conventional internal combustion engines through hybridization to electric mobility. Key components such as the variable valve-control system, the thermal management module, the double-clutch transmission and electronic control modules help reduce CO_2 emissions of conventional drives based on internal combustion engines. In addition, for our automotive customers, innovative products for the field of electric mobility, for instance the electric axle drive, the wheel hub drive "E-Wheel Drive" or hybrid modules, play an increasing role in achieving lower CO_2-emission targets.

Urban mobility

As a result of the changing character and increasing challenges of urban mobility, mainly due to limited space in urban areas, there is a trend towards micro-mobility that offers significant opportunities for small vehicles. Responding to this trend, we are further expanding our product portfolio for hybrid and electric mobility. Our torque sensor bottom brackets, for instance, have positioned us as an innovative supplier in the growing e-bike market.

Interurban mobility

The term interurban mobility refers to linking key urban centers around the world. Worldwide traffic will increase significantly in the coming decades as globalization continues and users demand a large degree of flexibility. Providing state-of-the-art mobility solutions is a key challenge for railway and aviation companies. The primary component of a sustainable transport concept is an ecological one. In light of the advancing climate change, the focus remains on reducing CO_2 emissions. This means that passengers and freight have to be transported with as little impact on the environment as possible. Examples of a technological response to these requirements are eco-efficient aircraft and high-speed trains. Our innovative rolling bearing solutions, which are used for the construction of modern high-speed trains and aircraft, enable us to capitalize on this trend in both the rail and air traffic sectors.

Energy chain

As a development partner to the energy sector, we support the expansion of renewable energy. In light of dwindling resources and significant climate challenges, worldwide demand for clean renewable energy sources, such as water, wind and solar power continues to grow, and we anticipate that clean renewable energy sources will contribute significantly to the overall energy supply in the future. Our Industrial division offers a comprehensive portfolio of products in the field of renewable energy. The spectrum ranges from bearing solutions for wind power turbines through to solutions for solar and water power.

Strategic objectives

The "Mobility for tomorrow" strategic concept, comprising four key areas and related sub-strategies regarding business fields, regions, and functions, is designed to help us to achieve our strategic objectives. Our growth strategy is founded on targeted investments in research and development as well as in the improvement of our production system. Maintaining an adequate debt-to-EBITDA ratio and generating appropriate positive cash flow provide the financial flexibility these investments require. We may also from time to time make selective acquisitions in line with our overall strategic objectives.

Leverage our quality and technology leadership

Our objective is to offer our customers a comprehensive "best-in-class" product/system portfolio including consulting and other services. Our focus is on premium market segments, which require the highest quality standards. Therefore, we closely involve our customers in every phase of the product development process in order to best meet their requirements.

We invest in highly standardized and fully automated production plants to continue setting the highest quality standards in the industry. At the same time, we consistently aim to realize productivity gains within our manufacturing processes in order to improve our cost base to enable us to continue to achieve attractive cost/performance ratios.

Focus on innovative components and systems to drive global industry trends

We concentrate on developing and manufacturing high-quality components, modules, and system solutions addressing the global megatrends in the automotive and industrial sectors. The nature of these trends is primarily (i) social, such as urbanization and population growth, (ii) technological, such as increasing complexity and digitalization, (iii) environmental, such as renewable energy and scarcity of resources, and (iv) economic, such as globalization. We strive to set new standards in modern engineering with respect to these trends. We believe that focusing on the global megatrends will enable us to continue to profitably grow faster than the market.

We consider ourselves to be a key contributor to all forms of mobility of the future. We are already offering innovative products for hybrid and electric vehicles today. At the same time, we are continually working to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient.

Focus on rapidly growing markets

We continue to expand our international presence in growth markets, particularly in the Asia/Pacific region which has become a growth driver for the Automotive and Industrial divisions. Nearly one third of all additions to intangible assets and property, plant and equipment in the fiscal year ended December 31, 2014 were made in the Asia/Pacific and Greater China regions. In line with our "in the region – for the region" strategy, we are opening or expanding local plants. For example, two additional plants were opened in Ulyanovsk (Russia) and Nanjing (China) in 2014 and we started the construction of a new greenfield manufacturing site in Thailand in February 2015.

The expansion of the production network in low-cost countries means that a significant proportion of our production is manufactured in low-wage countries such as Slovakia, Hungary, Romania, China, India and Mexico. Additional expansion of the network in growth markets will further improve the relative labor component of our production cost in the future.

Focus on attractive business areas

As part of our global growth strategy, we are also gradually expanding our product portfolio around the world, enabling us to offer our customers an even greater multitude of solutions. We plan to further diversify our products across various markets in order to minimize dependence on individual markets. This approach also involves expanding our expertise in offering system solutions and services.

In addition, our aim is to expand our aftermarket business by increasingly targeting wholesalers and providers of repairs and maintenance services with respect to replacement parts. In addition to reducing revenue volatility, expanding our aftermarket business will also help generating additional business opportunities (for instance in condition monitoring).

Increase cooperation with Continental

Another strategic objective consists of expanding the cooperation with Continental AG. Mechatronic systems (combining mechanical engineering and electronics) are becoming more and more important since OEMs are increasingly expecting their suppliers to provide system solutions that are becoming significantly more complex as digitalization progresses. We believe that extending the existing cooperation with Continental AG will result in competitive advantages. The combination of our expertise in mechanics and mechatronics with Continental AG's electronics know-how will improve our position in the rapidly growing mechatronics segment and help us position ourselves as the leading systems supplier 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

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-Thumann 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.

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. As of December 31, 2014, we held via Schaeffler Beteiligungsholding GmbH & Co. KG 36.0% of Continental AG shares.

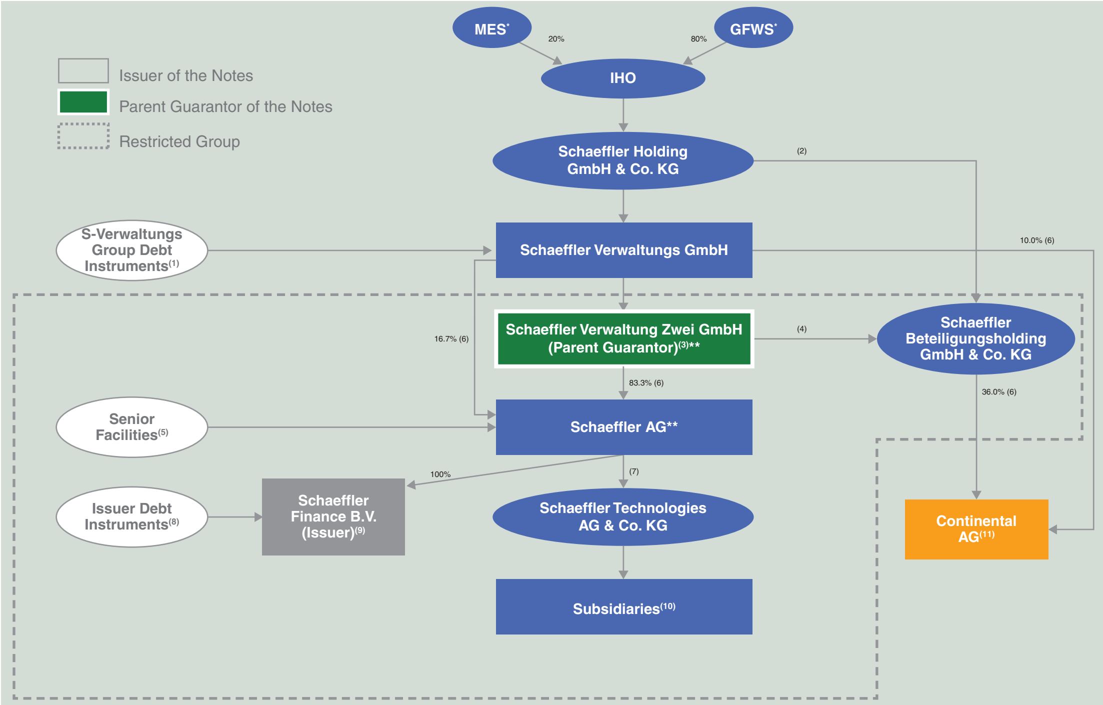
The Transactions

On March 26, 2015, the Issuer called for redemption (the "**Redemption**") of its outstanding €800 million in aggregate principal amount of 7.75% senior secured notes due 2017 and $600 million in aggregate principal amount of 7.75% senior secured notes due 2017 issued pursuant to an indenture dated February 9, 2012 (together, the "**Outstanding February 2012 Notes**"). The Redemption is expected to take place on April 27, 2015 and is subject to the successful closing of the offering of the Notes.

The "**Transactions**" refers to (i) the issuance of €1,545 million-equivalent aggregate principal amount of the Notes with gross proceeds of €1,536 million-equivalent, (ii) the full redemption of the Outstanding February 2012 Notes pursuant to the Redemption, and (iii) application of the remaining proceeds from the offering of the Notes for related fees and expenses and general corporate purposes. For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.1000 to €1.00. This exchange rate differs from the exchange rate in effect as of December 31, 2014.

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:



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

** On October 23, 2014, the former Schaeffler AG legal entity was changed to a limited liability company (*Gesellschaft mit beschränkter Haftung*) and renamed Schaeffler Verwaltung Zwei GmbH. On October 24, 2014, the former INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**") legal entity was changed to a stock corporation (*Aktiengesellschaft*) and renamed Schaeffler AG ("**Schaeffler AG**"). At the same time, all executive board and corporate center functions were transferred from the Parent Guarantor to Schaeffler AG. See "*Management.*"

(1) Following the October 2014 Refinancing (See "*—Trading update and recent developments—October 2014 Refinancing*"), the outstanding debt instruments entered into by Schaeffler Verwaltungs GmbH and its subsidiaries (other than the Parent Guarantor and its subsidiaries) (the "**S-Verwaltungs Group**") consist of:

- a €500 million term facility (the "**S-Verwaltungs Group Term Facility**"), accrued interest on which is payable in cash and which matures on October 21, 2019;
- a €200 million revolving credit facility (the "**S-Verwaltungs Group Revolving Facility**" and, together with the S-Verwaltungs Group Term Facility, the "**S-Verwaltungs Group Facilities**"), accrued interest on which is payable in cash and which matures on October 21, 2019;
- €800 million in aggregate principal amount of 6.875% / 7.625% senior secured payment in kind ("**PIK**") toggle notes due 2018 and $1,000 million in aggregate principal amount of 6.875% / 7.625% senior secured PIK toggle notes due 2018 issued by Schaeffler Holding Finance B.V. pursuant to an indenture dated July 24, 2013 (together, the "**S-Verwaltungs Group July 2013 Notes**"); and
- €350 million in aggregate principal amount of 5.750% / 6.500% senior secured PIK toggle notes due 2021, $475 million in aggregate principal amount of 6.250% / 7.000% senior secured PIK toggle notes due 2019 and $675 million in aggregate principal amount of 6.750% / 7.500% senior secured PIK toggle notes due 2022 issued by Schaeffler Holding Finance B.V. pursuant to an indenture dated October 28, 2014 (together, the "**S-Verwaltungs Group October 2014 Notes**" and, together with the S-Verwaltungs Group July 2013 Notes, the "**S-Verwaltungs Group Notes**" and, the S-Verwaltungs Group Notes together with the S-Verwaltungs Group Facilities, the "**S-Verwaltungs Group Debt Instruments**").

The S-Verwaltungs Group Debt Instruments contain certain undertakings, including a financial covenant that relies upon the financial performance of the Schaeffler Group, and are structurally subordinated to the financial indebtedness of the Parent Guarantor and its subsidiaries.

The S-Verwaltungs Group Debt Instruments require that Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG grant a guarantee in relation to the obligations of Schaeffler Verwaltungs GmbH under the S-Verwaltungs Group Term Facility and the obligations of Schaeffler Holding Finance B.V. under the S-Verwaltungs Group Notes as soon as reasonably practicable after, but in any event no later than three months following, the occurrence of a potential SVZ Guarantee Fall-Away Event (as defined in "*Description of other indebtedness—S-Verwaltungs Group Debt Instruments*"). In addition, subject to the security principles agreed under the facilities agreement governing the S-Verwaltungs Group Facilities, Schaeffler Verwaltungs GmbH will be required to procure that security will be granted over all shares held by any member of the S-Verwaltungs Group in Schaeffler AG for purposes of securing the obligations under the S-Verwaltungs Group Term Facility and accordingly Schaeffler Verwaltungs GmbH has granted a share pledge over the shares it holds in Schaeffler AG.

For a more detailed description of the S-Verwaltungs Group Debt Instruments, please see "*Description of other indebtedness—S-Verwaltungs Group Debt Instruments.*"

(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.

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 may be substituted by Schaeffler AG as new parent guarantor under certain circumstances. See "*Substitution of the Parent Guarantor*" and "*Description of the Notes—Note Guarantees—Substitution of the Parent Guarantor.*"

(4) The Parent Guarantor is the sole limited partner (*Kommanditist*) of Schaeffler Beteiligungsholding GmbH & Co. KG.

(5) Following the October 2014 Refinancing (See "*—Trading update and recent developments—October 2014 Refinancing*"), Schaeffler AG, as borrower, and certain of its subsidiaries are party to a senior term and revolving credit facilities agreement (the "**Senior Facilities Agreement**"), consisting of:

- a €750 million term loan facility ("**Term Facility B-EUR**"), accrued interest on which is payable in cash and which matures on May 15, 2020;
- a $1,300 million term loan facility ("**Term Facility B-USD**" and, together with the Term Facility B-EUR, the "**Term Facilities**"), accrued interest on which is payable in cash and which matures on May 15, 2020; and
- a €1,000 million revolving credit facility (the "**Revolving Facility**" and, together with the Term Facilities, the "**Facilities**"), accrued interest on which is payable in cash and which matures on October 27, 2019.

The Facilities are guaranteed by the Subsidiary Guarantors and Schaeffler Iberia, S.L.U. (Spain), and are secured by the same Collateral that secures the Notes and the Guarantees (except for the assignment of the Notes Proceeds Loan (as defined below)). For a more detailed description of the Senior Facilities Agreement, please see "*Description of other indebtedness—Senior Facilities Agreement.*"

(6) Following the December 2014 Reorganization (See "*—Trading update and recent developments—December 2014 Reorganization*"):

- Schaeffler Beteiligungsholding GmbH & Co. KG and Schaeffler Verwaltungs GmbH hold a 36.0% and 10.0% stake in Continental AG, respectively;
- Schaeffler Verwaltung Zwei GmbH and Schaeffler Verwaltungs GmbH hold an 83.3% and 16.7% stake in Schaeffler AG, respectively; and
- Schaeffler AG holds a €1,071 million and €629 million loan note against Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, respectively. Both loans are secured by pledges over shares in Continental AG with a market value as of December 12, 2014 equal to approximately twice the principal amount of the loans. See "*Certain relationships and related party transactions—Intra-group financing arrangements*" and "*Description of other indebtedness—Intra-group financing arrangements.*"

(7) Schaeffler AG is the sole general partner (*Komplementär*) and Schaeffler Verwaltungsholding Vier GmbH (a wholly-owned subsidiary of Schaeffler AG) is the sole limited partner (*Kommanditist*) of Schaeffler Technologies AG & Co. KG. Schaeffler Verwaltungsholding Vier GmbH holds its limited partnership interest in trust for the benefit of Schaeffler AG.

(8) As of the Issue Date after giving effect to the Transactions, the Schaeffler Finance B.V. debt instruments will consist of:

- €600 million in aggregate principal amount of 4.25% senior secured notes due 2018 and $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 issued pursuant to an indenture dated April 29, 2013 (together, the "**April 2013 Notes**");
- €500 million in aggregate principal amount of 2.75% senior secured notes due 2019, €500 million in aggregate principal amount of 3.50% senior secured notes due 2022 and $700 million in aggregate principal amount of 4.25% senior secured notes due 2021 issued pursuant to an indenture dated May 14, 2014 (collectively, the "**May 2014 Senior Secured Notes**"), and €500 million in aggregate principal amount of 3.25% senior notes due 2019 issued pursuant to an indenture dated May 14, 2014 (the "**May 2014 Senior Notes**" or the "**Existing Senior Notes**" and, together with the May 2014 Senior Secured Notes, the "**May 2014 Notes**"). The Outstanding February 2012 Notes (as defined below), the April 2013 Notes and the May 2014 Senior Secured Notes are collectively referred to as the "**Existing Senior Secured Notes**," and the Existing Senior Secured Notes together with the Existing Senior Notes are collectively referred to as the "**Existing Notes**"); and
- the Notes offered hereby.

On March 26, 2015, the Issuer called for redemption (the "**Redemption**") of the Issuer's (i) €800 million in aggregate principal amount of 7.75% senior secured notes due 2017 and (ii) $600 million in aggregate principal amount of 7.75% senior secured notes due 2017 (together, the "**Outstanding February 2012 Notes**"). The Redemption is subject to the successful closing of the offering of the Notes.

For a more detailed description of the Existing Notes, please see "*Description of other indebtedness—Existing Notes.*"

The net proceeds from the offering of the Notes will be on-lent by the Issuer to Schaeffler AG under one or more intercompany loans (together, the "**Notes Proceeds Loan**"). We will use the net proceeds from the offering of the Notes (i) to fully redeem the Outstanding February 2012 Notes pursuant to the Redemption, and (ii) for related fees and expenses and general corporate purposes (see "*Use of proceeds*").

(9) The Issuer is a wholly-owned subsidiary of Schaeffler AG.

(10) Upon issuance of the Notes offered hereby, the Subsidiary Guarantors will provide unconditional and irrevocable guarantees for the benefit of the Notes. With the exception of Schaeffler Iberia, S.L.U. (*Spain*), which only guarantees the obligations of the Parent Guarantor under the Senior Facilities Agreement, the Subsidiary Guarantors are identical with the guarantors under the Senior Facilities Agreement. The Existing Notes are guaranteed by the same Guarantors as the Notes offered hereby. For more details, please see "*Description of the Notes—Note Guarantees*."

(11) Continental AG is a publicly listed corporation (*Aktiengesellschaft*) which is listed on three German stock exchanges (Frankfurt am Main, Hanover/Hamburg and Stuttgart).

Subsidiary Guarantee coverage

As of and for the fiscal year ended December 31, 2014, the Subsidiary Guarantors represented the following percentages of the consolidated Schaeffler Group:

Total Assets	77.2%
Revenue	65.3%
Consolidated EBITDA	67.8%

Trading update and recent developments

January and February 2015 results

We generated revenue of €2,123 million in the period from January 1, 2015 to February 28, 2015 in comparison to €1,942 million in the period from January 1, 2014 to February 28, 2014.

The consolidated EBITDA for that period was €384 million, compared to €350 million in the prior year period.

EBIT amounted to €272 million for that period, compared to €247 million in the prior year period. The free cash flow was €(81) million in that period in comparison to €(27) million in the prior year period.

We made capital expenditures of €156 million in the period from January 1, 2015 to February 28, 2015, compared to €89 million in the period from January 1, 2014 to February 28, 2014.

The Automotive Division generated revenue of €1,590 million (2014: €1,446 million), which contributed 74.9% to total group sales. The Industrial Division generated revenue of €533 million (2014: €496 million) and contributed 25.1% to total group sales.

EBIT in the Automotive Division amounted to €217 million in that period (2014: €193 million) with an EBIT margin of 13.6% (2014: 13.3%). EBIT in the Industrial Division amounted to €55 million in that period (2014: €54 million) with an EBIT margin of 10.3% (2014: 10.9%).

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. Further, such results are based on a number of assumptions that are subject to inherent uncertainties. Accordingly, these results may change and those changes may be material. As such, you should not place undue reliance on these results.

Litigation update

Since 2011, several antitrust authorities, including in the U.S., have been investigating several manufacturers of bearings and related products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted practices violating antitrust laws. The Company is conducting internal investigations into allegations of misconduct in the relevant sectors and is cooperating with the competition authorities in the context of these investigations.

Below is a brief summary of the current status of the relevant antitrust investigations and proceedings in respective jurisdictions:

- ***European Union***: On March 19, 2014, the EU Commission issued a decision under which we were required to pay €370.5 million. The EU antitrust penalty was paid in the second quarter of 2014.
- ***United States and Canada***: The U.S. Department of Justice ("**DOJ**") served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011 and is possibly still investigating

antitrust law infringements. Since May 2012, several class action lawsuits have been filed by plaintiffs in the U.S. and Canada against various 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.

- ***Korea***: The Korean Fair Trade Commission has fined our Korean subsidiary Schaeffler Korea Yuhan Hoesa approximately €12 million for collusion regarding imported bearings for the industrial aftermarket and the Korean public prosecutor has initiated criminal proceedings against our subsidiary in this context in which it may impose an additional fine. We intend to file an appeal against the decision of the Korean Fair Trade Commission. A separate investigation of the Korean Fair Trade Commission regarding automotive bearing products is still ongoing. We expect a decision relating to this in the near term.
- ***Spain***: On December 4, 2014, the Spanish Competition Authority issued a fine in the amount of €1 million against Schaeffler Iberia and Schaeffler Verwaltung Zwei GmbH with respect to alleged antitrust law infringements in the railway bearings sector. Both companies have filed an appeal against this decision.
- ***Brazil***: On September 17, 2014, the Brazilian Antitrust Authority ("**CADE**") dawn raided our Brazilian subsidiary. CADE alleges price coordination and exchange of sensitive information with regard to automotive clutches. We expect further developments in this matter in the coming months. In addition, CADE has started an investigation into alleged anticompetitive behavior relating to bearings and clutch facing products. We have started an internal investigation and are cooperating with CADE.

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*."

Corporate reorganization

On October 23, 2014, the former Schaeffler AG legal entity was changed to a limited liability company (*Gesellschaft mit beschränkter Haftung*) and renamed Schaeffler Verwaltung Zwei GmbH. On October 24, 2014, the former INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**") legal entity was changed to a stock corporation (*Aktiengesellschaft*) and renamed Schaeffler AG ("**Schaeffler AG**"). At the same time, all executive board and corporate center functions were transferred from the Parent Guarantor to Schaeffler AG and Schaeffler AG has become the parent company of the entire Schaeffler Group's operational activities. See also "*Management.*"

On December 12, 2014, the supervisory board of Schaeffler AG appointed Dr. Ulrich Hauck as Chief Financial Officer of Schaeffler AG. Dr. Hauck will assume his new role on April 1, 2015.

On March 25, 2015, the supervisory board of Schaeffler AG resolved that the employment contracts of two members of the board of managing directors, Kurt Mirlach and Robert Schullan, will not be renewed or extended beyond their current termination date of December 31, 2015. Mr. Mirlach and Mr. Schullan will continue to fulfil their duties until successors have been appointed.

October 2014 Refinancing

In October 2014, we completed several refinancing transactions totaling approximately €2.9 billion-equivalent at the Schaeffler Group level and approximately €1.9 billion-equivalent at the S-Verwaltungs Group level, as well as several bond consent solicitations (together, the "**October 2014 Refinancing**") both at Schaeffler Group level and S-Verwaltungs Group level:

The Schaeffler Group replaced institutional loans totaling approximately €1.6 billion-equivalent and bank loans of approximately €250 million under the previous senior facilities agreement by the new Term Facilities. At the same time, the Schaeffler Group obtained a new revolving credit facility of €1.0 billion.

The S-Verwaltungs Group issued new bonds denominated in EUR and USD totaling approximately €1.25 billion-equivalent and entered into a new loan agreement totaling €700 million. The proceeds were used to fully repay loans totaling approximately €1.9 billion under its previous senior facilities agreement.

For an overview of the outstanding indebtedness of the Schaeffler Group and the S-Verwaltungs Group following the October 2014 Refinancing, see "*—Summary of our corporate and debt structure*," "*Description of other indebtedness—Senior Facilities Agreement*," "*Description of other indebtedness–Existing Notes*" and "*Description of other indebtedness–S-Verwaltungs Group Debt Instruments*."

In addition, we successfully completed several bond consent solicitations to make certain changes to the terms and conditions of our Existing Notes and the S-Verwaltungs Group July 2013 Notes. The changes were aimed at harmonizing the terms and conditions of the various bonds and increasing our financial flexibility to facilitate potential future refinancings, recapitalizations and deleveraging steps.

Following the completion of these steps, the interest in Continental AG held by the Schaeffler Group no longer serves directly as collateral for the Schaeffler Group's financial debt. The previous pledge of approximately 17% interest in Continental AG has been released in connection with the refinancing measures taken.

December 2014 Reorganization

In December 2014, we completed an internal reorganization (the "**December 2014 Reorganization**") to strengthen the equity base of Schaeffler AG. On December 12, 2014, Schaeffler AG approved a capital increase by issuing new shares to Schaeffler Verwaltungs GmbH in exchange for a contribution in kind from Schaeffler Verwaltungs GmbH. The contribution in kind consisted of two loan notes held by Schaeffler Verwaltungs GmbH: a loan note issued by Schaeffler Verwaltung Zwei GmbH with a principal amount of €1,071 million and a loan note issued by Schaeffler Beteiligungsholding GmbH & Co. KG with a principal amount of €629 million. Both loan notes are secured by pledges over shares in Continental AG with a market value as of December 12, 2014 equal to approximately twice the principal amount of the loans. See "*Certain relationships and related party transactions—Intra-group financing arrangements*" and "*Description of other indebtedness—Intra-group financing arrangements*." The capital increase at Schaeffler AG was entered in the Commercial Register on December 30, 2014. Since then, Schaeffler Verwaltungs GmbH has held a 16.7% interest in Schaeffler AG's share capital with the remaining 83.3% held by Schaeffler Verwaltung Zwei GmbH. As part of the realignment of the group structure, a 1.8% interest in Continental AG was transferred from Schaeffler Verwaltungs GmbH to Schaeffler Beteiligungsholding GmbH & Co. KG.

Substitution of the Parent Guarantor

Following the Redemption, we will be in a position to initiate the substitution of the Parent Guarantor under the Existing Notes and the Notes offered hereby, as a result of which the guarantees provided by Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG for the holders of the Existing Notes and the Notes offered hereby, as well as for the relevant finance parties under the Senior Facilities Agreement, will be released without any further consent being required. Upon substitution of the Parent Guarantor, Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, which holds 36.0% of the share capital of Continental AG, will cease to be a member of the Schaeffler Group and thereby become part of the S-Verwaltungs Group. See "*Substitution of the Parent Guarantor*" and "*Description of the Notes—Note Guarantees—Substitution of the Parent Guarantor.*"

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—Security Pooling and Intercreditor Agreement*."

Issuer	Schaeffler Finance B.V., a private limited liability company (*Besloten Vennootschap*) organized under the laws of the Netherlands, with its registered office in Barneveld, the Netherlands.
Company and Parent Guarantor	Schaeffler Verwaltung Zwei GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany, with its registered office in Herzogenaurach, Germany.
Notes offered	
2020 Euro Notes	€400,000,000 in aggregate principal amount of 2.50% senior secured notes due May 15, 2020 (the "**2020 Euro Notes**").
2025 Euro Notes	€600,000,000 in aggregate principal amount of 3.25% senior secured notes due May 15, 2025 (the "**2025 Euro Notes**" and, together with the 2020 Euro Notes, the "**Euro Notes**").
Dollar Notes	$600,000,000 in aggregate principal amount of 4.75% senior secured notes due May 15, 2023 (the "**Dollar Notes**" and, together with the Euro Notes, the "**Notes**").
Issue date	April 13, 2015.
Issue price	
2020 Euro Notes	99.383%.
2025 Euro Notes	98.920%.
Dollar Notes	100.000%.
Maturity date	
2020 Euro Notes	May 15, 2020.
2025 Euro Notes	May 15, 2025.
Dollar Notes	May 15, 2023.
Interest rates and payment dates	
2020 Euro Notes	The 2020 Euro Notes will bear interest at a rate of 2.50% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015. Interest on the 2020 Euro Notes will accrue from the Issue Date.
2025 Euro Notes	The 2025 Euro Notes will bear interest at a rate of 3.25% per annum, payable semi-annually in arrears on February 15 and August 15 of each year,

	beginning on August 15, 2015. Interest on the 2025 Euro Notes will accrue from the Issue Date.
Dollar Notes	The Dollar Notes will bear interest at a rate of 4.75% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015. Interest on the Dollar Notes will accrue from the Issue Date.
Form and denomination	
Euro Notes	The Euro Notes will be issued in global form in denominations of €100,000 and in integral multiples of €1,000 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 $1,000 in excess thereof, maintained in book-entry form.
Ranking of the Notes	The Notes: • will be general senior obligations of the Issuer; • will be structurally subordinated to any indebtedness of the Parent Guarantor's subsidiaries (other than the Issuer) that are not Subsidiary Guarantors; • 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; • 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; and • will be effectively senior to all of the Issuer's existing and future unsecured indebtedness to the extent of the value of the property or assets securing the Notes.
Guarantees	The Notes will have the benefit of unconditional and irrevocable guarantees (the "**Guarantees**") of the Parent Guarantor and the Subsidiary Guarantors (as defined below and, together with the Parent Guarantor, the "**Guarantors**"). Adjusted for intercompany effects, the Subsidiary Guarantors in the aggregate represented 67.8% of the Parent Guarantor's consolidated EBITDA and 65.3% of the Parent Guarantor's consolidated revenue for the fiscal year ended December 31, 2014 and held 77.2%

of the Parent Guarantor's consolidated total assets as of December 31, 2014. The total assets of the Issuer and the Guarantors have been calculated on an unconsolidated basis and have been adjusted by subtracting intercompany effects and goodwill.

The Guarantee of each Guarantor:

- will be a general senior obligation of the relevant Guarantor;
- will be structurally subordinated to all existing and future indebtedness of any of such Guarantor's subsidiaries (other than the Issuer) that are not Subsidiary Guarantors;
- will be effectively subordinated to any existing and future Indebtedness of such Guarantor that is secured by property or assets that do not secure such 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 such Guarantor that is not subordinated in right of payment to such Guarantee;
- will rank senior in right of payment to all existing and future indebtedness of such Guarantor that is subordinated in right of payment to such Guarantee; and
- will be effectively senior to all of such Guarantor's existing and future unsecured indebtedness to the extent of the value of the property or assets securing such Guarantee.

A Guarantee of a Subsidiary Guarantor (each a "**Subsidiary Guarantee**") (including Subsidiary Guarantees in effect on the Issue Date) will be automatically and unconditionally released under certain circumstances, including upon the release of all other guarantees given by the relevant Subsidiary Guarantor with respect to indebtedness of the Issuer or any Guarantor in an amount in excess of €50.0 million outstanding under any credit facility, subject to certain conditions and exceptions. In addition, the validity and enforceability of the Subsidiary Guarantees will be subject to certain limitations. See "*Risk factors—Risks related to the Notes*" and "*Description of the Notes.*"

The Parent Guarantor may, under certain circumstances, substitute Schaeffler AG for itself under the Indenture (as defined below) and the Security Pooling and Intercreditor Agreement (as defined below), in which case the Guarantee of the predecessor Parent Guarantor will be released. See "*Description of the Notes—Note Guarantees.*"

The indenture governing the Notes to be entered into on the Issue Date (the "**Indenture**") will provide that, for so long as the 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 Security Pooling and Intercreditor Agreement, all payments in respect of any 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 any Guarantee only to the effect that such payments be made to the Security Trustee) for application pursuant to the 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 a security pooling and intercreditor agreement, dated January 27, 2012 (as amended, the "**Security Pooling and Intercreditor Agreement**"), the obligations of the Issuer under the Notes, and the obligations of the Guarantors in respect of the Guarantees under the Indenture, will be secured by:

- pledges over the capital stock of the Issuer (the "**Issuer Share Pledge**"), each Subsidiary Guarantor (other than Schaeffler AG and Schaeffler Beteiligungsholding GmbH & Co. KG) and Schaeffler Iberia S.L.U. (Spain), each restricted subsidiary of Schaeffler AG through which shares in any Subsidiary Guarantor or Schaeffler Iberia S.L.U. (Spain) are held, Schaeffler Immobilien AG & Co. KG (Germany) and Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung (Germany);
- pledges over certain (present and future) cash-pool header accounts of Schaeffler AG and certain of its restricted subsidiaries;
- pledges over, or security assignments of, certain intra-group loan receivables of Schaeffler AG and certain of its restricted subsidiaries, including of the Notes Proceeds Loan (the "**Proceeds Loan Assignment**"); and
- pledges over, or security assignments of, certain accounts receivables of Schaeffler AG and certain of its restricted subsidiaries.

The liens securing the Notes will (except for the Proceeds Loan Assignment) be effectively *pari passu* with the first priority liens securing obligations outstanding under the Issuer's Existing Senior Secured Notes, the Senior Facilities Agreement and certain hedging obligations under the terms of the Security

Pooling and Intercreditor Agreement that provides that any proceeds received from enforcement of the security documents will be shared equally and ratably between the holders of the Notes and any other indebtedness that is or becomes subject to the Security Pooling and Intercreditor Agreement, including the Existing Senior Secured Notes and indebtedness under the Senior Facilities Agreement and certain hedging obligations.

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. In addition, the validity and enforceability of the liens constituting the Collateral will be subject to certain limitations.

See "*Risk factors—Risks related to the Notes*" and "*Description of the Notes—Security*."

The 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 Security Pooling and Intercreditor Agreement will be passed if the total principal amount of notes that are subject to the Security Pooling and Intercreditor Agreement (initially, the Notes and the Existing Senior Secured Notes) and the total amount of commitments under facilities agreements that are subject to the Security Pooling and Intercreditor Agreement (initially, the Senior 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 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 Notes—Note Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances*," "*Description of other indebtedness—Security Pooling and Intercreditor Agreement—Enforcement of Transaction Security*," "*—Decisions of the Instructing*

	Group" and "*Description of the Notes—Security—Enforcement of security*."
Optional redemption	The 2020 Euro Notes, the 2025 Euro Notes and the Dollar Notes will be redeemable at the Issuer's option, in whole or in part, at any time on or after May 15, 2017, May 15, 2020 and May 15, 2018, respectively, 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 May 15, 2017, May 15, 2020 and May 15, 2018, the Issuer may redeem some or all of the 2020 Euro Notes, the 2025 Euro Notes and the Dollar Notes, respectively, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium. In addition, prior to May 15, 2017, May 15, 2020 and May 15, 2018, the Issuer may redeem at its option up to 40% of the original principal amount of the 2020 Euro Notes, the 2025 Euro Notes and the 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 any Tax Jurisdiction (as defined in "*Description of the Notes—Additional Amounts*") 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.*"
Additional amounts	Any payments made by or on behalf of the Issuer or any Guarantor under or with respect to the Notes or any Guarantees will be made without withholding or deduction for taxes unless required by law. If the Issuer or any Guarantor is required by law to withhold or deduct for taxes in any Tax Jurisdiction (as defined under "*Description of the Notes—Additional Amounts*") with respect to a payment to the holders of the Notes or any Guarantees, the Issuer or such Guarantor, as applicable, will pay the additional amounts necessary so that the net amount received by the holders of the Notes or any Guarantees after the withholding or deduction is not

	less than the amount that would have been 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 Indentures will each limit, among other things, our ability to: • incur or guarantee additional indebtedness and issue certain preferred stock; • pay dividends on, redeem or repurchase our capital stock; • make certain restricted payments and investments, including dividends or other distributions with regard to the shares of the Issuer, the Parent Guarantor or its restricted subsidiaries; • create or incur certain liens; • enter into agreements that restrict our 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	The net proceeds will be used (i) to fully redeem the Outstanding February 2012 Notes pursuant to the Redemption, and (ii) for related fees and expenses and general corporate purposes. 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 to list the Notes on the Official List of the LuxSE and to admit the Notes for trading on the LuxSE's Euro MTF Market.
Listing Agent	Deutsche Bank Luxembourg S.A.
Governing law for the Notes, the Guarantees and the Indenture	New York law.
Governing law for the Security Pooling and Intercreditor Agreement	English law.
Governing law for the Security Documents	Austrian, Brazilian, Dutch, English, French, German, Hong Kong, Hungarian, Romanian, Slovakian, Spanish, Swiss and New York 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	Deutsche Bank Luxembourg S.A.
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 audited consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014, 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. Except as noted otherwise, the financial information as of and for the fiscal year ended December 31, 2012 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2013 and the financial information as of and for the fiscal year ended December 31, 2013 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2014. Our consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014 were audited by KPMG which issued an unqualified audit opinion for each fiscal year. The information below is not necessarily indicative of the results of future operations.

Income Statement Data

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Revenue	**11,125**	**11,205**	**12,123**
Cost of sales	(7,836)	(8,029)	(8,654)
Gross profit	**3,289**	**3,176**	**3,469**
R&D expenses	(593)	(611)	(626)
Selling expenses	(759)	(761)	(827)
Administrative expenses	(465)	(476)	(467)
Other income	35	70	49
Other expenses	(94)	(416)	(82)
EBIT	**1,413**	**982**	**1,516**
Financial result	(680)	(442)	(657)
Income from equity-accounted investees	554	801	727
EBT(1)	**1,287**	**1,341**	**1,586**
Income taxes	(405)	(469)	(247)
Net income	**882**	**872**	**1,339**

Balance Sheet Data

in € million	As of December 31, 2012	2013	2014
Assets			
Intangible assets	554	538	555
Property, plant and equipment	3,515	3,369	3,748
Investments in equity-accounted investees	5,040	5,085	5,568
Remaining non-current assets	545	521	1,443
Total non-current assets	**9,654**	**9,513**	**11,314**
Inventories	1,495	1,536	1,713
Trade receivables	1,626	1,676	1,900
Cash and cash equivalents	433	300	711
Remaining current assets	338	402	305
Total current assets	**3,892**	**3,914**	**4,629**
Total assets	**13,546**	**13,427**	**15,943**
Shareholders' equity and liabilities			
Total Shareholders' equity[(2)]	**2,108**	**2,491**	**4,442**
Provisions for pensions and similar obligations	1,553	1,516	1,994
Financial debt	7,140	5,965	6,413
Remaining non-current liabilities	701	757	568
Total non-current liabilities	**9,394**	**8,238**	**8,975**
Financial debt	121	225	1
Trade payables	794	1,014	1,251
Remaining current liabilities	1,129	1,459	1,274
Total current liabilities	**2,044**	**2,698**	**2,526**
Total shareholders' equity and liabilities	**13,546**	**13,427**	**15,943**

Cash Flow Statement Data

in € million	Year ended December 31, 2012	2013	2014
Operating activities			
EBIT	**1,413**	**982**	**1,516**
Depreciation, amortization and impairments	618	652	648
EBITDA(3)	**2,031**	**1,634**	**2,164**
Change in working capital(4)	(24)	20	(122)
Net interest paid(5)	(584)	(616)	(512)
Income taxes paid	(226)	(385)	(238)
Dividends received	81	163	169
Other operating cash flow adjustments(6)	(65)	367	(354)
Cash from operating activities	**1,213**	**1,183**	**1,107**
Investing activities			
Capital expenditures according to cash flow(7)	(860)	(572)	(857)
Proceeds from disposals and other(8)	28	18	5
Cash used in investing activities	**(832)**	**(554)**	**(852)**
Financing activities			
Net issuance/repayment of loans(9)	(54)	(622)	298
Dividends paid to Schaeffler Verwaltungs GmbH	(79)	0	0
Other financing cash flows(10)	(208)	(116)	(159)
Cash provided by/(used in) financing activities	**(341)**	**(738)**	**139**
Net increase/(decrease) in cash and cash equivalents	**40**	**(109)**	**394**
Effects of foreign exchange rate changes on cash and cash equivalents	(4)	(24)	17
Cash and cash equivalents as at end of period	**433**	**300**	**711**

Other Financial and Operating Data

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Other financial information			
Revenue	11,125	11,205	12,123
Revenue growth	*4.0%*	*0.7%*	*8.2%*
EBIT	1,413	982	1,516
EBIT margin	*12.7%*	*8.8%*	*12.5%*
EBITDA(3)	2,031	1,634	2,164
EBITDA margin	*18.3%*	*14.6%*	*17.9%*
Capital expenditures according to cash flow(7)	(860)	(572)	(857)
Working capital (at end of period)(11)	2,327	2,198	2,362
Free cash flow(12)	381	629	255
Free cash flow before net interest paid(12)	965	1,245	767
Net financial debt (at end of period)(13)	6,505	5,447	5,703
Other operating information			
Number of employees (at the end of period)	76,099	78,559	82,294

in € million (except where otherwise stated)	Year ended December 31, 2014
	(unaudited)
Pro forma financial information	
EBITDA[(3)]	**2,164**
Gross secured debt (at end of period)[(14)]	6,175
Gross financial debt (at end of period)[(15)]	6,670
Cash and cash equivalents (at end of period)[(16)]	771
Net financial debt (at end of period)[(17)]	5,899
Net interest paid[(18)]	262
Gross secured debt to EBITDA (at end of period)	2.85x
Net financial debt to EBITDA (at end of period)	2.73x
EBITDA to net interest paid	8.26x

Selected Segment Information[(19)]

Automotive Division

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Revenue	**7,658**	**8,164**	**8,982**
Revenue growth	*7.0%*	*6.6%*	*10.0%*
Gross profit	**2,106**	**2,205**	**2,521**
EBIT	**997**	**665**	**1,230**
Depreciation, amortization and impairments	432	464	455
EBITDA	**1,429**	**1,129**	**1,685**
Gross profit margin	*27.5%*	*27.0%*	*28.1%*
EBIT margin	*13.0%*	*8.1%*	*13.7%*
EBITDA margin	*18.7%*	*13.8%*	*18.8%*

Industrial Division

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Revenue	**3,406**	**3,041**	**3,141**
Revenue growth	*(1.6)%*	*(10.7)%*	*3.3%*
Gross profit	**1,183**	**971**	**948**
EBIT	**416**	**317**	**286**
Depreciation, amortization and impairments	186	188	193
EBITDA	**602**	**505**	**479**
Gross profit margin	*34.7%*	*31.9%*	*30.2%*
EBIT margin	*12.2%*	*10.4%*	*9.1%*
EBITDA margin	*17.7%*	*16.6%*	*15.2%*

(1) Earnings before taxes.

(2) Including non-controlling interests.

(3) We define EBITDA (Earnings before financial result, income from 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,		
in € million	**2012**	**2013**	**2014**
Net Income	**882**	**872**	**1,339**
Income taxes	405	469	247
Income from equity-accounted investees	(554)	(801)	(727)
Financial expenses	703	659	921
Financial income	(23)	(217)	(264)
EBIT	**1,413**	**982**	**1,516**
Depreciation, amortization and impairments	618	652	648
EBITDA	**2,031**	**1,634**	**2,164**

(4) The following table sets forth the effects of changes in working capital on the operating cash flow:

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Changes in:			
Inventories	55	(101)	(108)
Trade receivables	(27)	(109)	(141)
Trade payables	(52)	230	127
Change in working capital	**(24)**	**20**	**(122)**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Interest paid	(593)	(624)	(521)
Interest received	9	8	9
Net interest paid	**(584)**	**(616)**	**(512)**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
(Gains) losses on disposal of assets	(1)	1	1
Other non-cash items	(21)	0	0
Change in:			
Provisions for pensions and similar obligations	(45)	(45)	(45)
Other assets, liabilities and provisions	2	411	(310)
Other operating cash flow adjustments	**(65)**	**367**	**(354)**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Capital expenditures on intangible assets	(35)	(18)	(50)
Capital expenditures on property, plant and equipment	(825)	(554)	(807)
Capital expenditures according to cash flow	**(860)**	**(572)**	**(857)**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Proceeds from disposals of intangible assets and property, plant and equipment	29	15	8
Investments in other financial investments	(3)	0	0
Other investing activities	2	3	(3)
Proceeds from disposals and other	**28**	**18**	**5**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Receipts from loans	395	27	727
Repayments of loans	(449)	(649)	(429)
Net issuance/repayment of loans	**(54)**	**(622)**	**298**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Dividends paid to non-controlling interests	(1)	(1)	(1)
Acquisition in stages	(13)	0	0
Other financing activities(*)	(194)	(115)	(158)
Other financing cash flows	**(208)**	**(116)**	**(159)**

(*) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of €154 million in the fiscal year ended December 31, 2014 (2013: €85 million; 2012: €227 million).

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

	As of December 31,		
in € million	**2012**	**2013**	**2014**
Inventories	1,495	1,536	1,713
Trade receivables	1,626	1,676	1,900
Trade payables	(794)	(1,014)	(1,251)
Working capital	**2,327**	**2,198**	**2,362**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Cash from operating activities	1,213	1,183	1,107
Cash used in investing activities	(832)	(554)	(852)
Free cash flow	**381**	**629**	**255**
Net interest paid	584	616	512
Free cash flow before net interest paid	**965**	**1,245**	**767**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Financial debt—non-current	7,140	5,965	6,413
Financial debt—current	121	225	1
Financial debt	**7,261**	**6,190**	**6,414**
Shareholder loans(*)	323	443	0
Financial debt(**)	**6,938**	**5,747**	**6,414**
Cash and cash equivalents	(433)	(300)	(711)
Net financial debt(**)	**6,505**	**5,447**	**5,703**

(*) Shareholder loans refer to loans (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, which were contributed into the share capital of Schaeffler AG on December 12, 2014. See "*Summary—Trading update and recent developments—December 2014 Reorganization*." The shareholder loans are subordinated in right of payment to the Notes, the Existing Notes and the Senior Facilities Agreement.

(**) Excludes the shareholder loans.

(14) *Pro forma* gross secured debt is gross secured debt (including short-term debt to credit institutions and other financial debt), as adjusted to give *pro forma* effect to the Transactions, as if they had occurred on December 31, 2014.

(15) *Pro forma* gross financial debt is the financial debt as adjusted to give *pro forma* effect to the Transactions, as if they had occurred on December 31, 2014.

(16) *Pro forma* cash and cash equivalents represents cash and cash equivalents as adjusted to give *pro forma* effect to the Transactions, as if they had occurred on December 31, 2014.

(17) *Pro forma* net financial debt represents *pro forma* gross financial debt less *pro forma* cash and cash equivalents.

(18) *Pro forma* net interest paid is defined as the accumulated net interest paid for the fiscal year ended December 31, 2014, as adjusted to give *pro forma* effect to the Transactions and the refinancings in May and October 2014, as if they had occurred on January 1, 2014. The actual net interest paid for the fiscal year ended December 31, 2014 (€512 million) is adjusted by

(a) deducting (i) the interest payments of €77 million relating to the refinancing of our previous senior facilities agreement, (ii) the interest payments of €61 million relating to the redeemed €400 million in aggregate principal amount of 8.75% senior secured notes due 2019 and $500 million in aggregate principal amount of 8.50% senior secured notes due 2019 issued pursuant to an indenture dated February 9, 2012 (together, the "**Redeemed February 2012 Notes**"), €300 million in aggregate principal amount of 6.75% senior secured notes due 2017 issued pursuant to an indenture dated July 4, 2012 and €26 million in aggregate principal amount of 6.75% senior secured notes due 2017 issued pursuant to an indenture dated July 20, 2012 (together, the "**Redeemed July 2012 Notes**" and together with the Redeemed February 2012 Notes, the "**Redeemed Notes**"); (iii) the applicable premium of €114 million for the redemption of the Redeemed Notes, and (iv) the interest payments of €97 million relating to the to be redeemed Outstanding February 2012 Notes, and (b) adding (i) the interest payments of €74 million relating to the Senior Facilities Agreement and (ii) the interest payments of €35 relating to the May 2014 Notes, and (iii) the interest payments of €51 relating to the Notes. Furthermore, transaction costs of €62 million and close out fees of €(1) million have been deducted from net interest paid.

(19) 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 fiscal years ended December 31, 2013 and 2014 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, 2014 and the segment information for the fiscal year ended December 31, 2012 is based on the segment reporting in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2013. In this regard, the 2012 segment information is not fully comparable to the 2013 and 2014 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 our ability to fulfill our obligations under the Notes and the Guarantees 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. In addition, a continuation or further aggrevation of the political tensions between Russia and Ukraine, or continued or expanded economic sanctions against Russia as a result of these tensions, could adversely affect the European or global economic development and could have a material adverse effect on our business and operating results.

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 New Senior Facilities Agreement and to fulfill our obligations under the Notes and the Guarantees 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 61% of our revenue in the fiscal year ended December 31, 2014, 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 16% of our revenue in the fiscal year ended December 31, 2014, 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 are 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 fiscal year ended December 31, 2014, our top ten customers represented approximately 59% of automotive revenues and approximately 16% 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

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

In the fiscal year ended December 31, 2014, purchases of production materials (raw materials and components) comprised €4.3 billion. Steel is the principal raw material used in many of our products.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 the 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 our ability to fulfill our obligations under the Notes and the Guarantees 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. For example, our drive train products and other products for vehicles use a combustion engine, which may become obsolete over time as electric cars increasingly gain popularity. 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 our ability to fulfill our obligations under the Notes and the Guarantees 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, 2013 and 2014, our R&D expenses in relation to total revenue accounted for approximately 5% in each period.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 machines and 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, particularly where a manufacturing site only operates a single unit of a particular type of equipment.

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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

Risks related to our financial position

Our high leverage and debt service obligations could have a material adverse effect on our business and may make it difficult for us to service our debt, including the Notes, and operate our business.

As of December 31, 2014, on a *pro forma* basis after giving effect to the Transactions, we would have had financial debt of approximately €6,670 million on a consolidated basis and shareholders' equity of €4,246 million on a consolidated basis. In addition to our existing indebtedness, we are able to borrow additional funds subject to compliance with certain covenants and other conditions. Our level of indebtedness could have important consequences for investors in the Notes. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- increase our vulnerability to adverse economic and industry conditions;
- require us to dedicate a substantial portion of cash flow from operations to payments on our 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 our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors with less debt; and
- limit our ability to borrow additional funds.

We are exposed to risks associated with the financing agreements at the level of our parent companies.

We are wholly-owned by Schaeffler Verwaltungs GmbH which has entered into the S-Verwaltungs Group Facilities Agreement as part of the October 2014 Refinancing. In addition, Schaeffler Verwaltungs GmbH's wholly-owned subsidiary Schaeffler Holding Finance B.V. has issued the S-Verwaltungs Group Notes. See "*Description of other indebtedness—S-Verwaltungs Group Debt Instruments*." The S-Verwaltungs Group Debt Instruments will mature prior to the respective stated maturity of the Notes. The Indenture governing the Notes will not provide any obligation of the Issuer to make an offer to the holders of the Notes to repurchase the Notes in case that the S-Verwaltungs Group Debt Instruments have not been repaid in full on the respective maturity dates of the S-Verwaltungs Group Debt Instruments. The S-Verwaltungs Group Debt Instruments contain certain restrictive covenants. The failure of Schaeffler Verwaltungs GmbH, Schaeffler Holding Finance B.V. and other obligors thereunder to comply with these covenants could result in events of default under the S-Verwaltungs Group Debt Instruments which could indirectly result in an event of default and/or an early prepayment or redemption obligation under the Senior Facilities Agreement. If not cured or waived, this could result in the acceleration of the indebtedness under the Senior Facilities Agreement, which, in turn, could result in an event of default and acceleration of our indebtedness, including under the Indenture governing the Notes.

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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline or experience increased volatility, and investors could lose all or part of their investment.

We are exposed to a number of risks associated with the Senior Facilities Agreement.

Our Senior Facilities Agreement contains covenants that require us to satisfy specified financial tests and maintain specified financial ratios regarding (i) a maximum level of total consolidated net debt to consolidated EBITDA ("leverage ratio") and (ii) a minimum level of consolidated EBITDA to consolidated net interest expense ("interest cover ratio").

In light of the cyclicality of our business and its possible effects on our business activities and results of operations as well as the other market and business-related risks described in more detail below, we may not be able to maintain our current revenue and profitability at the levels required for meeting financial tests. Hence, we cannot assure you that we will continue to comply with these financial covenants in the future. A breach of any of these covenants or the inability to comply with the required financial ratios could result in a default under the Senior Facilities Agreement unless we can obtain waivers or consents in respect of any breaches of these obligations thereunder. We cannot assure you that these waivers or consents will be granted. In the event of any default under the Senior Facilities Agreement, the lenders thereunder will not be required to lend any additional amounts to us and could elect to declare all outstanding borrowings, together with accrued interest, fees and other amounts due thereunder, to be immediately due and payable. In addition, indebtedness under other instruments that contain cross-default or cross-acceleration provisions also may be accelerated and become due and payable. In the event of a default, the relevant lenders could also require us to apply all available cash to repay the borrowings or prevent us from making debt service payments on the Notes, any of which would be an event of default under the Notes. If the debt under our credit facilities or the Notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay such debt in full.

Furthermore, in addition to the maintenance of specific covenants, the Senior Facilities Agreement provides for covenants and representations that limit the Company's and/or any of its subsidiaries' operations as well as change of control provisions. If we fail to comply with any of these covenants or representations or if a change of control occurs, and we are unable to obtain a waiver from the respective lenders, a default could result under the relevant debt instrument, which then could be declared to be immediately due and payable and/or would then become immediately due and payable.

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

In addition to the risks related to the Senior Facilities Agreement (see "*—We are exposed to a number of risks associated with the Senior Facilities Agreement*"), we and our subsidiaries may be subject to risks related to other existing and future debt obligations, including the Existing Notes and the Notes offered hereby. Each Indenture will contain a number of restrictive covenants, as well as a change of control provision; the indentures governing the Existing Notes contain substantially identical covenants and obligations. Any debt financing we incur in the future may contain similar restrictive covenants, representations and change of control provisions. If we fail to comply with any of these covenants or representations or if a change of control occurs, and we are unable to obtain a waiver from the respective creditors, 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.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 had a 36.0% share interest as of December 31, 2014, 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.

In its financial year 2014, Continental AG reported revenue of approximately €34.5 billion and EBITDA of approximately €5.1 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.

Upon the substitution of the Parent Guarantor and the occurrence of the SVZ Guarantee Fall-Away Event, Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, which holds the 36.0% stake in Continental AG, will cease to be a member of the Schaeffler Group and thereby become part of the S-Verwaltungs Group. See "*Substitution of the Parent Guarantor,*" "*Description of other Indebtedness—Security Pooling and Intercreditor Agreement—Consents, Amendments and Override—Amendment in connection with the SVZ Guarantee Fall-Away Event*" and "*Description of the Notes—Note Guarantees—Substitution of the Parent Guarantor.*" As a result, the financial results of the Schaeffler Group will cease to include the equity investment in Continental AG following the SVZ Guarantee Fall-Away Event, which will adversely affect our results of operations, 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 Existing Notes, the Notes offered hereby and the 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). 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 generally hedged in line with the existing hedging strategy for the net exposure of the next twelve months, using appropriate derivative financial instruments, particularly forward exchange contracts. The foreign exchange risk is concentrated at the Schaeffler Group level, to the extent allowed, and hedged on a net basis. Current market environment is 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 mark-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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

We are exposed to risks in connection with interest rate changes and associated hedging.

We are exposed to risks associated with changes in variable interest rates, as certain of our credit facilities bear interest at a floating rate, such as loans under our Senior Facilities Agreement. Therefore, an increase or decrease in interest rates would affect our current interest expenses and our future refinancing costs. These risks are monitored and evaluated as part of our interest rate management activities and managed individually based on principles of alignment with our 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. 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. 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 December 31, 2014, our total pension obligations amounted to approximately €2,712 million. As of December 31, 2014, our net pension obligations for defined benefit pension plans (pension obligations less pension plan assets, funded status) amounted to approximately €1,957 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 our ability to fulfill our obligations under the Notes and the Guarantees 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.

Since 2011, several antitrust authorities, including in the U.S., have been investigating several manufacturers of bearings and related products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted practices violating antitrust laws. The Company is conducting internal investigations into allegations of misconduct in the relevant sectors and is cooperating with the competition authorities in the context of these investigations.

Below is a brief summary of the current status of the relevant antitrust investigations and proceedings in respective jurisdictions:

- ***European Union***: On March 19, 2014, the EU Commission issued a decision under which we were required to pay €370.5 million. The EU antitrust penalty was paid in the second quarter of 2014.
- ***United States and Canada***: The U.S. Department of Justice ("**DOJ**") served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011 and is possibly still investigating antitrust law infringements. Since May 2012, several class action lawsuits have been filed by plaintiffs in the U.S. and Canada against various 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.
- ***Korea***: The Korean Fair Trade Commission has fined our Korean subsidiary Schaeffler Korea Yuhan Hoesa approximately €12 million for collusion regarding imported bearings for the industrial aftermarket and the Korean public prosecutor has initiated criminal proceedings against our subsidiary in this context in which it may impose an additional fine. We intend to file an appeal against the decision of the Korean Fair Trade Commission. A separate investigation of the Korean Fair Trade Commission regarding automotive bearing products is still ongoing. We expect a decision relating to this in the near term.
- ***Spain***: On December 4, 2014, the Spanish Competition Authority issued a fine in the amount of €1 million against Schaeffler Iberia and Schaeffler Verwaltung Zwei GmbH with respect to alleged antitrust law infringements in the railway bearings sector. Both companies have filed an appeal against this decision.
- ***Brazil***: On September 17, 2014, the Brazilian Antitrust Authority ("**CADE**") dawn raided our Brazilian subsidiary. CADE alleges price coordination and exchange of sensitive information with regard to automotive clutches. We expect further developments in this matter in the coming months. In addition, CADE has started an investigation into alleged anticompetitive behavior relating to bearings and clutch facing products. We have started an internal investigation and are cooperating with CADE.

If any relevant competition authority concludes that we participated in anti-competitive practices, these authorities may seek to impose a fine. Relevant prosecution authorities may commence criminal proceedings against us or our employees. We may also face additional follow-on civil actions by both direct and indirect purchasers of bearings or other affected products.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 sufficient in scope, duration or strength to provide us with meaningful protection or a commercial advantage and are subject to expiry. 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. Even where our intellectual property is subject to patents or other intellectual property rights, we may not be able to enforce these rights effectively, and the unauthorized use of our intellectual property, such as product piracy, could harm our sales and damage our reputation.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 our ability to fulfill our obligations under the Notes and the Guarantees 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 are amended to the effect that they foresee higher benefits for employees in the future, this may lead to higher employment costs and higher social security contributions for the past and future with regard to our German employees being subject to such collective bargaining agreements.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 and 2010, 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 within the meaning of section 20 et. seq. of the German Reorganization Tax Act (*Umwandlungssteuergesetz*). In 2009 and 2010, the former Schaeffler Holding GmbH & Co. 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 and certain further actions or omissions 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 at that time 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 a subsidiary of the Company. As these tainted shares form part of the Collateral securing the Notes and as shares in certain of the Company's subsidiaries form part of the collateral securing the Senior Facilities Agreement and the Existing Senior Secured 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 and certain further actions or omissions 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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

The shares of the Company also serve as collateral for the S-Verwaltungs Group Notes and for the indebtedness of Schaeffler Verwaltungs GmbH. An enforcement of such collateral could, therefore, have effects similar to the effects described above.

In 2012, former Schaeffler Technologies AG & Co. KG and participations in certain other group companies were contributed into another group company, Schaeffler AG (IBH at that time), 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 Schaeffler AG held by the Company. The above described tax consequences relating to tainted shares thus also apply, in general, to shares in Schaeffler AG.

We could be subject to tax risks attributable to previous tax assessment periods.

The Company 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.

The Company and many German as well as foreign companies in the IHO Group are subject to a routine tax audit by their respective tax authorities. The ongoing German tax audit covers the assessment periods 2008 through 2011. 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. Due to the Company's indirect acquisition of Schaeffler Holding GmbH & Co. KG's operating business by way of a hive-down under the German Reorganization Act (Umwandlungsgesetz) in 2009 and the subsequent transfer of this operating business to Schaeffler AG in 2013 by way of tax accretion, both the Company and Schaeffler AG are exposed to tax audit risks in connection with the Schaeffler Holding GmbH & Co. KG operating business.

The Company and its affiliates have set up certain tax provisions to address identifiable risks in respect of uncertain tax audit risks. As a result, the consolidated financial statements of the Company include significant provisions and liabilities to cover potential exposure 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 companies have already 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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

We are affected by the German interest barrier rules.

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 the tax-adjusted EBITDA in such financial year. As a result, our annual refinancing expenses (interest payments and further expenses which qualify as interest expenses within the meaning of the interest barrier rules) are not immediately deductible in full for tax purposes, but can be carried forward. The definition of interest expenses for interest barrier rule purposes is not free of doubt and therefore causes uncertainty. The Company and Schaeffler AG built up certain amounts of interest expense-carry forward (*Zinsvorträge*), whereas the interest expense-carry forward (*Zinsvortrag*) of Schaeffler Technologies AG & Co. KG was forfeited because of a reorganization in 2012. The Company recognized deferred tax assets on the interest expense-carry forward (*Zinsvortrag*) as of December 31, 2014 in its consolidated financial statements since it is expected that the interest expense-carry forward (*Zinsvortrag*) could be deducted in the future.

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 resulting site restoration obligations. We could also be held responsible for the remediation of areas adjacent to our sites. 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, water and/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 incurred in connection with such claims are generally difficult to predict. 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, such as asbestos-containing building materials used for heat insulation, were used in the past. 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 have sold. 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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

Our operations are subject to stringent laws and regulations, particularly under applicable environmental laws.

The nature of our business subjects us to significant government regulation, including, but not limited to, increasingly stringent environmental laws and regulations in most jurisdictions where we operate. Such laws and regulations also require permits or authorizations to be obtained and forms to be completed and delivered in connection with the operations of our business. This regulatory framework imposes on us significant day-to-day compliance burdens, costs and risks. In particular, violation of such laws and regulations may give rise to significant liability, including, but not limited to, fines and penalties, monetary and reputational damages, third-party liabilities and limitations on our business operations and site closures. There can be no assurance that we have been and will be in full compliance with all applicable laws and regulations governing the protection of the environment and human health, including but not limited to regulations concerning employee health and safety.

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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

We could become subject to additional burdensome environmental, safety or other 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 the environment, chemicals, hazardous materials and health. 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. In addition, we require various permits for our sites and operations 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, which were designed to stimulate the economy by boosting vehicle sales, have lapsed. As these scrappage programs may have led to increased short-term sales by bringing forward potential demand rather than adding incremental demand in the relevant markets, vehicle sales may decline in the short term. This could have negative consequences for vehicle production volumes, on which our business depends. Similarly, the planned introduction of an infrastructure charge imposing a toll for all cars on German streets could likewise have a dampening effect on vehicle sales and production volumes. In February 2015, the German government announced that the legislative framework for such a toll may enter into force with effect from January 1, 2016.

Tax increases, which reduce the income available for consumption, may also weaken the global demand in the automotive markets. Tax increases are a likely reaction of 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 our ability to fulfill our obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

Risks related to the Notes

Most of the shares in our subsidiaries 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 our companies (not including the shares in Continental AG) and certain shares in other IHO Group companies 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.*"). These tainted shares form part of the Collateral. As a consequence, an enforcement of the Collateral will 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 Schaeffler AG (IBH at that time) 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 additionally to its shareholders. It 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 "**Note Holders**").

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

The Notes will, upon issuance, be guaranteed by the Guarantees and secured by the Collateral. No appraisal of the value of the Collateral or the Guarantees 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, including the lenders under the Senior Facilities Agreement, the holders of the Existing Senior Secured Notes 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 Guarantees and any Collateral would be dependent on numerous factors affecting the financial situation of the providers of Guarantees and of the value of the assets subject to the Collateral at the time of their enforcement. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the payments under the Guarantees or the proceeds from the enforcement of the Collateral may not be sufficient to repay the obligations under the Notes.

Note 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 Guarantors will not be granted directly to the Note Holders but will be granted only in favor of the Security Trustee. The 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, Note Holders will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral.

The 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 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:

- Note Holders (as well as holders of the Existing Senior Secured Notes and 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 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 for the Notes (and the trustees for the Existing Senior Secured Notes and any trustee for notes issued in the future that become subject to the 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 Senior Facilities Agreement (and under future facilities agreements that become subject to the 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 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, together with the principal amount of the Existing Senior Secured Notes outstanding, will constitute approximately 71% of the total commitments of all secured creditors subject to the Security Pooling and Intercreditor Agreement and entitled to vote thereunder. Note Holders may need to rely on other secured creditors, whose interests may differ from those of the Note Holders, to direct the Security Trustee to take enforcement action with respect to the respective Collateral.

Under local law, claims of Note Holders may not have a first priority ranking pari passu with existing secured indebtedness, including indebtedness under the Senior Facilities Agreement and the Existing Senior Secured Notes, and investors must rely on the Security Pooling and Intercreditor Agreement to achieve a first priority lien in the Collateral.

Under local law, a majority of the liens securing the Notes are subject to legal doctrines that effectively rank them behind the liens in favor of earlier incurred obligations, including the liens in favor of the Senior Facilities Agreement, the Existing Senior Secured Notes and certain hedging obligations. Therefore, the first priority status of the Notes depends on the enforceability of the Security Pooling and Intercreditor Agreement. As a result, if the Security Pooling and Intercreditor Agreement is found to be invalid or unenforceable for any reason, or if an administrator refuses to give effect to it, the Notes may rank behind any other outstanding secured indebtedness.

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

With respect to certain jurisdictions, including Austria, Brazil, France, Germany (with respect to the pledge of shares and accounts), Hungary, Romania, Slovakia, Spain, Switzerland, the United Kingdom and the United States, due to the laws and other jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the respective Collateral will secure only a so-called "parallel debt" obligation created under the 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 Guarantors under the Notes and the Guarantees (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. In certain other jurisdictions, including, among others, Ireland, the United Kingdom and the United States, the respective Collateral will secure the Principal Obligations and the Parallel Debt Obligation in respect thereof. Although the Security Trustee has, pursuant to the parallel debt, a claim against the Issuer and the Guarantors for the full principal amount of the Notes, the parallel debt construct has not been tested in court in these jurisdictions 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, Note Holders bear some risk associated with a possible insolvency or bankruptcy of the Security Trustee. See "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations*."

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

The Guarantees and the Collateral may be subject to claims or could be limited or subordinated in favor of the relevant Guarantor's or relevant Collateral grantor's existing and future creditors under applicable laws. In addition, enforcement of each Guarantee will be limited to the extent of the amount which can be guaranteed by a particular Guarantor without rendering the guarantee voidable or otherwise ineffective under, or contrary to, applicable law and 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 Guarantees or the Collateral against any Guarantor and any grantor of Collateral will also be subject to certain defenses available to guarantors and grantors of security interests generally. These laws and defenses include, primarily with respect to Subsidiary Guarantors, 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 guarantee or security interest provided by such guarantor or security grantor if it found that:

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

The measure of insolvency for purposes of fraudulent conveyance and similar laws varies depending on the law applied. Generally, however, a guarantor or 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 Guarantee or Collateral, or held it unenforceable, the Note Holders and the Security Trustee would cease to have any claim in respect of the relevant Guarantor or the relevant Collateral, would be creditors solely of the Issuer, the Parent Guarantor and any remaining Subsidiary Guarantors and would benefit only from any remaining Collateral. The Note Holders and the Security Trustee may also be required to repay any amounts received with respect to such Guarantee or such Collateral.

Further, the Guarantees and the Collateral may be subject to claims that they should be limited or subordinated under German, United States or other applicable law. The enforcement of the Guarantees and the Collateral will be limited to the extent that the granting of such Guarantees and the Collateral is not in the corporate interest of the relevant guarantor or provider of Collateral, would be in breach of capital maintenance or thin capitalization rules or any other general statutory laws or that the burden of such Guarantee or Collateral securing the Notes and the Guarantees exceed the benefit to the relevant guarantor or provider of security. In particular, for the Guarantors and providers of Collateral organized under German law, each of their respective Guarantee or Collateral will be contractually limited under German law to the extent the granting of such Guarantee or enforcement of such Collateral would result in a breach of capital maintenance rules or other statutory laws or would cause the directors of such Guarantor or 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 Guarantees and Collateral in respect of German law and the laws of certain other jurisdictions where the Guarantors and grantors of Collateral are organized is set out in "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations.*"

The Notes will be structurally subordinated to indebtedness of non-guarantor subsidiaries and, to the extent of the limitations on enforceability of Guarantees, also to indebtedness of Guarantors that is not subject to such limitations.

Some, but not all, 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 that does not provide a guarantee in favor of the Notes, such non-guarantor 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, the Issuer or the Subsidiary Guarantors. As a result of the foregoing, the Issuer and the Guarantors may not have sufficient assets to make payments on the Notes or the Guarantees, respectively.

As of December 31, 2014, on a *pro forma* basis after giving effect to the Transactions, the subsidiaries of the Parent Guarantor other than the Issuer and the Subsidiary Guarantors would have had €6.9 million in financial indebtedness on a combined basis.

As described under "*—Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees and the Collateral may adversely affect their validity and enforceability*," the enforcement of the Guarantees will be subject to certain limitations and restrictions that are typical for upstream or cross-stream guarantees. To the extent that any debt or other payment obligation of a Guarantor is not also subject to such limitations and restrictions, such debt and other obligations would also be structurally senior to the Notes and the respective Guarantee.

The Notes and the Guarantees will be effectively subordinated to our debt 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 Parent Guarantor 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 Guarantees 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 and the Guarantees 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 Note Holders in an insolvency, bankruptcy or similar proceeding. The Issuer and the Guarantors may not have sufficient assets remaining to make payments on the Notes or the Guarantees, respectively.

The Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement will restrict our ability to repay the Notes or make certain amendments to the Notes.

The Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement will contain certain restrictions on our rights under the Indenture with respect to the Notes. Under the Security Pooling and Intercreditor Agreement, we 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 Security Pooling and Intercreditor Agreement, without the consent of the facility agent under the Senior Facilities Agreement (or any future facilities agreement that becomes subject to the Security Pooling and Intercreditor Agreement). Accordingly, the Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement may prevent us from exercising certain rights in respect of the Notes that would typically be available under the Indenture.

The Existing Senior Notes and the guarantees of the Existing Senior Notes are not subject to the Security Pooling and Intercreditor Agreement.

In accordance with the requirements of the indenture governing the Existing Senior Notes, concurrently with the issuance of the Notes, the Subsidiary Guarantors will also provide a guarantee with respect to the Existing Senior Notes. The Existing Senior Notes and the guarantees of the Existing Senior Notes are not subject to the Security Pooling and Intercreditor Agreement and, as a result, are not subject to the subordination, standstill, payment blockage or turnover provisions set forth therein. Therefore, Note Holders will not benefit from any subordination, standstill, payment blockage or turnover provisions vis-à-vis the holders of such Existing Senior Notes and such guarantees. This may affect the ability of the Note Holders to recover under the Guarantees and as a result, the Note Holders may recover less than they would if such Existing Senior Notes and such guarantees were subject to such subordination, standstill, payment blockage or turnover provisions.

Any Subsidiary Guarantee and any Collateral may be released or impaired without consent of the Note Holders, and under certain circumstances the Notes could become unsecured and lose the benefit of all Subsidiary Guarantees. Also, the Parent Guarantor may, without the consent of the Note Holders, substitute Schaeffler AG for itself as Parent Guarantor under certain circumstances, in which case the Guarantee of Schaeffler Verwaltung Zwei GmbH would be released.

The Indenture and the Security Pooling and Intercreditor Agreement provide that in certain circumstances any Subsidiary Guarantee and all or part of the Collateral may be released without any consent of the Note Holders. Among other circumstances, liens on the Collateral securing the Notes will be released, subject to certain exceptions and conditions, upon the release of all other liens (other than permitted liens) on such Collateral. For further details, see "*Description of the Notes—Security.*" The Senior Facilities Agreement provides that part of the Collateral securing outstanding indebtedness under the Senior Facilities Agreement will be released upon the satisfaction of certain requirements (see "*Description of other indebtedness—Senior Facilities Agreement*"). Upon any such release the liens on such Collateral securing the Notes would also be released. In addition, all or part of the Collateral may be released upon refinancing, amendment or restatement of the Senior Facilities Agreement.

Among other circumstances, and subject to certain exceptions and conditions, a Subsidiary Guarantee will be released upon the release of all other guarantees given by the relevant Subsidiary Guarantor with respect to indebtedness of the Issuer or any Guarantor in an amount in excess of €50.0 million outstanding under any credit facility. See "*Description of the Notes—Note Guarantees.*" After any such release, the Note Holders will no longer benefit from the relevant Subsidiary Guarantee or Collateral, as the case may be.

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 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 Note 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 "*—Note 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 Note Holders.

Under certain circumstances, the Parent Guarantor is permitted to substitute Schaeffler AG for itself as Parent Guarantor without the consent of the Note Holders. In the case of the substitution of the Parent Guarantor, the Guarantee of Schaeffler Verwaltung Zwei GmbH and, in certain circumstances the Collateral directly or indirectly held by Schaeffler Verwaltung Zwei GmbH would be released. See "*Description of the Notes—Note Guarantees.*"

Not all assets will be included in the Collateral.

The Collateral securing the Notes will initially comprise the Proceeds Loan Assignment, pledges over the capital stock of the Issuer and certain other subsidiaries of Schaeffler AG, and pledges over, or security assignments of, certain cash-pool header accounts, intra-group loan receivables and accounts receivables of Schaeffler AG and certain of its restricted subsidiaries. In particular, the Collateral securing the Notes will not include pledges over any of the capital stock in Continental AG or Schaeffler AG or any limited partnership interests in Schaeffler Beteiligungsholding GmbH & Co. KG. All or part of the Collateral may be released without the consent of Note Holders under certain circumstances (see "*—Any Subsidiary Guarantee and any Collateral may be released or impaired without consent of the Note Holders, and under certain circumstances the Notes could become unsecured and lose the benefit of all Subsidiary Guarantees. Also, the Parent Guarantor may, without the consent of the Note Holders, substitute Schaeffler AG for itself as Parent Guarantor under certain circumstances, in which case the Guarantee of Schaeffler Verwaltung Zwei GmbH would be released*"). If an event of default occurs and the Notes are accelerated, the Notes will rank equally with the holders of other unsubordinated and unsecured indebtedness with respect to any excluded assets. To the extent the claims of Note Holders exceed the value of the assets securing the Notes and other liabilities, claims related to any excluded assets will rank equally with the claims of the holders of any other unsecured indebtedness. As a result, if the value of the assets pledged as security for the Notes is less than the value of the claims of the Note Holders together with any super senior claims and any claims of the holders of any *pari passu* additional indebtedness, those claims may not be satisfied in full before the claims of our unsecured creditors are paid.

There may not be sufficient Collateral to pay all or any of the Notes.

No appraisal of the value of the Collateral has been made in connection with this offering and the value of the Collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. In addition, out of our total assets as of December 31, 2014 of €15,943 million, approximately 3.5%, or €555 million, consisted of goodwill and definite lived and indefinite lived intangible assets. Our property, plant and equipment as of December 31, 2014 was €3,748 million. Consequently, liquidating the Collateral securing the Notes may not produce proceeds in an amount sufficient to pay any amounts due on the Notes or senior obligations.

The Collateral securing the Notes is shared between the Note Holders, the holders of the Existing Senior Secured Notes, certain hedge counterparties, the holders of any *pari passu* additional debt and the lenders under the Senior Facilities Agreement and includes liens and other forms of security interests over the shares in, *inter alia,* the Issuer and the Subsidiary Guarantors (other than Schaeffler AG and Schaeffler Beteiligungsholding GmbH & Co. KG), certain cash pool header accounts, certain intra-group liabilities and certain account receivables of Schaeffler AG and certain of its restricted subsidiaries. Any proceeds of enforcement of the Collateral will be applied, *pari passu* and *pro rata,* to amounts due under the Notes, the Existing Senior Secured Notes, the Senior Facilities Agreement (or any replacement facilities), certain hedging obligations and any *pari passu* additional indebtedness. See "*Description of other indebtedness—Security Pooling and Intercreditor Agreement.*"

The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, conditions in the automotive and industrial sector, the ability to sell collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from any sale or liquidation of this Collateral may not be sufficient to pay our obligations under the Notes and other prior ranking and *pari passu* claims referred to above.

The Issuer and the other security providers will have control over the Collateral, and the sale of particular assets could reduce the pool of assets securing the Notes.

The security documents allow the Issuer and the other security providers to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the Collateral securing the Notes. Except under limited circumstances specified in the relevant security documents, the Issuer and the other security providers may, among other things, without any release or consent by the Trustee or the Security Trustee, conduct ordinary course activities with respect to the Collateral and make ordinary course cash payments, including repayments of indebtedness. Any of these activities could reduce the value of the Collateral, which could reduce the amounts payable to you from the proceeds of any sale of the Collateral in the case of an enforcement of the Collateral.

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 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 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 Note Holders to direct the enforcement of Collateral will be restricted by the Security Pooling and Intercreditor Agreement. See "*— Note Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances.*"

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

The Guarantees and the Collateral may be voidable by the relevant Guarantors 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 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 any Guarantee or the creation of the Collateral is voided, the Note Holders and the Security Trustee would lose the benefit of such Guarantee or Collateral and would be creditors solely of the Issuer and any remaining Guarantors and would therefore benefit only from any remaining Collateral. The Note Holders and the Security Trustee may also be required to repay any amounts received with respect to such Guarantee or such Collateral.

In order to effectively secure future indebtedness, including additional Notes, that is permitted by the Security Pooling and Intercreditor Agreement to share in the Collateral, it may be necessary in some or all jurisdictions to create additional, junior-ranking security 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 Guarantees and the Collateral and certain insolvency law considerations.*" Since the 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 Note Holders, the holders of the Existing Senior Secured Notes, the lenders under the Senior Facilities Agreement, certain hedge counterparties and the holders of any future indebtedness that shares in the Collateral and becomes subject to the 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 Security Pooling and Intercreditor Agreement, including the Note 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, an insolvency administrator may seek to challenge the enforceability of Collateral and Guarantees 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 Guarantees 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 Note Holders.

A summary description of certain aspects of the insolvency laws of Germany and certain jurisdictions where the Guarantors and the providers of Collateral are organized and have their center of main activities are set out in "*Limitations on validity and enforceability of the Guarantees and 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 Guarantors have limited obligations to assist the Security Trustee in perfecting the Note Holders' security interest in specified Collateral. There can be no assurance that the Trustee or the Security Trustee for the Notes will monitor, or that the Issuer will inform such Trustee or the 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 Guarantees across multiple jurisdictions may be difficult.

Though the Guarantees will be governed by New York law, the enforcement of such guarantees against Guarantors organized and having their center of main activities in countries other than the United States would be subject to the laws of multiple jurisdictions. In particular, in the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Guarantees will therefore be subject to the laws of the respective jurisdictions, and it may be difficult to effectively enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. In addition, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability of each Note Holder to enforce the Guarantees and to realize any payment under the Guarantees.

Therefore, even if a Note Holder obtains a favorable judgment from a New York court against a Guarantor organized and having its center of main activities in countries other than the United States, such Note Holder will have to enforce such judgment in such foreign jurisdiction, which is likely to result in additional costs and a further delay of the enforcement action. Furthermore, because in such case the recognition and enforcement of a New York court judgment by a foreign court will be subject to the laws of such foreign jurisdiction and may be conditional upon a number of factors, it is uncertain whether attempts of a Note Holder to enforce such judgments will be successful.

A summary description of certain aspects of the insolvency laws of certain jurisdictions where the Guarantors are organized or have their center of main activities are set out in "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations.*"

Enforcement of the Collateral across multiple jurisdictions may be difficult.

The Collateral will be governed by the laws of multiple jurisdictions. In the event of bankruptcy, insolvency or a similar event, proceedings could 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 multiple bankruptcy, insolvency and other similar proceedings. In addition, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions 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 Guarantees.

A summary description of certain aspects of the insolvency laws of Germany and certain jurisdictions where the providers of Collateral are organized or have their center of main activities are set out in "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations*."

The insolvency laws of Germany and other local insolvency laws 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 Note Holders from recovering payments due on the Notes.

The Issuer is incorporated under the laws of the Netherlands, the Parent Guarantor is incorporated under the laws of Germany, and each of the current Subsidiary Guarantors is incorporated under the laws of one of Austria, Brazil, England and Wales, France, Germany, Hong Kong, Hungary, the Netherlands, Romania, Slovakia, Switzerland and the states of Delaware and Connecticut in the United States. 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, the Guarantors 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, Austria, Brazil, France, Germany, Hong Kong, Hungary, Romania, Slovakia, Switzerland, the Netherlands, the United Kingdom and the United States is set forth under "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations.*"

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 our shareholders may be inconsistent with your interests.

As of the date of this Offering Memorandum, Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler (together, the "**Schaeffler Family**") ultimately own the entire equity of Schaeffler AG and the Parent Guarantor. The interests of the Schaeffler Family could conflict with your interests, particularly if we encounter financial difficulties or are unable to pay our 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 Note Holder. In addition, the Schaeffler Family or their affiliates may, in the future, own businesses that directly compete with us.

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

We and our subsidiaries may be able to incur substantial additional debt in the future. Under the Senior Facilities Agreement, we have a €1.0 billion revolving credit facility available to us. Although the Indenture, the indentures governing the Existing Notes and the Senior 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. In addition to specified permitted debt, we will be able to incur additional debt under the Indenture and the indentures governing the Existing Notes so long as on a *pro forma* basis our consolidated coverage ratio (as defined in the Indenture) is at 2.0 to 1.0 and, if such additional debt is secured, our consolidated secured debt leverage ratio (as defined in the Indenture) is not greater than 3.75 to 1.0. In addition, the Indenture, the indentures governing the Existing Notes and the Senior Facilities Agreement 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.

Although the occurrence of specific change of control events will permit Note Holders to require repurchase of the Notes, the Issuer may not be able to repurchase such Notes.

Upon the occurrence of specific change of control events, the Note Holders will have the right to require the repurchase of all or part of their Notes at 101% of their principal amount, plus accrued and unpaid interest. The Issuer's ability to repurchase Notes upon such events will be limited by its access to funds at the time of the repurchase and the terms of certain debt agreements, which agreements could restrict or prohibit such a repurchase. Upon a change of control event, the Issuer or the Parent Guarantor may be required to immediately repay the outstanding principal, any accrued interest on and any other amounts owed by it under one or more of its bank facilities and may be required to offer to repurchase certain other debt instruments, including the Existing Notes. The source of funds for these repayments would be the available cash or cash generated from other sources. However, it cannot be assured that there will be sufficient funds available upon a change of control to make these repayments and any required repurchases of tendered Notes.

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.

We may not be able to generate sufficient cash flows to meet our debt service obligations.

Our ability to make scheduled payments on, or to refinance, our obligations with respect to our indebtedness, including the Notes, will depend on our financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future sources of capital will be available to us in an amount sufficient to enable us to service our indebtedness, including the Notes, or to fund our other liquidity needs. If we are unable to generate sufficient cash flow to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We do not expect cash flow from operations to suffice to pay the principal amounts of the Notes at maturity and expect that we may have to sell assets or conduct another financing to pay the principal amount of the Notes. We 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 will restrict our ability to dispose of assets and use the proceeds from the disposition. Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms, would materially and adversely affect our financial condition and results of operations and our ability to satisfy our obligations under the Notes.

The Issuer is a financing vehicle for us, has no material assets or sources of revenue except for claims against group companies resulting from intercompany loans and relies on distributions from the Parent Guarantor's subsidiaries to service its debt obligations and repay the Notes.

The Issuer is a finance company with limited assets which concentrates on financing activities for us. The Issuer is an indirect subsidiary of the Parent Guarantor and will on-lend the proceeds from the sale of the Notes to Schaeffler AG under an intercompany loan, *i.e.*, the Notes Proceeds Loan, to make payments as set forth in "*Use of Proceeds*." The Issuer intends to service and repay the Notes out of the payments it receives under the Notes Proceeds Loan. Other than the receivables under the Notes Proceeds Loan and any other proceeds loans made in connection with other financing transactions, the Issuer has no material assets or sources of revenue. The Issuer's ability to service and repay the Notes therefore depends on the ability of the relevant borrower under the intercompany loan to service in full all intercompany loans, including the Notes Proceeds Loan. In meeting its payment obligations under the Notes, the Issuer is wholly dependent on the profitability and cash flow of the Parent Guarantor.

The Parent Guarantor's cash flow and its ability to meet its cash requirements, including its obligations under its Guarantee, is dependent to a significant extent upon the profitability and cash flow of its subsidiaries and payments by such subsidiaries to the Parent Guarantor in the form of loans, dividends, fees, rental payments, or otherwise, as well as the Parent Guarantor's own credit arrangements.

The ability of the Parent Guarantor's subsidiaries to make payments to the Parent Guarantor may be restricted by, among other things, applicable corporate and other laws and regulations and by the terms of covenants and restrictions contained in financing agreements to which such subsidiaries are or will be a party. In addition to any limitations on payment to the Parent Guarantor contained in such agreements, any failure to comply with the covenants and restrictions contained in such agreements could trigger defaults under those agreements which could delay or preclude the distribution of dividend payments or any other similar payments to the Parent Guarantor.

Note 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, the Parent Guarantor is organized under the laws of Germany and most of the Subsidiary Guarantors are also organized in jurisdictions outside the United States. 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 Note Holders to effect service of process within the United States upon the Issuer, the Parent Guarantor and most Subsidiary Guarantors to enforce against them judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States.

Neither the United States and Germany nor the United States and the Netherlands 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 or the Netherlands, as applicable. 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 LuxSE's Euro MTF Market, there can be no assurance regarding the future development of a market for the Notes or the ability of Note Holders to sell their Notes or the price at which Note 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 Guarantees 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 Note Holders may be required to bear the cost of their investment in the Notes until their maturity. It is the Note 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*."

There may be withholding from payments under the Notes under the EU Savings Directive.

Under Council Directive 2003/48/EC on the taxation of savings income ("**EU Savings Directive**"), EU member states are required to provide to the tax authorities of other EU member states details of certain payments of interest or similar income paid or secured by a person established in an EU member state to or for the benefit of an individual resident in another EU member state or certain limited types of entities established in another EU member state.

On March 24, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. EU member states are required to apply these new requirements from January 1, 2017. The changes will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The directive will also expand the circumstances in which payments that indirectly benefit an individual resident in an EU member state must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is generally required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments at a rate of 35%. The changes referred to above will broaden the types of payments generally subject to withholding in Austria and in any other EU member states which operate a withholding system when they are implemented. In Austria, no withholding tax is imposed if the recipient provides the information in accordance with the EU Savings Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through an EU member state which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined under "*Description of the Notes*") nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in an EU member state that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

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.

We received corporate ratings of "B" from S&P and "B2" from Moody's in January 2012 which were subsequently upgraded to "BB-" by S&P in October 2013 and "Ba3" by Moody's in September 2013. The Existing Senior Secured Notes and the Notes are currently assigned ratings of "BB-" from S&P and "Ba2" from Moody's. The Existing Senior Notes are currently assigned ratings of "B" from S&P and "B1" from Moody's.

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 our ability to fulfill our obligations under the Notes and the Guarantees 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 relevant Paying Agents. The relevant 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 Note 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 Note 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 relevant 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 such Notes below such rating, certain covenants will cease to be applicable to the Notes. 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. See "*Taxation—U.S. Taxation.*"

Use of proceeds

We will use the net proceeds from the offering of the Notes (i) to fully redeem the Outstanding February 2012 Notes pursuant to the Redemption, and (ii) for related fees and expenses and general corporate purposes.

We estimate that the net proceeds from the sale of the Notes will amount to approximately €1,525 million, after payment of the estimated commissions and other expenses related to the offering of the Notes as well as the Redemption that are to be borne by the Issuer.

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)]	1,536
Total Sources	**1,536**

Uses of Funds	**in € million**
Redemption of:[(2)(3)]	
Outstanding February 2012 Notes (EUR)	800
Outstanding February 2012 Notes (USD)[(4)]	494
Applicable Premium[(5)]	171
Estimated fees and expenses[(6)]	11
Cash and cash equivalents	60
Total Uses	**1,536**

(1) The amount reflects the gross proceeds of €1,536 million-equivalent from the issuance of the Notes. For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.1000 to €1.00. This exchange rate differs from the exchange rate in effect as of December 31, 2014.

(2) Gross of unamortized transaction costs.

(3) The amount needed to fully redeem the Outstanding February 2012 Notes is subject to change as a result of fluctuations in the U.S. dollar exchange rate, the Bund Rate and the Treasury Rate between now and the expected redemption date of April 27, 2015. If the net proceeds from the sale of the Notes will not be sufficient to redeem the Outstanding February 2012 Notes, we will use cash on hand to cover the balance. If the net proceeds from the sale of the Notes exceed the amount needed to redeem the Outstanding February 2012 Notes, we will use the balance for general corporate purposes.

(4) For presentational purposes, any dollar amounts have been converted into euro at an exchange rate of $1.2141 to €1.00 as of December 31, 2014. The amount to be redeemed based on an assumed exchange rate of $1.1000 to €1.00 for the Outstanding February 2012 Notes (USD) would be €545 million.

(5) For presentational purposes, the Applicable Premium has been calculated based on (i) an assumed Bund Rate of (0.2)% for the Euro Notes and (ii) an assumed Treasury Rate of 0.5% and an assumed exchange rate of $1.1000 to €1.00 for the Dollar Notes.

(6) Represents our estimate of fees and expenses in connection with or otherwise related to the Transactions 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 as of December 31, 2014 (a) on an actual basis and (b) as adjusted to give effect to the Transactions.

The information set out below should be read in conjunction with our audited consolidated financial statements as of and for the fiscal year ended December 31, 2014 included elsewhere in this Offering Memorandum. All values shown are book values (except where otherwise stated).

	As of December 31, 2014	**Transactions**	**As of December 31, 2014**
in € million	**Actual**	**Adjustments**	**As Adjusted**
Cash and cash equivalents	**711**	**60**	**771**
Senior Facilities	**1,775**	**—**	**1,775**
Revolving credit facility (€1,000 million)	—	—	—
Term loan B-EUR	*750*	—	*750*
Term loan B-USD(1)	*1,071*	—	*1,071*
Unamortized transaction costs	*(46)*	—	*(46)*
Existing Notes	**4,634**	**(1,280)**	**3,354**
EUR Notes	*2,900*	*(800)*	*2,100*
USD Notes(1)	*1,771*	*(494)*	*1,277*
Unamortized transaction costs	*(37)*	*14*	*(23)*
Notes offered hereby(2)	—	1,536	1,536
Other financial debt	5	—	5
Financial debt (current and non-current)(3)	**6,414**	**256**	**6,670**
Shareholders' equity(3)	**4,442**	**(196)**	**4,246**
Total Capitalization	**10,856**	**60**	**10,916**

(1) For presentational purposes, any dollar amounts have been converted into euro at an exchange rate of $1.2141 to €1.00 as of December 31, 2014.

(2) The amount reflects the gross proceeds of €1,536 million-equivalent from the issuance of the Notes. For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.1000 to €1.00. This exchange rate differs from the exchange rate in effect as of December 31, 2014.

(3) For this illustration, we have assumed that expected transaction costs of €11 million are not amortized and have thus deducted this amount from shareholders' equity. However, under IFRS, it is likely that a significant portion of the transaction costs qualify for amortization which would result in lower reported financial debt and higher shareholders' equity.

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.*" Except as set forth above, there have been no other material changes to our capitalization since December 31, 2014.

Selected financial information

The following tables present our selected financial information and should be read in conjunction with the audited consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014, 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. Except as noted otherwise, the financial information as of and for the fiscal year ended December 31, 2012 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2013 and the financial information as of and for the fiscal year ended December 31, 2013 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2014. Our consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014 were audited by KPMG which issued an unqualified audit opinion for each fiscal year. The information below is not necessarily indicative of the results of future operations.

Consolidated Income Statement

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Revenue	**11,125**	**11,205**	**12,123**
Cost of sales	(7,836)	(8,029)	(8,654)
Gross profit	**3,289**	**3,176**	**3,469**
R&D expenses	(593)	(611)	(626)
Selling expenses	(759)	(761)	(827)
Administrative expenses	(465)	(476)	(467)
Other income	35	70	49
Other expenses	(94)	(416)	(82)
EBIT	**1,413**	**982**	**1,516**
Financial income	23	217	264
Financial expenses	(703)	(659)	(921)
Financial result	**(680)**	**(442)**	**(657)**
Income from equity-accounted investees	**554**	**801**	**727**
EBT[(1)]	**1,287**	**1,341**	**1,586**
Income taxes	(405)	(469)	(247)
Net income	**882**	**872**	**1,339**
Attributable to shareholders of the parent company	870	865	1,331
Attributable to non-controlling interests	12	7	8

Consolidated Statement of Financial Position

in € million	As of December 31, 2012	2013	2014
Assets			
Intangible assets	554	538	555
Property, plant and equipment	3,515	3,369	3,748
Investments in equity-accounted investees	5,040	5,085	5,568
Other investments	14	14	14
Other financial assets	91	206	895
Other assets	59	59	59
Income tax receivables	17	12	8
Deferred tax assets	364	230	467
Total non-current assets	**9,654**	**9,513**	**11,314**
Inventories	1,495	1,536	1,713
Trade receivables	1,626	1,676	1,900
Other financial assets	106	119	75
Other assets	125	141	181
Income tax receivables	107	142	49
Cash and cash equivalents	433	300	711
Total current assets	**3,892**	**3,914**	**4,629**
Total assets	**13,546**	**13,427**	**15,943**
Shareholders' equity and liabilities			
Share capital	500	500	500
Reserves	2,027	2,643	4,847
Accumulated other comprehensive income (loss)	(479)	(709)	(922)
Equity attributable to shareholders of the parent company	**2,048**	**2,434**	**4,425**
Non-controlling interests	60	57	17
Total shareholders' equity	**2,108**	**2,491**	**4,442**
Provisions for pensions and similar obligations	1,553	1,516	1,994
Other provisions	75	96	73
Financial debt	7,140	5,965	6,413
Income tax payables	267	340	343
Other financial liabilities	237	162	22
Other liabilities	3	5	8
Deferred tax liabilities	119	154	122
Total non-current liabilities	**9,394**	**8,238**	**8,975**
Provisions	223	599	240
Financial debt	121	225	1
Trade payables	794	1,014	1,251
Income tax payables	232	155	155
Other financial liabilities	401	419	564
Other liabilities	273	286	315
Total current liabilities	**2,044**	**2,698**	**2,526**
Total shareholders' equity and liabilities	**13,546**	**13,427**	**15,943**

Consolidated Statement of Cash Flows

in € million	Year ended December 31, 2012	2013	2014
Operating activities			
EBIT	1,413	982	1,516
Interest paid	(593)	(624)	(521)
Interest received	9	8	9
Income taxes paid	(226)	(385)	(238)
Dividends received	81	163	169
Depreciation, amortization and impairments	618	652	648
(Gains) losses on disposal of assets	(1)	1	1
Other non-cash items	(21)	0	0
Changes in:			
Inventories	55	(101)	(108)
Trade receivables	(27)	(109)	(141)
Trade payables	(52)	230	127
Provisions for pensions and similar obligations	(45)	(45)	(45)
Other assets, liabilities and provisions	2	411	(310)
Cash from operating activities	**1,213**	**1,183**	**1,107**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	29	15	8
Capital expenditures on intangible assets	(35)	(18)	(50)
Capital expenditures on property, plant and equipment	(825)	(554)	(807)
Investments in other financial investments	(3)	0	0
Other investing activities	2	3	(3)
Cash used in investing activities	**(832)**	**(554)**	**(852)**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	(1)
Receipts from loans	395	27	727
Repayments of loans	(449)	(649)	(429)
Acquisitions in stages	(13)	0	0
Dividends paid to Schaeffler Verwaltungs GmbH	(79)	0	0
Other financing activities[(2)]	(194)	(115)	(158)
Cash provided by/(used in) financing activities	**(341)**	**(738)**	**139**
Net increase/(decrease) in cash and cash equivalents	**40**	**(109)**	**394**
Effects of foreign exchange rate changes on cash and cash equivalents	(4)	(24)	17
Cash and cash equivalents as at beginning of period	397	433	300
Cash and cash equivalents as at end of period	**433**	**300**	**711**

Other Financial and Operating Data

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Other financial information			
Revenue	11,125	11,205	12,123
Revenue growth	*4.0%*	*0.7%*	*8.2%*
EBIT	1,413	982	1,516
EBIT margin	*12.7%*	*8.8%*	*12.5%*
EBITDA(3)	2,031	1,634	2,164
EBITDA margin	*18.3%*	*14.6%*	*17.9%*
Capital expenditures according to cash flow(4)	(860)	(572)	(857)
Working capital (at end of period)(5)	2,327	2,198	2,362
Free cash flow(6)	381	629	255
Free cash flow before net interest paid(6)	965	1,245	767
Net financial debt (at end of period)(7)	6,505	5,447	5,703
Other operating information			
Number of employees (at the end of period)	76,099	78,559	82,294

Selected Segment Information(8)

Automotive Division

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Revenue	**7,658**	**8,164**	**8,982**
Revenue growth	*7.0%*	*6.6%*	*10.0%*
Gross profit	**2,106**	**2,205**	**2,521**
EBIT	**997**	**665**	**1,230**
Depreciation, amortization and impairments	432	464	455
EBITDA	**1,429**	**1,129**	**1,685**
Gross profit margin	*27.5%*	*27.0%*	*28.1%*
EBIT margin	*13.0%*	*8.1%*	*13.7%*
EBITDA margin	*18.7%*	*13.8%*	*18.8%*

Industrial Division

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Revenue	**3,406**	**3,041**	**3,141**
Revenue growth	*(1.6)%*	*(10.7)%*	*3.3%*
Gross profit	**1,183**	**971**	**948**
EBIT	**416**	**317**	**286**
Depreciation, amortization and impairments	186	188	193
EBITDA	**602**	**505**	**479**
Gross profit margin	*34.7%*	*31.9%*	*30.2%*
EBIT margin	*12.2%*	*10.4%*	*9.1%*
EBITDA margin	*17.7%*	*16.6%*	*15.2%*

(1) Earnings before taxes.

(2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, €154 million in the fiscal year ended December 31, 2014 (2013: €85 million; 2012: €227 million).

(3) We define EBITDA (Earnings before financial result, income from 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,		
in € million	**2012**	**2013**	**2014**
Net Income	**882**	**872**	**1,339**
Income taxes	405	469	247
Income from equity-accounted Investees	(554)	(801)	(727)
Financial expenses	703	659	921
Financial income	(23)	(217)	(264)
EBIT	**1,413**	**982**	**1,516**
Depreciation, amortization and impairments	618	652	648
EBITDA	**2,031**	**1,634**	**2,164**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Capital expenditures on intangible assets	(35)	(18)	(50)
Capital expenditures on property, plant and equipment	(825)	(554)	(807)
Capital expenditures according to cash flow	**(860)**	**(572)**	**(857)**

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

	As of December 31,		
in € million	**2012**	**2013**	**2014**
Inventories	1,495	1,536	1,713
Trade receivables	1,626	1,676	1,900
Trade payables	(794)	(1,014)	(1,251)
Working capital	**2,327**	**2,198**	**2,362**

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

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Cash from operating activities	1,213	1,183	1,107
Cash used in investing activities	(832)	(554)	(852)
Free cash flow	**381**	**629**	**255**
Net interest paid	584	616	512
Free cash flow before net interest paid	**965**	**1,245**	**767**

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

	As of December 31,		
in € million	**2012**	**2013**	**2014**
Financial debt—non-current	7,140	5,965	6,413
Financial debt—current	121	225	1
Financial debt	**7,261**	**6,190**	**6,414**
Shareholder loans(*)	323	443	0
Financial debt(**)	**6,938**	**5,747**	**6,414**
Cash and cash equivalents	(433)	(300)	(711)
Net financial debt(**)	**6,505**	**5,447**	**5,703**

(*) Shareholder loans refers to loans (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, which were contributed into the share capital of Schaeffler AG on December 12, 2014. See "*Summary—Trading update and recent developments—December 2014 Reorganization*." The shareholder loans were subordinated in right of payment to the Notes, the Existing Notes and the Senior Facilities Agreement.

(**) Excludes the shareholder loans.

(8) 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 fiscal years ended December 31, 2013 and 2014 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, 2014 and the segment information for the fiscal year ended December 31, 2012 is based on the segment reporting in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2013. In this regard, the 2012 segment information is not fully comparable to the 2013 and 2014 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 audited consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014, 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. Except as noted otherwise, the financial information as of and for the fiscal year ended December 31, 2012 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2013 and the financial information as of and for the fiscal year ended December 31, 2013 has been presented as in the audited consolidated financial statements of the Company as of and for the year ended December 31, 2014. Our consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2014 were audited by KPMG which issued an unqualified audit opinion for each fiscal year.

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 a leading integrated global supplier to the automotive and industrial sectors. We supply high-quality and technologically-advanced components and systems to a broad range of automotive and industrial customers. We are one of the largest family-owned technology companies in the world with approximately 82,000 employees and a network of manufacturing locations, research and development facilities, and distribution companies in approximately 170 locations in 50 countries (as of December 31, 2014). Our 74 manufacturing locations form the foundation of our operations. In the fiscal year ended December 31, 2014, we had revenues of approximately €12.1 billion, and EBITDA of approximately €2.2 billion.

We operate through two main divisions: Automotive and Industrial. Our Automotive Division generated approximately 74% of our revenue in the fiscal year ended December 31, 2014, supplying more than 65,000 products to approximately 7,500 customers globally. Our Industrial Division accounted for approximately 26% of our revenue in the fiscal year ended December 31, 2014, supplying approximately 85,000 products to approximately 14,500 customers in approximately 60 different industrial sectors.

We distribute our products throughout our markets mainly under three globally recognized brands, LuK, INA and FAG, mostly 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 2012, 2013 and 2014, our revenue was impacted, in general, by economic uncertainties connected to the sovereign debt crisis in the Euro region. After the noticeable decline of the worldwide economy in 2012, a significant stabilization and recovery of the economy took place in 2013. In 2014, geopolitical crises and turmoil in the financial markets slowed down this global economic recovery.

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 2012, the tense economic situation in the automotive markets reduced our Automotive Division's growth rate compared to the prior year. In 2013 and 2014, the Automotive Division outpaced market growth, which was a result of the economic recovery of the automotive markets.

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.

In 2012, the Industrial Division was affected by slowing demand. In 2013, the Industrial Division was affected by economic and political uncertainty in many countries and thus continued to experience slowing demand. In 2014, demand in the Industrial Division increased slightly, primarily driven by increased demand in our Industrial Aftermarket business.

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 (flat steel or steel bar), plastics, brass, iron and aluminum casting, are subject to price volatility. The unexpectedly fast recovery from the economic crisis in 2010, in particular, led to a sharp increase in raw material prices. In 2012, raw material prices were 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. In 2013, raw material costs were slightly lower than in 2012, driven by slightly lower prices of all primary materials for steel production in 2013. In 2014, raw material costs were slightly lower than in 2013. This was mainly due to lower prices for the key raw materials required to produce steel, iron ore and coal, which led to further decreases in the price of steel in 2014.

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 approximately 6,000 people within a global R&D network comprising 16 R&D centers. Key locations outside Germany are China, India, Brazil and the United States.

In the fiscal years 2012, 2013 and 2014, we have invested approximately 5% of revenue in research and development in each period.

Other expenses

In 2013, our results were materially influenced by expenses due to the ongoing EU antitrust proceedings.

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 then further investigated the matter. As there was a risk of being fined by the EU Commission in 2014, we had set up a provision of €380 million in our 2013 annual accounts.

On March 19, 2014, the EU Commission issued a decision under which we were required to pay €370.5 million. The EU antitrust penalty was paid in the second quarter of 2014.

We are also subject to various ongoing investigations by antitrust authorities in the U.S., Korea, and Brazil. There is a risk that antitrust authorities will impose additional penalties. We have recognized provisions in our 2014 annual accounts for the investigations of the Korean and Brazilian antitrust authorities in connection with possible agreements violating antitrust law. 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*."

Financial result

High level of financial debt

Our results are significantly affected by our high level of financial debt and corresponding interest expenses.

Our current financial debt consists of term loans and corporate bonds in euro and in U.S. dollars. 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 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.

Due to our refinancing activities in 2012 and 2013, we again had to restructure our hedging portfolio in the fourth quarter of the fiscal year 2013. Therefore, we closed out interest rate swaps and concluded an interest rate cap transaction.

As a result of our ongoing improvement of our hedging portfolio, we have reduced the interest rate impact on our results, *i.e.*, we experienced less volatility.

No new derivatives were transacted in the process of refinancing activities in 2014. There are no interest rate derivatives as at December 31, 2014. Interest rate risk is therefore managed by apportioning the total financial debt into a fixed rate interest portfolio and a floating rate interest portfolio.

Investment in Continental AG

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

Until September 30, 2011, Continental AG was an associate of the Company according to IAS 28.

On September 30, 2011, the Company transferred its share interest of 72,290,458 shares, or 36.14%, 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. The Company is the limited partner and holds a 100% interest in Schaeffler Beteiligungsholding GmbH & Co. KG, therefore the transfer of Continental AG shares does not change the underlying economics of our investment. The accounting treatment and presentation in the consolidated financial statements remained substantially unchanged.

Thus, Continental AG is continuously 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).

In the third quarter of 2013, the Schaeffler Group successfully sold 3.9 million shares, or 1.95%, in Continental AG at a price of €122.5 per share. Proceeds of the sale were €476 million. In connection with the December 2014 Reorganization, Schaeffler Verwaltungs GmbH sold 3.6 million shares (representing a 1.80% interest) in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG. As of December 31, 2014, Schaeffler Verwaltung Zwei GmbH held 71,990,458 shares, or 36.0%, of the voting interest in Continental AG, via Schaeffler Beteiligungsholding GmbH & Co. KG. See "*Summary—Trading update and recent developments—December 2014 Reorganization*."

Our income from equity-accounted investees of €554 million in 2012, €801 million in 2013 and €727 million in 2014 arose almost entirely from the investment in Continental AG held via Schaeffler Beteiligungsholding GmbH & Co. KG. Income from equity-accounted investees in 2013 included a €187 million gain on the disposal of shares representing a 1.95% interest in Continental AG.

Upon the substitution of the Parent Guarantor and the occurrence of the SVZ Guarantee Fall-Away Event, Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, which holds the 36.0% stake in Continental AG, will cease to be a member of the Schaeffler Group and thereby become part of the S-Verwaltungs Group. See "*Description of the Notes—Note Guarantees—Substitution of the Parent Guarantor.*" As a result, the financial results of the Schaeffler Group will cease to include the equity investment in Continental AG following the SVZ Guarantee Fall-Away Event, which will adversely affect our results of operations, net assets and financial position. See "*Risk Factors—Risks related to our financial position—We are exposed to risks in connection with our share interest in Continental AG*."

Income taxes

In the fiscal years 2012, 2013 and 2014, the Company was 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, consulting fees as well as depreciation.

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.

Foreign currency risk arising from operating activities is estimated as the foreign currency-exchange risk from operating activities and investing activities relating to the next twelve months. Our main foreign exchange exposure is from net inflows in U.S. dollars (surplus). The exposures are generally hedged in line with the existing hedging strategy for the currency risk from operations of the next twelve months, using appropriate derivative financial instruments, particularly forward exchange contracts. Portfolio aspects 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, 2014:

in € million	As of December 31, 2014 U.S.$
Estimated currency risk from operations	1,197
Forward exchange contracts	(476)
Remaining currency risk from operations	**721**

EBIT

EBIT is defined as earnings before financial result, income from 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*."

Income from 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 joint venture is Schaeffler Beteiligungsholding GmbH & Co. KG which holds 36.0% of the voting interest in Continental AG. Schaeffler Beteiligungsholding GmbH & Co. KG accounts for Continental AG under the equity method as an associated company. 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.

Assets and liabilities are generally measured on the basis of historical cost. The following assets and liabilities represent an exception, as they are measured at fair value:

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

Estimation uncertainty and management judgment

In the preparation of financial statements in accordance with IFRS as adopted in the EU, 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.

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.

Share interest in Continental AG

Our investments in equity-accounted investees consist primarily of the indirectly held shares in Continental AG. Schaeffler Beteiligungsholding GmbH & Co. KG had a 36.0% share interest as of December 31, 2014. Please refer to *"—Key factors affecting results of operations—Investment in Continental AG."* The total stake of the IHO Group in Continental AG was 46.00% as of December 31, 2014.

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.

Expenses incurred for research activities are expensed 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. Development costs are only recognized as intangible assets if

- their technical feasibility can be demonstrated,

- we have the intention to complete the intangible asset and use or sell it,
- we have the ability to use or sell the intangible asset,
- we 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 the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

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 subsidiaries. Goodwill is not amortized; however, it is tested for impairment when there is an indication that it may be impaired ("triggering event"), and at least annually. Goodwill 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 is tested for impairment as part of the investment when an indication of possible impairment exists.

The impairment test is performed by comparing the carrying amount of the cash-generating unit to which the goodwill has been allocated with its recoverable amount. A cash-generating unit is the smallest unit with largely independent cash flows. Our cash-generating units are the two divisions: Automotive and Industrial. Recoverable amount is determined using the discounted cash flow method and is the higher of fair value less costs of disposal and value in use of the cash-generating unit. The value in use of each division is calculated by discounting estimated future cash flows expected to arise from the respective division. Value in use is determined first. 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 of disposal. An impairment loss on goodwill is recognized when the carrying amount of the cash-generating unit exceeds its recoverable amount. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses on goodwill are not reversed.

For purposes of determining recoverable amount, cash flows beyond the detailed forecasting horizon of 2017 are based on an annual growth rate of 1.0% in 2014, 1.0% in 2013 and 0.5% in 2012 for each division. Depending on the underlying business and our country of operation, we use an assumed pre-tax interest rate of 13.7% in 2014, 14.6% in 2013 and 15.0% in 2012 as the weighted average cost of capital for the Automotive Division and 13.8% in 2014, 14.7% in 2013 and 15.3% in 2012 for the Industrial Division. This corresponds to a post-tax interest rate of 9.7% in 2014, 10.2% in 2013 and 10.3% in 2012 for the Automotive Division and 9.7% in 2014, 10.1% in 2013 and 10.4% in 2012 for the Industrial Division.

Impairments of other intangible assets and property, plant and equipment

We test other intangible assets and property, plant and equipment for impairment when there is an indication that these assets may be impaired ("triggering event").

Assets are tested for impairment by comparing their carrying amount with their recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. 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. An impairment loss exists when the carrying amount exceeds the recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

Initially, we determine 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 of disposal.

Other intangible assets not yet available for use are tested for impairment annually at the end of the reporting period.

Derivative financial instruments

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

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

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in other comprehensive income and reported 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 reported in accumulated other comprehensive income remains in equity until the forecasted 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.

Non-derivative host instruments are reviewed for embedded derivatives (such as 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.

Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies and purchased merchandise is determined using the weighted average method. Work in progress and manufactured finished goods are valued at production cost, consisting of direct material and labor costs, production-related overheads and production-related depreciation and amortization. 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

Unless the recognition of deferred taxes is not permitted, deferred taxes are recognized on temporary differences between carrying amounts in the consolidated IFRS statement of financial position and the entity's tax balance sheets, on loss and interest carryforwards, and on tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which temporary differences and unused tax loss and interest carry forwards can be utilized. Group entities are assessed individually with respect to whether it is probable that profits will be generated in the future.

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 based on market expectations, including those related to 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 consolidated statement of financial position represent the present value of the defined benefit obligation at the end of the reporting period, where applicable net of the related plan assets measured at fair value. In addition to the pension funds maintained to fund the obligation, plan assets include all assets and rights under reimbursement insurance policies if the proceeds of the policy can be used only to make payments to employees entitled to pension benefits and are not available to satisfy claims of the company's other creditors.

All actuarial gains and losses arising from defined benefit plans are recognized in other comprehensive income and are reported in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and included in financial expenses on a net basis.

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 consolidated financial statements provided certain criteria are met.

A provision is recognized at the best estimate of the amount required to settle the obligation. This estimate is subject to uncertainty.

Non-current provisions are recognized at present value by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense arising from unwinding the discount on the provision and the impact of any changes in discount rates are presented within our financial result.

Results of operations

Overview

The following table shows our operating results for the fiscal years ended December 31, 2012, 2013 and 2014.

In € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Revenue	**11,125**	**11,205**	**12,123**
Revenue growth	*4.0%*	*0.7%*	*8.2%*
Cost of sales	(7,836)	(8,029)	(8,654)
Gross profit	**3,289**	**3,176**	**3,469**
Gross profit margin	*29.6%*	*28.3%*	*28.6%*
R&D expenses	(593)	(611)	(626)
Selling expenses	(759)	(761)	(827)
Administrative expenses	(465)	(476)	(467)
Other income	35	70	49
Other expenses	(94)	(416)	(82)
EBIT	**1,413**	**982**	**1,516**
EBIT margin	*12.7%*	*8.8%*	*12.5%*
Financial income	23	217	264
Financial expenses	(703)	(659)	(921)
Financial result	**(680)**	**(442)**	**(657)**
Income from equity-accounted investees	**554**	**801**	**727**
EBT(1)	**1,287**	**1,341**	**1,586**
Income taxes	(405)	(469)	(247)
Net income	**882**	**872**	**1,339**
Attributable to shareholders of the parent company	870	865	1,331
Attributable to non-controlling interests	12	7	8

(1) Earnings before taxes.

Comparison of the fiscal year ended December 31, 2013 with the fiscal year ended December 31, 2014

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Revenue	**11,205**	**12,123**	**8.2**
Cost of sales	(8,029)	(8,654)	7.8
Gross profit	**3,176**	**3,469**	**9.2**
Gross profit margin	*28.3%*	*28.6%*	*0.3pts*
R&D expenses	(611)	(626)	2.5
Selling expenses	(761)	(827)	8.7
Administrative expenses	(476)	(467)	(1.9)
Other income	70	49	(30.0)
Other expenses	(416)	(82)	(80.3)
EBIT	**982**	**1,516**	**54.4**
EBIT margin	*8.8%*	*12.5%*	*3.7pts*
Financial income	217	264	21.7
Financial expenses	(659)	(921)	39.8
Financial result	**(442)**	**(657)**	**48.6**
Income from equity-accounted investees	**801**	**727**	**(9.2)**
Earnings before income taxes	**1,341**	**1,586**	**18.3**
Income taxes	(469)	(247)	(47.3)
Net income	**872**	**1,339**	**53.6**
Attributable to shareholders of the parent company	865	1,331	53.9
Attributable to non-controlling interests	7	8	14.3

Revenue

The following table shows the revenue contributions of each of our divisions for the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes in these revenue contributions.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Automotive	8,164	8,982	10.0
Industrial	3,041	3,141	3.3
Group total	**11,205**	**12,123**	**8.2**

Revenue increased from €11,205 million in the fiscal year ended December 31, 2013 by €918 million, or 8.2%, to €12,123 million in the fiscal year ended December 31, 2014. Excluding the impact of foreign currency translation, revenue increased by 9.0%. The Automotive Division continued to report high growth rates in the fiscal year ended December 31, 2014. In the Automotive Division, revenue growth was driven by product ramp-ups and new customer projects. The Automotive Division gained additional market share worldwide. Our top-selling product groups were, among others, the dry double clutch, dual-mass flywheels, torque converters, camshaft phasing units, valve train components and actuators. The Industrial Division's revenue increased slightly compared to the fiscal year ended December 31, 2013, driven primarily by growth our Industrial Aftermarket business.

The Automotive Division revenue increased from €8,164 million in the fiscal year ended December 31, 2013 by €818 million, or 10.0%, to €8,982 million in the fiscal year ended December 31, 2014. Excluding the impact of foreign currency translation, revenue in the

Automotive Division increased by 10.7%. In the fiscal year ended December 31, 2014, revenue growth was primarily driven by the Greater China region (+34.4%). The Europe (+6.9%), Asia/Pacific (+7.0%) and Americas (+8.0%) regions also reported strong growth compared to the prior year. Compared to the average growth rate of regional production volumes for passenger cars and light commercial vehicles, Automotive Division revenue grew faster than market in all regions. Among the top-selling product groups, dry double clutches, actuator products, dual-mass flywheels, torque converters, valve train components and camshaft phasing units continued to be the main drivers of revenue growth. Other products, including ball screw drives (such as those used in electromechanical power steering systems) and chassis solutions (e.g., in electromechanical parking brakes), also experienced solid growth rates.

The Industrial Division revenue increased slightly from €3,041 million in the fiscal year ended December 31, 2013 by €100 million, or 3.3%, to €3,141 million in the fiscal year ended December 31, 2014. Excluding the impact of currency translation, revenue in the Industrial Division increased by 4.2%. The market regions of the Industrial Division experienced different revenue trends. The Greater China region reported strong growth of 16.7% for the fiscal year ended December 31, 2014. Revenue in our Asia/Pacific and Europe regions increased by 5.6% and 2.9%, respectively. Revenue in the Americas region, on the other hand, declined by 3.8%, mainly due to the impact of currency translation. Given the large number of sectors, the revenue trends in the Industrial Division varied widely. In our Industrial Aftermarket business, order intake grew in the fiscal year ended December 31, 2014, and all regions generated revenue growth as compared to the prior fiscal year, with the largest growth rates reported by the Europe and Greater China regions. The mobility sector was able to slightly increase its revenue in the fiscal year ended December 31, 2014 compared to the fiscal year ended December 31, 2013, driven primarily by growth in the rail vehicle and motorized two-wheeled vehicles and special vehicles. Revenue growth was mainly generated by new projects to expand rail transport in China. In the production machinery sector, revenue increased slightly in the fiscal year ended December 31, 2014. While demand for machine tools and production systems increased in all of our regions, business particularly in the textile and printing machinery sectors remained weak. Revenue in the printing machinery sector continued to experience a structural deterioration. Revenue in the energy and raw materials sector for the fiscal year ended December 31, 2014 was slightly higher than in the prior fiscal year. While the wind power sector experienced a strong upward trend in the Greater China region compared to 2013, decreases in the mining sector, primarily in the Americas region, and declining revenue volumes in the metal production and processing sector in Germany, in particular, adversely affected the revenue trend. Revenue in the aerospace sector decreased due to changes in the product portfolio of key customers. In the Europe region, the revenue trend with key customers was hampered by the conflict between Ukraine and Russia. The declining revenue in the Americas region is primarily due to the significant impact of currency translation.

The regional distribution (by customer location) of our revenue in the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes are shown below.

in € million (except where otherwise stated)	**Year ended December 31, 2013[(1)]**	**2014**	**Change in %**
Europe	6,526	6,905	5.8
Americas	2,359	2,473	4.8
Asia/Pacific	1,130	1,205	6.6
Greater China	1,190	1,540	29.4
Group total	**11,205**	**12,123**	**8.2**

(1) We have realigned our regions effective January 1, 2014. For a detailed description, please see "*Business—Our Regions*." The regional distribution of our revenue for the fiscal year ended December 31, 2013 is presented based on the 2014 segment structure.

Revenue increased in each of the four regions. Especially the Greater China region continued along its recent sustainable growth path and showed high growth rates. While the Automotive Division primarily saw the business with OEM customers expand significantly, Industrial Division revenue growth was strongest in the mobility as well as the energy and raw materials sectors. Our Europe region grew its revenue by 5.8 % despite the challenging political and economic situation in the Middle East and the ongoing conflict between Ukraine and Russia as well as the sluggish economic recovery in Europe. The Industrial Aftermarket business and the OEM business of the Automotive Division did particularly well. Revenue growth in the Asia/Pacific region was particularly impacted by the Japanese market which generated considerable revenue growth despite declining domestic demand. While North American revenue rose, revenue in South America declined due to the weaker Brazilian Real compared to the Euro as well as the drastic slump in the Brazilian vehicle market.

Cost of sales

The following table shows the cost of sales of each of our divisions for the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes in these costs.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Automotive	5,959	6,461	8.4
Industrial	2,070	2,193	5.9
Group total	**8,029**	**8,654**	**7.8**

Cost of sales increased from €8,029 million in the fiscal year ended December 31, 2013 by €625 million, or 7.8%, to €8,654 million in the fiscal year ended December 31, 2014. Cost of sales grew less than revenue, which was primarily due to improved capacity utilization and slightly lower raw materials costs in the fiscal year ended December 31, 2014 than in the fiscal year ended December 31, 2013. Personnel-related structural measures at the production locations in Schweinfurt and Wuppertal resulted in one-time charges of €48 million in 2013.

Gross profit

The following table shows the gross profit contributions of each of our divisions for the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes in these gross profit contributions.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Automotive			
Gross Profit	**2,205**	**2,521**	**14.3**
Gross profit margin	*27.0%*	*28.1%*	*1.1pts*
Industrial			
Gross Profit	**971**	**948**	**(2.4)**
Gross profit margin	*31.9%*	*30.2%*	*(1.7)pts*
Group total			
Gross Profit	**3,176**	**3,469**	**9.2**
Gross profit margin	*28.3%*	*28.6%*	*0.3pts*

Gross profit increased from €3,176 million in the fiscal year ended December 31, 2013 by €293 million, or 9.2%, to €3,469 million in the fiscal year ended December 31, 2014. This increase was primarily due to the increase in revenue of the Automotive Division as well as improved capacity utilization. The gross profit margin increased slightly from 28.3% in the fiscal year ended December 31, 2013 by 0.3 percentage points to 28.6% in the fiscal year ended December 31, 2014. The reasons for this change include primarily the significant increase in volumes in the Automotive Division and the increasing proportion of value added locally in our growth markets. In addition, slightly lower raw materials prices had a positive effect on our gross profit margin.

The gross profit of the Automotive Division increased from €2,205 million in the fiscal year ended December 31, 2013 by €316 million, or 14.3%, to €2,521 million in the fiscal year ended December 31, 2014. This increase was primarily due to the increase in revenue. Since cost of sales grew less than revenue, the gross profit margin increased slightly from 27.0% in the fiscal year ended December 31, 2013 by 1.1 percentage points to 28.1% in the fiscal year ended December 31, 2014, despite the adverse impact of currency translation in the fiscal year ended December 31, 2014. In particular, the considerable increase in volumes and the growing proportion of value added services locally as well as slightly lower raw materials prices all positively affected profitability.

The gross profit of the Industrial Division decreased from €971 million in the fiscal year ended December 31, 2013 by €23 million, or 2.4%, to €948 million in the fiscal year ended December 31, 2014. This decrease was primarily due to the adverse impact of currency translation and price decreases in some markets and sectors. Improvements in productivity, slightly lower raw material prices, and improved fixed costs per unit due to economies of scale could not fully offset these negative impacts. Since cost of sales grew more than revenue, the gross profit margin decreased slightly from 31.9% in the fiscal year ended December 31, 2013 by 1.7 percentage points to 30.2%% in the fiscal year ended December 31, 2014.

R&D expenses

R&D expenses increased from €611 million in the fiscal year ended December 31, 2013 by €15 million, or 2.5%, to €626 million in the fiscal year ended December 31, 2014. This increase was primarily due to increased project activity in the Automotive Division. In the Automotive Division R&D expenses largely consisted of personnel expenses incurred to secure new technologies and innovations, emphasizing our determination to actively shape "Mobility for tomorrow" with our own research and development. The focus of R&D expenses in the Industrial Division in the fiscal year ended December 31, 2014 was mainly on innovative products such as the automatic bicycle gearshift system (FAG VELOMATIC).

In the fiscal year ended December 31, 2014, R&D expenses comprised 5.2% of our revenue (in the fiscal year ended December 31, 2013: 5.5%).

Selling expenses

Selling expenses increased from €761 million in the fiscal year ended December 31, 2013 by €66 million, or 8.7%, to €827 million in the fiscal year ended December 31, 2014. The increase was primarily due to higher revenue-related freight and logistics expenses and increased personnel expenses.

Administrative expenses

Administrative expenses decreased slightly from €476 million in the fiscal year ended December 31, 2013 by €9 million, or 1.9%, to €467 million in the fiscal year ended December 31, 2014. Administrative expenses as a percentage of revenue decreased from 4.2% in the fiscal year ended December 31, 2013 by 0.3 percentage points to 3.9% in the fiscal year ended December 31, 2014.

Other income and expenses

The following table shows our other income for the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Exchange gains	35	8	(77.1)
Reversal of provisions	1	13	1,200.0
Reduction of allowances	3	5	66.7
Gains on disposal of assets	3	1	(66.7)
Miscellaneous income	28	22	(21.4)
Total	**70**	**49**	**(30.0)**

The following table shows our other expenses for the fiscal years ended December 31, 2013 and 2014 and the period-to-period changes.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Exchange losses	0	0	—
Increase in allowances	6	6	0.0
Losses on disposal of assets	4	2	(50.0)
Miscellaneous expenses	406	74	(81.8)
Total	**416**	**82**	**(80.3)**

Other income decreased from €70 million in the fiscal year ended December 31, 2013 by €21 million, or 30.0%, to €49 million in the fiscal year ended December 31, 2014. The change in exchange gains resulted primarily from exchange gains and losses realized on foreign exchange contracts hedging receivables and liabilities denominated in USD. Reversal of provisions reflected mainly the unutilized portion of the provision for the investigations of the EU antitrust authorities in 2013.

Other expenses decreased from €416 million in the fiscal year ended December 31, 2013 by €334 million, or 80.3%, to €82 million in the fiscal year ended December 31, 2014. The decrease in miscellaneous expenses compared to the prior year resulted primarily from the special item of €380 million in the prior year that was related to the EU antitrust proceedings which have since been finalized, while in 2014, this line item reflects, among other things, the recognition of provisions for the ongoing investigations of the Korean and Brazilian antitrust authorities. Miscellaneous other expenses also included items such as expenses for commissions for guarantees.

Earnings before financial result, income from 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, 2013 and 2014 and the year-to-year changes in these EBIT contributions.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Automotive			
EBIT	**665**	**1,230**	**85.0**
EBIT margin	*8.1%*	*13.7%*	*5.6pts*
EBITDA	**1,129**	**1,685**	**49.2**
EBITDA margin	*13.8%*	*18.8%*	*5.0pts*
Industrial			
EBIT	**317**	**286**	**(9.8)**
EBIT margin	*10.4%*	*9.1%*	*(1.3)pts*
EBITDA	**505**	**479**	**(5.1)**
EBITDA margin	*16.6%*	*15.2%*	*(1.4)pts*
Group total			
EBIT	**982**	**1,516**	**54.4**
EBIT margin	*8.8%*	*12.5%*	*3.7pts*
EBITDA	**1,634**	**2,164**	**32.4**
EBITDA margin	*14.6%*	*17.9%*	*3.3pts*

EBIT increased from €982 million in the fiscal year ended December 31, 2013 by €534 million, or 54.4%, to €1,516 million in the fiscal year ended December 31, 2014. As a result, the EBIT margin increased from 8.8% in the fiscal year ended December 31, 2013 by 3.7 percentage points to 12.5% in the fiscal year ended December 31, 2014. This increase was primarily due to the growth in Automotive Division revenue. The prior year included €48 million in expenses for personnel-related structural measures and €380 million in provisions for the EU antitrust proceedings.

The Automotive Division's total EBIT increased from €665 million in the fiscal year ended December 31, 2013 by €565 million, or 85.0%, to €1,230 million in the fiscal year ended December 31, 2014. The EBIT margin increased from 8.1% in the fiscal year ended December 31, 2013 by 5.6 percentage points to 13.7% in the fiscal year ended December 31, 2014. This improvement in the EBIT margin was attributable both to the favorable impact of gross profit and active cost management in the functional areas. The prior year included €15 million in expenses for personnel-related structural measures and provisions for the EU antitrust proceedings of € 380 million.

The Industrial Division's total EBIT decreased from €317 million in the fiscal year ended December 31, 2013 by €31 million, or 9.8%, to €286 million in the fiscal year ended December 31, 2014. The EBIT margin decreased from 10.4% in the fiscal year ended December 31, 2013 by 1.3 percentage points to 9.1% in the fiscal year ended December 31, 2014. The prior year included €33 million in expenses for personnel-related structural measures at the production locations in Schweinfurt and Wuppertal.

Financial result

The following table shows our financial results for the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Financial expenses			
Interest expense on financial debt[(1)]	(465)	(529)	13.8
Fair value changes and compensation payments on derivatives	(99)	(71)	(28.3)
Foreign exchange losses	0	(244)	—
Amortization of cash flow hedge accounting reserve	2	5	150.0
Interest expense on pensions and partial retirement obligations	(50)	(51)	2.0
Other	(47)	(31)	(34.0)
Total financial expenses	**(659)**	**(921)**	**39.8**
Financial income			
Interest income on financial debt	0	12	—
Fair value changes and compensation payments on derivatives	114	242	112.3
Foreign exchange gains	88	0	(100.0)
Other	15	10	(33.3)
Total financial income	**217**	**264**	**21.7**
Financial result	**(442)**	**(657)**	**48.6**

(1) Including transaction costs.

Our financial result declined from a net financial expense of €442 million in the fiscal year ended December 31, 2013 by €215 million, or 48.6%, to a net financial expense of €657 million in the fiscal year ended December 31, 2014. In the fiscal year ended December 31, 2014, financial result comprised financial income of €264 million (prior year: €217 million) and financial expenses of €921 million (prior year: €659 million).

In the fiscal year ended December 31, 2014, interest expense on financial debt of €529 million (prior year: €465 million) included interest paid and accrued on our external financing arrangements of €320 million (prior year: €388 million) and expenses of €144 million incurred in connection with the transactions completed in 2014 to refinance our financial debt. In addition, interest expense on financial debt 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 €171 million in the fiscal year ended December 31, 2014 (prior year: net gains of €15 million). This amount consisted largely of net gains on interest rate and cross-currency derivatives of €226 million (prior year: net losses of €99 million) and net losses on embedded derivatives of €55 million (prior year: net gains of €114 million). The derecognition of the redemption options related to the bonds that were redeemed in connection with the refinancing transaction in 2014 as well as the impact of amending the terms of the prepayment options related to the institutional loan tranches resulted in losses of €77 million.

In the fiscal year ended December 31, net foreign exchange losses on financial assets and liabilities amounted to €244 million (prior year: net foreign exchange gains of €88 million) and resulted primarily from translating financing instruments denominated in U.S. dollar to euro. We have hedged this financial debt using cross-currency derivatives and the resulting offsetting impact of €226 million is reported under "Fair value changes and compensation payments on derivatives."

Additional income of €5 million in the fiscal year ended December 31, 2014 (prior year: income of €2 million) arose from amortizing the cash flow hedge accounting reserve related to interest rate hedging instruments.

In the fiscal year ended December 31, 2014, pensions and partial retirement obligations gave rise to net interest expense of €51 million (prior year: €50 million).

Other items generated net expenses of €21 million in the fiscal year ended December 31, 2014 (prior year: €32 million).

Income from equity-accounted investees

Income from equity-accounted investees decreased from €801 million in the fiscal year ended December 31, 2013 by €74 million, or 9.2%, to €727 million in the fiscal year ended December 31, 2014. The income from equity-accounted investees related almost entirely to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, which held a 36.0% interest in Continental AG as of December 31, 2014.

Income taxes

The following table shows our income tax expenses for the fiscal years ended December 31, 2013 and 2014 and the year-to-year changes.

in € million (except where otherwise stated)	**Year ended December 31, 2013**	**2014**	**Change in %**
Current income taxes	317	330	4.1
Deferred income taxes	152	(83)	(154.6)
Income taxes	**469**	**247**	**(47.3)**

Income taxes decreased from €469 million in the fiscal year ended December 31, 2013 by €222 million, or 47.3%, to €247 million in the fiscal year ended December 31, 2014, consisting of current tax expenses of €330 million (prior year: €317 million) and deferred tax benefits of €83 million (prior year: deferred tax expenses of €152 million).

As a corporation, the Company was subject to German corporation tax and trade tax during 2013 and 2014. Trade tax is levied by municipalities.

The average domestic tax rate was 28.3% in the fiscal year ended December 31, 2014 (prior year: 28.1%). This tax rate consisted of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.4% (prior year: 12.2%). 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 2014 uses a 28.3% (prior year: 28.0%) effective combined trade and corporation tax rate, including solidarity surcharge, based on the consolidated financial statements of Schaeffler AG.

in € million (except where otherwise stated)	Year ended December 31, 2013	2014	Change in %
Net income before tax	1,341	1,586	18.3
Expected tax expense	**376**	**449**	**19.4**
Addition/reduction due to deviating local tax bases	7	8	14.3
Foreign/domestic tax rate differences	(6)	(4)	(33.3)
Change in tax rate and law	(1)	0	(100.0)
Non-recognition of deferred tax assets	45	(5)	(111.1)
Tax credits	(7)	(12)	71.4
Non-deductible expenses	247	45	(81.8)
Income (loss) from equity-accounted investees	(224)	(205)	(8.5)
Taxes for previous years	26	(23)	(188.5)
Other	6	(6)	(200.0)
Reported tax expense	**469**	**247**	**(47.3)**

Non-deductible expenses included non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries. This line item also included the impact of the interest deduction cap, which has the effect of increasing the effective tax rate as it makes certain interest expenses of Schaeffler Verwaltung Zwei GmbH non-deductible. This impact was offset by the related but opposite impact of deferred tax assets recognized by a subsidiary on interest carry forwards not previously considered recoverable. The decrease compared to the prior year resulted primarily from non-deductible expenses in the prior year related to the EU antitrust proceedings which have since been finalized. See "*Risk factors—Legal, taxation and environmental risks—We are affected by the German 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 increased from €865 million in the fiscal year ended December 31, 2013 by €466 million, or 53.9%, to €1,331 million in the fiscal year ended December 31, 2014.

Comparison of the fiscal year ended December 31, 2012 with the fiscal year ended December 31, 2013

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Revenue	**11,125**	**11,205**	**0.7**
Cost of sales	(7,836)	(8,029)	2.5
Gross profit	**3,289**	**3,176**	**(3.4)**
Gross profit margin	*29.6%*	*28.3%*	*(1.3)pts*
R&D expenses	(593)	(611)	3.0
Selling expenses	(759)	(761)	0.3
Administrative expenses	(465)	(476)	2.4
Other income	35	70	100.0
Other expenses	(94)	(416)	342.6
EBIT	**1,413**	**982**	**(30.5)**
EBIT margin	*12.7%*	*8.8%*	*(3.9)pts*
Financial income	23	217	843.5
Financial expenses	(703)	(659)	(6.3)
Financial result	**(680)**	**(442)**	**(35.0)**
Income from equity-accounted investees	**554**	**801**	**44.6**
Earnings before income taxes	**1,287**	**1,341**	**4.2**
Income taxes	(405)	(469)	15.8
Net income	**882**	**872**	**(1.1)**
Attributable to shareholders of the parent company	870	865	(0.6)
Attributable to non-controlling interests	12	7	(41.7)

Revenue

The following table shows the revenue contributions of each of our divisions for the fiscal years ended December 31, 2012 and 2013 and the year-to-year changes in these revenue contributions.

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Automotive	7,658	8,164	6.6
Industrial	3,406	3,041	(10.7)
Other(1)	61	0	(100.0)
Group total	**11,125**	**11,205**	**0.7**

(1) Other revenues not attributable to a division.

Revenue increased from €11,125 million in the fiscal year ended December 31, 2012 by €80 million, or 0.7%, to €11,205 million in the fiscal year ended December 31, 2013. Excluding the impact of foreign currency translation, revenue increased by 2.9%. The Automotive Division continued to report high growth rates in the fiscal year ended December 31, 2013. In the Automotive Division, revenue growth was driven by new customer projects and product innovations in the fields of resource efficiency and environmental technology. Our top-selling product groups were, among others, camshaft phasing units, clutch components, continuously variable transmission systems, valve train components and tapered roller bearings. The Industrial Division's revenue declined significantly compared to the fiscal year ended December 31, 2012. This was primarily due to the weak investment climate caused by economic and political uncertainty.

The Automotive Division revenue increased from €7,658 million in the fiscal year ended December 31, 2012 by €506 million, or 6.6%, to €8,164 million in the fiscal year ended December 31, 2013. Excluding the impact of foreign currency translation, revenue in the Automotive Division increased by 8.6%. The key growth drivers enabling the Automotive Division to grow faster than the market included product innovations, which help optimize drive trains based on combustion engines, in turn reducing CO_2 emissions. In the fiscal year ended December 31, 2013, revenue growth was primarily driven by the regions Asia/Pacific (+12.1%) and North America (+10.4%). Europe (+4.6%) also reported a positive revenue trend. In South America (-3.9%), revenue declined slightly compared to the fiscal year ended December 31, 2012, since the very significant operational growth in this region was largely offset by the adverse impact of currency translation. Compared to the development of regional production volumes for passenger vehicles of up to six tons, revenue fared much better than market in all regions. Among the top-selling product groups, dry double clutches, continuously variable transmission systems, valve train components and camshaft phasing units continued to be the growth drivers. Other products, such as ball screw drives used for instance in electromechanical power steering systems and chassis solutions, also experienced high growth rates.

The Industrial Division revenue decreased from €3,406 million in the fiscal year ended December 31, 2012 by €365 million, or 10.7%, to €3,041 million in the fiscal year ended December 31, 2013. The decrease in revenue was primarily due to ongoing economic and political uncertainty in many countries. Excluding the impact of currency translation, revenue in the Industrial Division decreased by 8.1%. In the fiscal year ended December 31, 2013, revenue in Asia/Pacific (-16.3%) and South America (-13.6%) regions declined heavily compared to the fiscal year ended December 31, 2012. Furthermore, the regions North America (-9.3%) and Europe (-8.0%) experienced a significant drop in sales. The low revenue levels in the Industrial Aftermarket business and for production machinery in particular contributed considerably to this trend. In the production machinery sector, revenue for all subsectors such as machine tools and food processing, printing, and woodworking machinery continued to fall considerably short of prior year levels. Although the power transmission sector has stabilized its revenue in the fiscal year ended December 31, 2013, revenue continued to remain significantly below the prior year, especially in the key regions Europe and Asia/Pacific. The renewable energy sector experienced slightly lower revenues compared to the fiscal year ended December 31, 2012. Lower revenues were primarily due to excess capacity, price competition, the uncertain political environment and restrictive financing conditions for new projects. Revenue in the aerospace sector increased primarily for jet engine components for commercial passenger aircrafts. Stricter environmental requirements and increasing fuel prices have resulted in increased capital expenditures on new aircraft technology with fuel-efficient and quieter jet engines. Revenues for off-highway equipment and the heavy industries sector declined.

The regional distribution (by customer location) of our revenue in the fiscal year ended December 31, 2012 and 2013 and the year-to-year changes are shown below.

in € million (except where otherwise stated)	**Year ended December 31, 2012(1)**	**Year ended December 31, 2013(2)**	**Change in %**
Europe	6,228	6,526	4.8
thereof Germany	*2,926*	*2,796*	*(4.4)*
North America	1,759	1,833	4.2
South America	561	526	(6.2)
Asia/Pacific	2,577	2,320	(10.0)
thereof Greater China	*1,098*	*1,190*	*8.4*
Group total	**11,125**	**11,205**	**0.7**

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

(2) The regional distribution of our revenue for 2013 is presented based on the 2014 segment structure.

Revenue decreased in South America, even though South America showed increased sales volumes. Revenue in Europe increased compared to the prior year, despite lower revenues in the Industrial Division in Germany. This increase was due to the positive development of the second half of 2013 as well as the realignment of our regions for purposes of segment reporting. The declining revenue trend in the Industrial Division was more than offset by the above-market growth in the Automotive Division revenue. Revenue in North America increased compared to the prior year, despite the adverse impact of currency translation. Asia/Pacific experienced a decrease in revenues. This decrease was primarily due to the realignment of our regions. For a detailed description, please see "*Business—Our Regions.*"

Cost of sales

The following table shows the cost of sales of each of our divisions for the fiscal years ended December 31, 2012 and 2013 and the year-to-year changes in these costs.

in € million (except where otherwise stated)	Year ended December 31, 2012	Year ended December 31, 2013	Change in %
Automotive	5,552	5,959	7.3
Industrial	2,223	2,070	(6.9)
Other[(1)]	61	0	(100.0)
Group total	**7,836**	**8,029**	**2.5**

(1) Other costs not attributable to a division.

Cost of sales increased from €7,836 million in the fiscal year ended December 31, 2012 by €193 million, or 2.5%, to €8,029 million in the fiscal year ended December 31, 2013. The increase in cost of sales slightly exceeded the increase in revenue, which is primarily due to the declining volume of revenue in the Industrial Division. While variable cost of sales decreased in proportion to revenue, we have not yet been able to fully adjust our fixed costs of sales to the decreased production volume. In addition, cost of sales for the fiscal year ended December 31, 2013 included €48 million in personnel expenses incurred in connection with personnel-related structural measures to improve efficiency in the Automotive and the Industrial Division at the Schweinfurt and Wuppertal locations. Raw materials costs for 2013 were slightly lower than in 2012.

Gross profit

The following table shows the gross profit contributions of each of our divisions for the fiscal years ended December 31, 2012 and 2013 and the year-to-year changes in these gross profit contributions.

in € million (except where otherwise stated)	Year ended December 31, 2012	Year ended December 31, 2013	Change in %
Automotive			
Gross Profit	**2,106**	**2,205**	**4.7**
Gross profit margin	*27.5%*	*27.0%*	*(0.5)pts*
Industrial			
Gross Profit	**1,183**	**971**	**(17.9)**
Gross profit margin	*34.7%*	*31.9%*	*(2.8)pts*
Group total			
Gross Profit	**3,289**	**3,176**	**(3.4)**
Gross profit margin	*29.6%*	*28.3%*	*(1.3)pts*

Gross profit decreased from €3,289 million in the fiscal year ended December 31, 2012 by €113 million, or 3.4%, to €3,176 million in the fiscal year ended December 31, 2013. This decrease was primarily due to the decline in revenue of the Industrial Division. The gross profit margin decreased from 29.6% in the fiscal year ended December 31, 2012 by 1.3 percentage points to 28.3% in the fiscal year ended December 31, 2013. While the Automotive Division maintained its gross profit margin at nearly the same high level as in 2012, the Industrial Division experienced a significant decrease. The significant decrease in the Industrial Division is primarily due to lower revenue levels, the corresponding underutilized production capacity and the resulting residual overheads. The gross profit margin of both divisions was negatively impacted by restructuring measures related to efficiency improvement programs at the Schweinfurt and Wuppertal manufacturing locations, leading to expenses of €48 million. The measures are aimed at improving our competitive position, creating new technologies and improving our organizational and cost structures. Excluding these expenses, adjusted gross profit margin for the fiscal year ended December 31, 2013 would have amounted to 28.8%.

The gross profit of the Automotive Division increased from €2,106 million in the fiscal year ended December 31, 2012 by €99 million, or 4.7%, to €2,205 million in the fiscal year ended December 31, 2013. This increase was primarily due to the increase in revenue. However, the gross profit margin dropped slightly from 27.5% in the fiscal year ended December 31, 2012 by 0.5 percentage points to 27.0% in the fiscal year ended December 31, 2013, primarily due to expenses for personnel-related structural measures.

The gross profit of the Industrial Division decreased from €1,183 million in the fiscal year ended December 31, 2012 by €212 million, or 17.9%, to €971 million in the fiscal year ended December 31, 2013. This decrease was mainly due to lower revenues across almost all sectors of the Industrial Division, except for the aerospace sector. Since cost of sales fell less than revenue, our gross profit margin declined from 34.7% in the fiscal year ended December 31, 2012 by 2.8 percentage points to 31.9% in the fiscal year ended December 31, 2013.

R&D expenses

R&D expenses increased from €593 million in the fiscal year ended December 31, 2012 by €18 million, or 3.0%, to €611 million in the fiscal year ended December 31, 2013. This increase was primarily due to numerous advancements of products and activities around new issues. The focus of R&D expenses in the fiscal year ended December 31, 2013 was mainly on the fields of electric mobility and hybridization of vehicles as well as on renewable energy and mechatronic products.

In the fiscal year ended December 31, 2013, R&D expenses comprised 5.5% of our revenue (prior year: 5.3%).

Selling expenses

Selling expenses increased slightly from €759 million in the fiscal year ended December 31, 2012 by €2 million, or 0.3%, to €761 million in the fiscal year ended December 31, 2013. The slight increase was primarily due to higher variable freight and logistics expenses.

Administrative expenses

Administrative expenses increased from €465 million in the fiscal year ended December 31, 2012 by €11 million, or 2.4%, to €476 million in the fiscal year ended December 31, 2013. This increase was primarily due to an increase in corporate function staff. Administrative expenses as a percentage of revenue in the fiscal year ended December 31, 2013 remained unchanged at 4.2% compared to 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, 2012 and 2013 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Exchange gains	0	35	—
Reversal of provisions	1	1	0.0
Reduction of allowances	4	3	(25.0)
Gains on disposal of assets	5	3	(40.0)
Miscellaneous income	25	28	12.0
Total	**35**	**70**	**100.0**

The following table shows our other expenses for the fiscal years ended December 31, 2012 and 2013 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Exchange losses	44	0	(100.0)
Increase in allowances	9	6	(33.3)
Losses on disposal of assets	4	4	0.0
Miscellaneous expenses	37	406	997.3
Total	**94**	**416**	**342.6**

Other income increased from €35 million in the fiscal year ended December 31, 2012 by €35 million, or 100.0%, to €70 million in the fiscal year ended December 31, 2013. 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 gain of €35 million in 2013 which is presented in other income (2012: exchange loss of €44 million). The exchange gain resulted primarily from settled foreign exchange contracts to hedge our exposure to the USD.

Other expenses increased from €94 million in the fiscal year ended December 31, 2012 by €322 million, or 342.6%, to €416 million in the fiscal year ended December 31, 2013. The increase in other expenses was primarily due to €380 million in special items related to the EU antitrust proceedings. The proceedings were related to violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe.

Earnings before financial result, income from 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, 2012 and 2013 and the year-to-year changes in these EBIT contributions.

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Automotive			
EBIT	**997**	**665**	**(33.3)**
EBIT margin	*13.0%*	*8.1%*	*(4.9)pts*
EBITDA	**1,429**	**1,129**	**(21.0)**
EBITDA margin	*18.7%*	*13.8%*	*(4.9)pts*
Industrial			
EBIT	**416**	**317**	**(23.8)**
EBIT margin	*12.2%*	*10.4%*	*(1.8)pts*
EBITDA	**602**	**505**	**(16.1)**
EBITDA margin	*17.7%*	*16.6%*	*(1.1)pts*
Group total			
EBIT	**1,413**	**982**	**(30.5)**
EBIT margin	*12.7%*	*8.8%*	*(3.9)pts*
EBITDA	**2,031**	**1,634**	**(19.5)**
EBITDA margin	*18.3%*	*14.6%*	*(3.7)pts*

EBIT decreased from €1,413 million in the fiscal year ended December 31, 2012 by €431 million, or 30.5%, to €982 million in the fiscal year ended December 31, 2013. As a result, the EBIT margin decreased from 12.7% in the fiscal year ended December 31, 2012 by 3.9 percentage points to 8.8% in the fiscal year ended December 31, 2013. This decrease was primarily due to the decline in revenue in the Industrial Division and expenses related to personnel-related structural measures. In addition, EBIT of the fourth quarter of 2013 was adversely impacted by special items related to the EU antitrust proceedings. The proceedings related to the violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe. A provision for this issue in the amount of €380 million was recognized in the fourth quarter of 2013 based on internal estimates. Excluding the expenses for personnel-related structural measures of €48 million and the provision for the EU antitrust proceedings of €380 million, the adjusted EBIT margin for the fiscal year ended December 31, 2013 would have been 12.6%.

The Automotive Division's total EBIT decreased from €997 million in the fiscal year ended December 31, 2012 by €332 million, or 33.3%, to €665 million in the fiscal year ended December 31, 2013. The EBIT margin decreased from 13.0% in the fiscal year ended December 31, 2012 by 4.9 percentage points to 8.1% in the fiscal year ended December 31, 2013. Excluding expenses for personnel-related structural measures related to wheel and release bearings and for the provision for the EU antitrust proceedings, the adjusted EBIT margin for the fiscal year ended December 31, 2013 would have been 13.0%.

The Industrial Division's total EBIT decreased from €416 million in the fiscal year ended December 31, 2012 by €99 million, or 23.8%, to €317 million in the fiscal year ended December 31, 2013. The EBIT margin decreased from 12.2% in the fiscal year ended December 31, 2012 by 1.8 percentage points to 10.4% in the fiscal year ended December 31, 2013. Excluding expenses for personnel-related structural measures at the company´s Wuppertal plant, the adjusted EBIT margin for the fiscal year ended December 31, 2013 would have been 11.5%.

__Financial result__

The following table shows our financial results for the fiscal years ended December 31, 2012 and 2013 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2012	Year ended December 31, 2013	Change in %
Financial expenses			
Interest expense on financial debt[1]	(523)	(465)	(11.1)
Fair value changes and compensation payments on derivatives	(6)	(99)	1,550.0
Foreign exchange losses	(10)	0	(100.0)
Amortization of cash flow hedge accounting reserve	(72)	2	(102.8)
Interest expense on pensions and partial retirement obligations	(57)	(50)	(12.3)
Other	(35)	(47)	34.3
Total financial expenses	**(703)**	**(659)**	**(6.3)**
Financial income			
Fair value changes and compensation payments on derivatives	8	114	1,325.0
Foreign exchange gains	3	88	2,833.3
Interest income on pensions and partial retirement obligations	0	0	—
Other	12	15	25.0
Total financial income	**23**	**217**	**843.5**
Financial result	**(680)**	**(442)**	**(35.0)**

(1) Including transaction costs.

Our financial result improved from a net financial expense of €680 million in the fiscal year ended December 31, 2012 by €238 million, or 35.0%, to a net financial expense of €442 million in the fiscal year ended December 31, 2013. In the fiscal year ended December 31, 2013, financial result comprised financial income of €217 million (prior year: €23 million) and financial expenses of €659 million (prior year: €703 million).

In the fiscal year ended December 31, 2013, interest expense on financial debt of €465 million (prior year: €523 million) included interest paid and accrued on our external financing arrangements of €388 million (prior year: €453 million) and expenses of €52 million (prior year: €47 million) relating to transaction costs. In addition, the amount also included interest expense on shareholder loans to Schaeffler Verwaltungs GmbH. The decrease in interest expense compared to the prior year is primarily attributable to repayments of principal and improved financing terms obtained in the refinancing transactions completed during the year.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of €15 million in the fiscal year ended December 31, 2013 (prior year: net gains of €2 million). The amount consisted largely of favorable changes in the value of embedded derivatives and unfavorable changes in the value of cross-currency derivatives.

In the fiscal year ended December 31, 2013, net foreign exchange gains of €88 million (prior year: net foreign exchange losses of €7 million) on financial assets and liabilities resulted primarily from translating financial debt denominated in U.S. dollar into our reporting currency euro.

Additional income of €2 million in the fiscal year ended December 31, 2013 (prior year: expenses of €72 million) arose from amortizing the cash flow hedge accounting reserve related to interest rate hedging instruments.

In the fiscal year ended December 31, 2013, pensions and partial retirement obligations gave rise to net interest expense of €50 million (prior year: €57 million).

Other items generated net expenses of €32 million in the fiscal year ended December 31, 2013 (prior year: €23 million).

Income from equity-accounted investees

Income from equity-accounted investees increased from €554 million in the fiscal year ended December 31, 2012 by €247 million, or 44.6%, to €801 million in the fiscal year ended December 31, 2013. The income from equity-accounted investees related almost entirely to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, which held a 34.19% interest in Continental AG as of December 31, 2013. Income from equity-accounted investees in 2013 included a €187 million gain on the disposal of shares representing a 1.95% interest in Continental AG in the third quarter of 2013.

Income taxes

The following table shows our income tax expenses for the fiscal years ended December 31, 2012 and 2013 and the year-to-year changes.

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Current income taxes	383	317	(17.2)
Deferred income taxes	22	152	590.9
Income taxes	**405**	**469**	**15.8**

Income taxes increased from €405 million in the fiscal year ended December 31, 2012 by €64 million, or 15.8%, to €469 million in the fiscal year ended December 31, 2013, consisting of current tax expenses of €317 million (prior year: €383 million) and deferred tax expenses of €152 million (prior year: €22 million). In 2013, current income tax benefit of €23 million related to prior years (prior year: tax expense of €12 million). In addition, we had €49 million deferred tax expense related to prior years in 2013 (prior year: nil).

As a corporation, the Company was subject to German corporation tax, including solidarity surcharge, and trade tax in 2012 and 2013. Trade tax is levied by municipalities.

The average domestic tax rate for corporations was 28.1% in the fiscal year ended December 31, 2013 (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 12.2% (prior year: 12.0%). 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 2013 uses a 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate, including solidarity surcharge, based on the consolidated financial statements of Schaeffler AG.

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Net income before tax	1,287	1,341	4.2
Expected tax expense	**360**	**376**	**4.4**
Addition/reduction due to deviating local tax bases	10	7	(30.0)
Foreign/domestic tax rate differences	(5)	(6)	20.0
Change in tax rate and law	0	(1)	—
Non-recognition of deferred tax assets	(1)	45	(4,600.0)
Tax credits	0	(7)	—
Non-deductible expenses	196	247	26.0
Income (loss) from equity-accounted investees	(154)	(224)	45.5
Taxes for previous years	12	26	116.7
Other	(13)	6	(146.2)
Reported tax expense	**405**	**469**	**15.8**

Non-deductible expenses consist mainly of interest expense that is not tax deductible because of the interest deduction cap rules in Germany. As it was unlikely that the interest carry forwards would be utilized in the foreseeable future, no deferred tax assets were recognized on these carry forwards. Non-deductible expenses also included special items related to the investigations of the EU antitrust authorities that are not tax deductible. See "*Risk factors—Legal, taxation and environmental risks—We are affected by the German interest barrier rules*."

The income from equity-accounted investees included in consolidated net income resulted in a reconciling item of €224 million (prior year: €154 million).

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 €870 million in the fiscal year ended December 31, 2012 by €5 million, or 0.6%, to €865 million in the fiscal year ended December 31, 2013.

Liquidity and capital resources

For the fiscal years ended December 31, 2012, 2013 and 2014, our principal source of liquidity was cash generated from operating activities. As of December 31, 2014, we had cash and cash equivalents totaling €711 million as well as a credit line from the revolving facility of €1,000 million, of which €34 million was utilized as of December 31, 2014, primarily in the form of letters of credit. 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.

	Year ended December 31,		
in € million	**2012**	**2013**	**2014**
Operating activities			
EBIT	1,413	982	1,516
Interest paid	(593)	(624)	(521)
Interest received	9	8	9
Income taxes paid	(226)	(385)	(238)
Dividends received	81	163	169
Depreciation, amortization and impairments	618	652	648
(Gains) losses on disposal of assets	(1)	1	1
Other non-cash items	(21)	0	0
Changes in:			
● Inventories	55	(101)	(108)
● Trade receivables	(27)	(109)	(141)
● Trade payables	(52)	230	127
● Provisions for pensions and similar obligations	(45)	(45)	(45)
● Other assets, liabilities and provisions	2	411	(310)
Cash from operating activities	**1,213**	**1,183**	**1,107**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	29	15	8
Capital expenditures on intangible assets	(35)	(18)	(50)
Capital expenditures on property, plant and equipment	(825)	(554)	(807)
Investments in other financial investments	(3)	0	0
Other investing activities	2	3	(3)
Cash used in investing activities	**(832)**	**(554)**	**(852)**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	(1)
Receipts from loans	395	27	727
Repayments of loans	(449)	(649)	(429)
Acquisition in stages	(13)	0	0
Dividends paid to Schaeffler Verwaltungs GmbH	(79)	0	0
Other financing activities[(1)]	(194)	(115)	(158)
Cash provided by/(used in) financing activities	**(341)**	**(738)**	**139**
Net increase (decrease) in cash and cash equivalents	**40**	**(109)**	**394**
Effects of foreign exchange rate changes on cash and cash equivalents	(4)	(24)	17
Cash and cash equivalents as of beginning of period	397	433	300
Cash and cash equivalents as at end of period	**433**	**300**	**711**

(1) Including payments to our shareholder, Schaeffler Verwaltungs GmbH, of €154 million for the fiscal year ended December 31, 2014 (2013: €85 million; 2012: €227 million).

Cash flows for the fiscal years ended December 31, 2013 and 2014

Cash from operating activities

Cash flows from operating activities decreased from €1,183 million in the fiscal year ended December 31, 2013 by €76 million, or 6.4%, to €1,107 million in the fiscal year ended December 31, 2014. The decrease was primarily caused by the EU antitrust penalty of €370.5 million paid in the second quarter of 2014 and the prepayment penalty of €114 million paid in connection with the refinancing transaction completed in May 2014. The favorable impact of the €534 million increase in EBIT to €1,516 million (prior year: €982 million) and the €251 million decrease in interest and taxes paid was partially offset due to the higher volume of business by changes to our working capital which led to a cash outflow of €122 million in the fiscal year ended December 31, 2014 as compared to a cash inflow of €20 million in the fiscal year ended December 31, 2013.

Cash used in investing activities

Cash outflow for investing activities increased from €554 million in the fiscal year ended December 31, 2013 by €298 million, or 53.8%, to €852 million in the fiscal year ended December 31, 2014, driven by capital expenditures on intangible assets and property, plant and equipment. This increase was primarily due to expansion of capacity and functionalities as well as for product start-ups and to replace assets as necessary.

The following table sets forth our capital expenditures by division for the fiscal years ended December 31, 2013 and 2014:

in € million (except where otherwise stated)	**Year ended December 31,**		
	2013	**2014**	**Change in %**
Automotive	441	754	71.0
Industrial	132	189	43.2
Group total	**573**	**943**	**64.6**
Non-cash effective/Payments for previous years	(1)	(86)	8,500.0
Capital expenditures according to cash flow	**572**	**857**	**49.8**

We incurred capital expenditures on property, plant and equipment and intangible assets of €943 million (Automotive Division: €754 million, Industrial Division: €189 million) for the fiscal year ended December 31, 2014, more than the corresponding amount for the fiscal year ended December 31, 2013 of €573 million (Automotive Division: €441 million, Industrial Division: €132 million).

This increase was primarily due to expansion of capacity at manufacturing locations in our growth regions, new product start-ups as well as to replace equipment, rationalize, and add functionalities to maintain our excellent quality and reliability of supply and increase productivity. Of the €943 million in total capital expenditures on property, plant and equipment and intangible assets, we invested €516 million in Europe, primarily focused on expanding capacity and functionalities in order to strengthen our competitive position. Capital expenditures in Europe also represented expenditures on the "European Distribution Center" (EDC) project. In 2014, we started implementing the EDC North (Arlandastad, Sweden) and EDC South (Carisio, Italy) locations. In 2014, we invested approximately €161 million, €207 million, and €59 million of total capital expenditures on property, plant and equipment and intangible assets in our Americas, Greater China and Asia/Pacific regions, respectively.

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, 2013	2014	Change in %
Capacity extension and new products	412	648	57.3
Function extension and rationalization	80	159	98.8
Replacement and other	81	136	67.9
Additions according to fixed assets register	**573**	**943**	**64.6**
Non-cash effective/Payments for previous years	(1)	(86)	8,500.0
Capital expenditures according to cash flow	**572**	**857**	**49.8**

Cash provided by/(used in) financing activities

Cash flows from financing activities changed from an outflow of €738 million in the fiscal year ended December 31, 2013 by €877 million to a cash inflow of €139 million in the fiscal year ended December 31, 2014 primarily due to an increase in receipts from loans combined with a decrease in repayments of loans. €731 million in receipts from loans and €236 million in repayments of loans related to the refinancing arrangements completed in May and October 2014. The prepayment penalty and transaction costs paid for the refinancing arrangement are included in cash flows from operating activities. All other transactions under these two refinancing arrangements were non-cash in nature. Decreases in current bank debt have reduced the amount of receipts from loans reported in the consolidated statement of cash flows to €727 million. Additional cash outflows of €193 million resulted primarily from a partial prepayment of €171 million that was mainly financed by the dividend paid by Continental AG which was passed on to the Company via Schaeffler Beteiligungsholding GmbH & Co. KG. In addition, cash of €158 million was used in other financing activities, including €154 million in cash paid to the shareholder, Schaeffler Verwaltungs GmbH.

Cash flows for the fiscal years ended December 31, 2012 and 2013

Cash from operating activities

Cash flows from operating activities decreased slightly from €1,213 million in the fiscal year ended December 31, 2012 by €30 million, or 2.5%, to €1,183 million in the fiscal year ended December 31, 2013. The decrease is mainly due to a lower EBIT of €982 million (prior year: €1,413 million), for the increase in inventories and trade receivables as well as higher tax payments in the fiscal year ended December 31, 2013. These factors were partially offset by €162 million (prior year: €80 million) paid by Schaeffler Beteiligungsholding GmbH & Co. KG to the Company due to the dividend paid by Continental AG as well as the increase in trade payables.

Cash used in investing activities

Cash outflows from investing activities (cash paid for property, plant and equipment and intangible assets) decreased from €832 million in the fiscal year ended December 31, 2012 by €278 million, or 33.4%, to €554 million in the fiscal year ended December 31, 2013. This decrease was primarily due to selectively aligning our investing activities with current market conditions.

The following table sets forth our capital expenditures by division for the fiscal years ended 2012 and 2013:

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	Change in %
Automotive	618	441	(28.6)
Industrial	209	132	(36.8)
Group total	**827**	**573**	**(30.7)**
Non-cash effective/Payments for previous years	33	(1)	(103.0)
Capital expenditures according to cash flow	**860**	**572**	**(33.5)**

We incurred capital expenditures on property, plant and equipment and intangible assets of €573 million (Automotive Division: €441 million, Industrial Division: €132 million) for the fiscal year ended December 31, 2013, significantly less than the corresponding amount for the prior year period of €827 million (Automotive Division: €618 million, Industrial Division: €209 million).

In 2013, our capital expenditure strategy remained focused on strengthening our competitive position by expanding capacity at manufacturing locations in our growth regions. To secure future growth and customer proximity, additions to intangible assets and property, plant and equipment were primarily made for production start-ups, expanding capacity, and localization.

€313 million of €573 million in total additions to intangible assets and property, plant and equipment were made in Europe, including €170 million in Germany. In order to strengthen our innovative ability for new products and technologies, we invested primarily in new machinery concepts. We invested €169 million in locations in the Asia/Pacific region in 2013 in order to meet the requirements of a strong demand in the Asian market. The majority was invested in creating manufacturing capacities to secure our ability to supply customers in accordance with their needs. Another focus was on the construction of new production halls in Skalica, Slovakia, and Szombathely, Hungary in order to be able to realize planned capacity expansions and new production start-ups on time.

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, 2012	2013	Change in %
Capacity extension and new products	593	412	(30.5)
Function extension and rationalization	137	80	(41.6)
Replacement and other	97	81	(16.5)
Additions according to fixed assets register	**827**	**573**	**(30.7)**
Non-cash effective/Payments for previous years	33	(1)	(103.0)
Capital expenditures according to cash flow	**860**	**572**	**(33.5)**

Cash provided by/(used in) financing activities

Cash outflows from financing activities increased from €341 million in the fiscal year ended December 31, 2012 by €397 million, or 116.4%, to €738 million in the fiscal year ended December 31, 2013. The increase was primarily due to the repayment of loans. The most significant cash outflows were prepayments of €412 million made by INA Beteiligungsgesellschaft mbH from unrestricted funds. The disposal of a 1.95% interest in Continental AG in September 2013 and the prepayment of loans financed using the proceeds of that transaction were carried out via Schaeffler Beteiligungsholding GmbH & Co. KG which is accounted for using the equity method. 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. The financing transactions completed in April 2013 to refinance the company's senior loans—such as placing bonds with institutional investors and replacing existing loans with new loan agreements—were also largely non-cash in nature. Only transaction costs paid for these arrangements are included in cash flows from operating activities. Cash outflows from financing activities in the fiscal year ended December 31, 2013 also included payments to Schaeffler Verwaltungs GmbH, the 100% shareholder of the Company, of €85 million (prior year: €227 million).

Capital resources

The table below gives an overview of our available liquidity for the following period:

in € million (except where otherwise stated)	Year ended December 31, 2012	2013	2014
Cash and cash equivalents	433	300	711
Credit lines and available financing from banks	943	951	966
Total	**1,376**	**1,251**	**1,677**

Financial debt

Sources of financing

As of December 31, 2014, our financial debt amounted to €6,414 million (€6,413 million non-current financial debt and €1 million current financial debt) compared to €6,190 million as of December 31, 2013 (€5,965 million non-current financial debt and €225 million current financial debt) and €7,261 million as of December 31, 2012 (€7,140 million non-current financial debt and €121 million current financial debt).

The main sources of financing made available to us are the Facilities and the Existing Notes as described below.

Senior Facilities Agreement and Existing Notes

Senior Facilities Agreement

Our Senior Facilities Agreement comprises:

- a €750 million term loan facility ("**Term Facility B-EUR**"), which has been fully drawn;
- a $1,300 million term loan facility ("**Term Facility B-USD**" and, together with the Term Facility B-EUR, the "**Term Facilities**"), which has been fully drawn; and
- a €1,000 million revolving credit facility (the "**Revolving Facility**" and, together with the Term Facilities, the "**Facilities**"), under which ancillary facilities in an amount of €200 million have been made available.

For a detailed description of the Senior Facilities Agreement, see "*Description of other indebtedness.*"

As of December 31, 2014, these loans had a carrying amount of €1,775 million.

Existing Notes

Schaeffler Finance B.V. issued the following Existing Notes:

- €800 million in aggregate principal amount of 7.75% senior secured notes due 2017 and $600 million in aggregate principal amount of 7.75% senior secured notes due 2017 issued pursuant to an indenture dated February 9, 2012 (together, the "**Outstanding February 2012 Notes**");

- €600 million in aggregate principal amount of 4.25% senior secured notes due 2018 and $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 issued pursuant to an indenture dated April 29, 2013 (together, the "**April 2013 Notes**"); and
- €500 million in aggregate principal amount of 2.75% senior secured notes due 2019, €500 million in aggregate principal amount of 3.50% senior secured notes due 2022 and $700 million in aggregate principal amount of 4.25% senior secured notes due 2021 issued pursuant to an indenture dated May 14, 2014 (collectively, the "**May 2014 Senior Secured Notes**"), and €500 million in aggregate principal amount of 3.25% senior notes due 2019 issued pursuant to an indenture dated May 14, 2014 (the "**May 2014 Senior Notes**" or the "**Existing Senior Notes**," and, together with the May 2014 Senior Secured Notes, the "**May 2014 Notes**"). The Outstanding February 2012 Notes, the April 2013 Notes and the May 2014 Senior Secured Notes, are collectively referred to as the "**Existing Senior Secured Notes**," and the Existing Senior Secured Notes together with the Existing Senior Notes are collectively referred to as the "**Existing Notes**").

As of December 31, 2014, the Existing Notes had a carrying value of €4,634 million.

For a detailed description of our financial debt, see "*Description of other indebtedness*."

Other financial debt

The other sources of financing comprise shareholder loans and some smaller bank loans outside of Germany.

Overview of financial debt and maturity profile

As of December 31, 2014, we had financial debt of €6,414 million, of which €5,919 million was secured. Financial debt of €1 million had a term of up to one year, and €6,413 million of more than one year.

The following table summarizes the principal payments we were obligated to make as of December 31, 2014 under current and non-current debt obligations after giving *pro forma* effect to the Transactions (see "*Use of proceeds*" and "*Capitalization*").

	Payments due by period[(1)]						
in € million	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
				(unaudited)			
Senior Facilities	**1,821**	**—**	**—**	**—**	**—**	**—**	**1,821**
Revolving credit facility (€1,000 million)	—	—	—	—	—	—	—
Term loan B-EUR	*750*	—	—	—	—	—	*750*
Term loan B-USD[(2)]	*1,071*	—	—	—	—	—	*1,071*
Existing Notes	**3,377**	**—**	**—**	**—**	**600**	**1,000**	**1,777**
EUR Notes	*2,100*	—	—	—	*600*	*1,000*	*500*
USD Notes[(2)]	*1,277*	—	—	—	—	—	*1,277*
Notes offered hereby[(3)]	1,545	—	—	—	—	—	1,545
Other financial debt[(4)]	5	1	1	1	2	—	—
***Pro Forma* Financial debt (current and non-current)**	**6,748**	**1**	**1**	**1**	**602**	**1,000**	**5,143**

(1) As adjusted to give effect to the Transactions (see "*Use of proceeds*" and "*Capitalization*") as though these had taken place on December 31, 2014.

(2) For presentational purposes, any dollar amounts have been converted into euro at an exchange rate of $1.2141 to €1.00 as of December 31, 2014.

(3) The amount reflects the aggregate principal amount of €1,545 million-equivalent from the issuance of the Notes. For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.1000 to €1.00. This exchange rate differs from the exchange rate in effect as of December 31, 2014.

(4) Includes €1 million of short term debt to credit institutions and €5 million of other long term debt.

Contractual and other obligations

Contractual obligations

The following table sets forth our contractual obligations and commitments as of December 31, 2014.

		Payments due by period		
in € million	Total	Up to 1 year	1-5 years	More than 5 years
Financial debt	7,949	320	3,871	3,758
Operating Lease Obligations	120	54	59	7
Trade payables	1,251	1,251	0	0
Other financial liabilities	499	491	8	0
Derivative financial liabilities	17	74	(11)	(46)
Total	**9,836**	**2,190**	**3,927**	**3,719**

Non-recognized contingent liabilities and other obligations

As of December 31, 2014, we had contingent liabilities of €19 million (prior year: €19 million) consisting primarily of claims raised by current and former employees as well as possible reassessments issued by taxation authorities.

Antitrust investigations

Since 2011, several antitrust authorities, including in the U.S., have been investigating several manufacturers of bearings and related products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted practices violating antitrust laws. The Company is conducting internal investigations into allegations of misconduct in the relevant sectors and is cooperating with the competition authorities in the context of these investigations. These proceedings may lead to increased expenses in future periods, which could materially affect our results. 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, 2014:

	As of December 31, 2014				
in € million	Germany	United Kingdom	United States	Other	Total
DBO(1)	2,016	188	222	286	2,712
Plan assets	214	191	159	191	755
Funded status	**1,802**	**(3)**	**63**	**95**	**1,957**
Balance sheet					
Provisions for Pensions	1,829	7	63	95	1,994
Pension assets	27	10	0	0	37
Net balance sheet obligations	**1,802**	**(3)**	**63**	**95**	**1,957**

(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 external pension funds with restricted access. At the end of 2014, approximately

72% (prior year: 77%) of pension obligations in the U.S. and approximately 102% (prior year: 102%) of pension obligations in the United Kingdom were covered by plan assets.

The net balance sheet provision for pensions and similar obligations comprises a defined benefit obligation of €2,712 million and a market value of plan assets of €755 million. This is presented on the balance sheet as a provision for pensions and similar obligations of €1,994 million. Some overfunded plans lead to plan assets of €37 million recognized in other assets in the statement of financial position.

Due to declining interest rate levels, the average discount rate used to value our pension plans was reduced to 2.5% as at December 31, 2014 (prior year: 3.7%). The resulting revaluation of our obligations under defined benefit pension plans resulted in actuarial losses of €465 million in the fiscal year ended December 31, 2014, which were recognized in other comprehensive income without impacting earnings.

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 Existing Notes and the 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.

Substitution of the Parent Guarantor

Following the Redemption, we will be in a position to initiate the substitution of the Parent Guarantor under the Existing Notes and the Notes offered hereby, in each case in accordance with their respective terms and conditions, as a result of which the guarantees provided by Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG for the holders of the Existing Notes and the Notes offered hereby, as well as for the relevant finance parties under the Senior Facilities Agreement, will be released without any further consent being required. Upon substitution of the Parent Guarantor, Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, which holds 36.0% of the share capital of Continental AG, will cease to be a member of the Schaeffler Group and thereby become part of the S-Verwaltungs Group. See "*Description of the Notes—Note Guarantees—Substitution of the Parent Guarantor*".

Upon the substitution of the Parent Guarantor, Schaeffler AG will become the Parent Guarantor for purposes of the Existing Notes and the Notes offered hereby. The consolidated financial statements of Schaeffler AG for the fiscal year ended December 31, 2014, together with the notes thereto and the independent audit report thereon, set forth on pages 131-221 of Schaeffler AG's annual report for 2014, are hereby incorporated by reference to the Company's website: www.schaeffler-group.com/ir (direct link to Schaeffler AG's annual report for 2014: *http://www.schaeffler.com/remotemedien/media/_shared_media/09_investor_relations/dokumente/publikationen/2014_5/2014_fy_schaeffler_annual_report_de_en.pdf*). No other portion of Schaeffler AG's annual report for 2014 and no other part of the Company's website are incorporated by reference in this Offering Memorandum.

Comparison of certain financial information

EBITDA

Schaeffler AG reported EBITDA of €2,172 million for the year ended December 31, 2014, compared to EBITDA of €2,164 million for Schaeffler Verwaltung Zwei GmbH, based on the consolidated financial statements for the year ended December 31, 2014 of Schaeffler AG and Schaeffler Verwaltung Zwei GmbH, respectively. The difference of €8 million resulted primarily from differences in administrative and other expenses.

Net Income

Schaeffler AG reported net income of €662 million for the year ended December 31, 2014, compared to net income of €1,339 million for Schaeffler Verwaltung Zwei GmbH, based on the consolidated financial statements for the year ended December 31, 2014 of Schaeffler AG and Schaeffler Verwaltung Zwei GmbH, respectively. The difference of €677 million resulted primarily from income from equity-accounted investees with respect to Continental AG of €726 million held via Schaeffler Beteiligungsholding GmbH & Co. KG for the year ended December 31, 2014, which is not included in consolidated net income of Schaeffler AG.

Shareholders' Equity

Schaeffler AG reported total shareholders' equity of €258 million as of December 31, 2014, compared to shareholders' equity of €4,442 million for Schaeffler Verwaltung Zwei GmbH, based on the consolidated financial statements for the year ended December 31, 2014 of Schaeffler AG and Schaeffler Verwaltung Zwei GmbH, respectively.

The table below provides a reconciliation between total shareholders' equity of Schaeffler Verwaltung Zwei GmbH and Schaeffler AG as of December 31, 2014.

in € million	As of December 31, 2014
Total shareholders' equity of Schaeffler Verwaltung Zwei GmbH	**4,442**
Investments in equity-accounted investee Continental AG	(5,564)
Reinstated intercompany shareholder loan to Schaeffler Verwaltung Zwei GmbH[(1)]	1,071
Other reinstated intercompany items with Schaeffler Verwaltung Zwei GmbH	258
Income tax assets (net)	103
Other assets (net)	23
Cash and cash equivalents	(75)
Total shareholders' equity of Schaeffler AG	**258**

(1) See "*Certain relationships and related party transactions—Intra-group financing arrangements*" and "*Description of other indebtedness—Intra-group financing arrangements.*"

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.

We are a leading integrated global supplier to the automotive and industrial sectors. 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 2014, approximately 87.2 million light vehicles were produced on a worldwide basis (*source*: IHS Automotive (January 2015) and own estimates).

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 is generally the most significant factor, with regulations and government policies (such as the scrappage schemes introduced in the United States and Europe in 2009) also having an impact. 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), levels of disposable income, replacement rates of old vehicles and affordability of new vehicles.

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 2011-2020 period, as well as annualized growth rates in production for 2011-2014 and 2015-2020.

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**	
	2011	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2011-14**	**2015E-20E**
Developed markets												
Western Europe	14.1	13.0	13.0	13.6	13.8	14.0	14.3	14.9	14.8	14.8	0.5%	1.4%
US / Canada	10.6	12.6	13.3	13.8	14.1	14.5	14.2	14.3	14.3	14.2	9.2%	0.1%
Japan	8.1	9.7	9.3	9.5	9.0	8.8	8.6	8.5	8.5	8.5	5.5%	(1.2%)
South Korea	5.0	4.9	4.8	4.7	4.7	4.7	4.7	4.6	4.4	4.3	(2.1%)	(1.6%)
Sub-total	*37.8*	*40.2*	*40.4*	*41.6*	*41.6*	*41.9*	*41.8*	*42.2*	*42.0*	*41.8*	*3.2%*	*0.1%*
Emerging markets												
Eastern Europe	5.1	5.3	5.4	5.3	5.4	5.5	5.7	5.9	6.2	6.5	1.9%	4.0%
Latin America	6.5	6.8	7.2	6.9	7.0	7.2	8.0	8.5	9.2	9.5	1.6%	6.4%
Asia (ex Japan / South Korea)	20.8	22.9	25.7	27.0	29.3	31.3	32.9	34.4	35.5	36.6	9.1%	4.5%
Middle-East and Africa	6.7	6.2	6.1	6.4	6.8	7.5	8.2	8.6	9.1	9.5	(1.9%)	6.9%
Sub-total	*39.1*	*41.3*	*44.4*	*45.6*	*48.5*	*51.6*	*54.8*	*57.4*	*60.0*	*62.2*	*5.2%*	*5.1%*
Total	**76.9**	**81.5**	**84.7**	**87.2**	**90.1**	**93.5**	**96.7**	**99.7**	**102.0**	**104.**	**4.3%**	**2.9%**
Selected countries												
Germany	5.9	5.7	5.8	6.0	6.0	5.9	5.8	6.0	5.9	5.9	0.7%	(0.2%)
Brazil	3.2	3.2	3.5	3.0	3.0	3.1	3.3	3.5	3.7	3.9	(1.7%)	5.1%
Russia	1.3	1.5	1.4	1.2	1.2	1.2	1.3	1.5	1.7	1.8	(2.9%)	8.2%
India	3.6	3.8	3.7	3.6	3.9	4.4	4.8	5.1	5.5	5.9	0.3%	8.8%
China	17.3	18.3	21.0	22.6	24.5	26.3	27.6	28.7	29.6	30.5	9.2%	4.5%

Source: IHS Automotive (January 2015) and own estimates.

Overall, the automotive industry has developed positively in 2014. Global production of passenger cars and light commercial vehicles increased to approximately 87.2 million.

In the years 2015 to 2020, global growth in light vehicle production is expected to be led by emerging markets, which are expected to account for nearly 60% of global production volume in 2020. The growth is expected to remain robust with forecast annualized growth rates of 8.8% in India, 8.2% in Russia and 4.5% in China from 2015 to 2020. In North America, the light vehicle production is expected to remain at a stable level from 2015 to 2020. Western Europe is recovering from the euro crisis, and its annualized rate of growth is expected to be at 1.4% from 2015 to 2020. In total, global light vehicle production volume is expected to grow at an annualized rate of 2.9% from 2015 to 2020.

Automotive—Aftermarket

The automotive aftermarket supplies automotive products through a comprehensive network of external distribution partners.

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 (dimensions, average age and composition of the vehicles on the road, mileage and technological development of the vehicles) and in terms of the range of products and services 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 2013, the global bearing market was worth approximately $74 billion (*source:* The Freedonia Group Inc., World Bearings Report (September 2014)), including bearings for the automotive industry, up by approximately 18% from 2008. Asia-Pacific represents the largest regional market for bearings worldwide (51% of total bearings volume in 2013). Western Europe and the United States are the other major markets (19% and 14%, respectively, of total bearings volume in 2013).

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 relations 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 continues to be impacted by the electrification of the drivetrain. This trend is expected to accelerate the growth in demand 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	
	2008	**2013**	**2018E**	**2023E**	**2008-13**	**2013-2018E**
North America	**12.0**	**13.3**	**17.5**	**21.9**	**2.1%**	**5.7%**
United States	9.7	10.1	13.5	16.7	0.9%	5.9%
Western Europe	**15.5**	**13.8**	**17.0**	**20.5**	**-2.2%**	**4.3%**
Asia / Pacific	**27.1**	**37.6**	**57.7**	**87.8**	**6.8%**	**8.9%**
China	12.2	21.0	35.6	58.1	11.5%	11.1%
Japan	7.7	6.9	7.9	8.9	-2.0%	2.6%
Other Asia / Pacific	7.2	9.7	14.2	20.8	6.0%	8.0%
Other Regions	**7.9**	**9.0**	**12.4**	**16.8**	**2.7%**	**6.7%**
Total	**62.4**	**73.6**	**104.5**	**147.0**	**3.4%**	**7.3%**

Source: The Freedonia Group, Inc., World Bearings Report (September 2014).

Global demand for ball, roller and plain bearings is expected to increase by 7.3% annually from \$74 billion in 2013 to \$105 billion in 2018. 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 8.9% annually from $38 billion in 2013 to $58 billion in 2018, led by strong increases in Chinese demand. Gains are expected to be supported by the country's ongoing industrialization and growing manufacturing output. Historically, annual growth in bearing demand in North America (5.7% for 2013-2018), Western Europe (4.3% for 2013-2018) and Japan (2.6% for 2013-2018) 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 2014 grew slightly by 0.3% in the EU15 (the 15 member states of the European Union as of December 31, 2003) and decreased slightly by 0.6% in the United States. Construction activity decreased by 1.5% in Russia and by 4.5% in Brazil in 2014. It increased by 3.5% in India and by 7.6% in China in the same year.

Demand for construction activity is expected to grow by 1.2% (2014-2018) in the EU15 and by 5.5% (2014-2018) in the United States. Brazil, Russia, India and China are forecast to generate compound annual growth of 0.9%, 1.7%, 5.9% and 6.0%, respectively, in 2014-2018 (*source*: Oxford Economics (Winter 2014)).

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 increased by 0.7% in the EU15 and increased by 6.7% in the United States in 2014. Demand decreased in Brazil by 10.4% and in Russia by 1.0% in 2014. Demand increased in India by 2.4% and in China by 8.3% in the same year.

From 2014 to 2018, demand for mechanical engineering is expected to grow by compound annual rates of 2.2% in the EU15 and by 4.3% in the United States. Brazil is expected to grow at 1.0%, Russia at 3.0%, India at 3.9% and China at 6.0% from 2014 to 2018 (*source*: Oxford Economics (Winter 2014)).

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.

After a decline in 2013, 2014 saw strong installations in North America and Asia. Cumulative growth is expected to average 12-18% from 2015 to 2018. Total installations are expected to nearly double from today's numbers by the end of the period (*source*: Global Wind Energy Council, Global Wind Report – Annual Market Update 2013).

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 increased by 2.2% in the EU15 and by 5.6% in the United States in 2014. Brazil experienced a decrease of 8.5% in 2014, while Russia, India and China experienced increases of 4.5%, 10.6% and 3.6%, respectively, during the same year.

From 2014 to 2018, demand for basic metals is expected to see compound annual growth of 1.3% in the EU15 and 4.4% in the United States. Brazil is expected to experience relatively flat output at -0.1% from 2014 to 2018. Russia, India and China are expected to grow at 3.1%, 6.6% and 3.7%, respectively, from 2014 to 2018 (*source*: Oxford Economics (Winter 2014)).

Aerospace

The Aerospace sector develops and manufactures rolling bearing systems with integrated adjacent components for aircraft and spacecraft construction. The Aerospace sector has seen a decrease of 1.7% in the EU15 in 2014. In the United States, the Aerospace sector grew at 1.9% in 2014. Among the BRIC markets, Russia experienced a decrease of 21.5% in 2014. Brazil, India and China experienced increases of 1.8%, 10.6% and 3.1%, respectively, in 2014.

From 2014 to 2018, Aerospace production is expected to grow by 2.7% in the EU15 and 5.7% in the United States. Between 2014 and 2018, compound annual growth in BRIC countries is forecast to be 3.8% in Brazil, 0.3% in Russia, 8.3% in India and 5.6% in China (*source*: Oxford Economics (Winter 2014)).

Industrial—Aftermarket

The industrial aftermarket supplies industrial products through a comprehensive network of external partners.

Growth drivers

In the industrial aftermarket, 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, dimensions of bearings, services rendered and the range of products offered.

Key growth drivers in the industrial aftermarket 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 specific 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, with dedicated sales engineers and field service technicians on call to handle technical inquiries in their respective time zones.

Key trends

Due to its dependence on installed product base, the industrial aftermarket 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.

Key trends in the industrial aftermarket include:

- *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

Overview

We are a leading integrated global supplier to the automotive and industrial sectors. We supply high-quality and technologically-advanced components and systems to a broad range of automotive and industrial customers. Our precision components and systems for engines, transmissions and chassis, as well as rolling and plain bearing solutions for numerous industrial applications make us a key contributor to the "Mobility for tomorrow."

We are one of the largest family-owned technology companies in the world with approximately 82,000 employees and a network of manufacturing locations, research and development facilities, as well as distribution companies in approximately 170 locations in 50 countries (as of December 31, 2014). Our 74 manufacturing locations form the foundation of our operations.

In the fiscal year ended December 31, 2014, we had revenues of approximately €12.1 billion, and EBITDA of approximately €2.2 billion, respectively. 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 China and the rest of the Asia/Pacific region. 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 74% of our revenue in the fiscal year ended December 31, 2014, supplying more than 65,000 products to approximately 7,500 customers globally. We develop and manufacture state-of-the-art products for engine, transmission and chassis systems. As a partner to the automotive sector, we are at the forefront of developing and manufacturing a broad range of automotive applications. Our operating excellence relates to components and system solutions for vehicles with drive trains based on the internal combustion engine, as well as for hybrid and electric vehicles. Our main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units and electric drives. Our precision products are key to helping make engines use less fuel and comply with increasingly strict emission requirements. At the same time, they also increase driving comfort and dynamics and extend engine and transmission life. As one of the leading automotive suppliers worldwide, we offer comprehensive technical expertise for the entire drive train.

Our Industrial Division accounted for approximately 26% of our revenue in the fiscal year ended December 31, 2014, supplying approximately 85,000 products to approximately 14,500 customers in approximately 60 different industrial sectors. While working closely with our customers, we develop bespoke bearing solutions for numerous tailored applications. The product spectrum of the Industrial Division ranges from high-speed and high-precision bearings with very small diameters to large-size bearings over three meters in diameter. The bearings and related products manufactured by this division are used in applications in drive technology, production machinery and wind turbines, as well as in heavy industries. In the aerospace sector, we are a leading manufacturer of high-precision bearings for jet and helicopter engines, as well as for space travel applications.

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 generate good margins as well as stable and recurring revenues. In the fiscal year ended December 31, 2014, 23% 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, mostly 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. As of January 1, 2014, our business activities are divided into four regions – Europe, the Americas, Asia/Pacific and Greater China – which in turn are divided into various sub-regions and countries. In addition to the traditional core markets in Europe (57% of revenue in the fiscal year ended December 31, 2014; including 24% in Germany) and the Americas (20% of revenue in the fiscal year ended December 31, 2014), our business is increasingly significant in key growth markets, such as Asia/Pacific and Greater China, which together accounted for 23% of our revenues in the fiscal year ended December 31, 2014. 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 December 31, 2014, we operated 48 plants in Europe, 14 in the Americas, five in Asia/Pacific and seven in Greater China. 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 fiscal year ended December 31, 2014, aftermarket revenue from replacement parts and services represented approximately 23% 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 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.

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 65,000 components and systems to both OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in approximately 60 different sectors, selling approximately 85,000 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 December 31, 2014, we offered our products to approximately 7,500 automotive customers and 14,500 industrial customers in approximately 150 countries worldwide. In the fiscal year ended December 31, 2014, our top ten customers represented approximately 59% of automotive revenues and approximately 16% of industrial revenues. 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 74 production facilities in over 20 countries and sales and marketing offices in approximately 170 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.

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 2012 and 2013, we received, for example, General Motors' "Supplier Quality Excellence Award," Goldwind's "Excellent Quality Award," Nissan's "Global Quality Award," Renault's and Nissan's "Quality Award," Ford's "World Excellence Award 2012," Toyota's "Quality Achievement Performance Certificate" for suppliers and Nissan's "Excellent Quality Supplier Award." In 2014, we received, for example, General Motors' "Supplier Quality Excellence Award," Nissan's "Global Quality Award" and Honda's "Recognition 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, additions to intangible assets and property, plant and equipment amounted to approximately 6% of our consolidated revenues. To ensure future growth and customer proximity, additions to intangible assets and property, plant and equipment were primarily made for production start-ups, expanding capacity and localizations in the past years.

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 2012, 2013 and 2014, we spent approximately 5% of our total revenue on R&D in each period, to continuously improve our products and to position us at the forefront of our industry in terms of innovation and quality of design. In 2013, we were again awarded a large number of prizes for our innovations, one of which was the "Global Innovation Award" by Nissan. In connection with the "Global Innovation Award," we also received the "Nissan Global Supplier Award" for our highly efficient chain of a continuously variable transmission, receiving praise for our technological development. In 2014, we won the "2014 PACE Award" (Premier Automotive Suppliers' Contribution to Excellence) for our fuel-saving and vibration-reducing torque converter with centrifugal pendulum absorber for rear wheel drive.

As of December 31, 2014, approximately 6,000 R&D staff was employed at 16 R&D centers worldwide, developing new products, customer product applications, technologies, processes and methods for market-driven solutions. Our strong innovative ability is also illustrated by, among other things, the increase in the number of our patent applications in 2014 compared to the prior year. With 2,518 patent applications in 2014, we ranked second among Germany's most innovative companies according to the German Patent and Trademark Office (DPMA, *Deutsches Patent- und Markenamt*). In total, as of December 31, 2014, we held approximately 23,000 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 18% 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 management of working capital and capital expenditures as well as cost reductions. Over the last five fiscal years, we have achieved an average EBITDA margin of approximately 18%. As a result, we generated on average cash flow from operating activities of approximately €1.0 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 an integrated supplier to the automotive and industrial sectors and follow a growth strategy aimed at profitable above-market growth. At the core of our strategy are top quality, outstanding technology, and strong innovative ability in doing business with customers as well as in our internal processes.

Strategic concept "Mobility for tomorrow"

We have developed our strategic concept "Mobility for tomorrow" based on the megatrends driving our business. Under this concept, we focus on the four areas "eco-friendly drives," "urban mobility," "interurban mobility," and "energy chain" across all of our divisions and regions. We actively participate in shaping these focus areas with our own research and development and provide our customers and business partners with an attractive product range from a position as an innovative and technological leader.

Eco-friendly drives

One of the main objectives of the automotive industry is to develop energy-efficient and sustainable drives with no or low levels of emissions, making them environmentally friendly. With our broad range of products, we follow a multi-faceted strategy, serving all areas from improving conventional internal combustion engines through hybridization to electric mobility. Key components such as the variable valve-control system, the thermal management module, the double-clutch transmission and electronic control modules help reduce CO_2 emissions of conventional drives based on internal combustion engines. In addition, for our automotive customers, innovative products for the field of electric mobility, for instance the electric axle drive, the wheel hub drive "E-Wheel Drive" or hybrid modules, play an increasing role in achieving lower CO_2-emission targets.

Urban mobility

As a result of the changing character and increasing challenges of urban mobility, mainly due to limited space in urban areas, there is a trend towards micro-mobility that offers significant opportunities for small vehicles. Responding to this trend, we are further expanding our product portfolio for hybrid and electric mobility. Our torque sensor bottom brackets, for instance, have positioned us as an innovative supplier in the growing e-bike market.

Interurban mobility

The term interurban mobility refers to linking key urban centers around the world. Worldwide traffic will increase significantly in the coming decades as globalization continues and users demand a large degree of flexibility. Providing state-of-the-art mobility solutions is a key challenge for railway and aviation companies. The primary component of a sustainable transport concept is an ecological one. In light of the advancing climate change, the focus remains on reducing CO_2 emissions. This means that passengers and freight have to be transported with as little impact on the environment as possible. Examples of a technological response to these requirements are eco-efficient aircraft and high-speed trains. Our innovative rolling bearing solutions, which are used for the construction of modern high-speed trains and aircraft, enable us to capitalize on this trend in both the rail and air traffic sectors.

Energy chain

As a development partner to the energy sector, we support the expansion of renewable energy. In light of dwindling resources and significant climate challenges, worldwide demand for clean renewable energy sources, such as water, wind and solar power continues to grow, and we anticipate that clean renewable energy sources will contribute significantly to the overall energy supply in the future. Our Industrial division offers a comprehensive portfolio of products in the field of renewable energy. The spectrum ranges from bearing solutions for wind power turbines through to solutions for solar and water power.

Strategic objectives

The "Mobility for tomorrow" strategic concept, comprising four key areas and related sub-strategies regarding business fields, regions, and functions, is designed to help us to achieve our strategic objectives. Our growth strategy is founded on targeted investments in research and development as well as in the improvement of our production system. Maintaining an adequate debt-to-EBITDA ratio and generating appropriate positive cash flow provide the financial flexibility these investments require. We may also from time to time make selective acquisitions in line with our overall strategic objectives.

Leverage our quality and technology leadership

Our objective is to offer our customers a comprehensive "best-in-class" product/system portfolio including consulting and other services. Our focus is on premium market segments, which require the highest quality standards. Therefore, we closely involve our customers in every phase of the product development process in order to best meet their requirements.

We invest in highly standardized and fully automated production plants to continue setting the highest quality standards in the industry. At the same time, we consistently aim to realize productivity gains within our manufacturing processes in order to improve our cost base to enable us to continue to achieve attractive cost/performance ratios.

Focus on innovative components and systems to drive global industry trends

We concentrate on developing and manufacturing high-quality components, modules, and system solutions addressing the global megatrends in the automotive and industrial sectors. The nature of these trends is primarily (i) social, such as urbanization and population growth, (ii) technological, such as increasing complexity and digitalization, (iii) environmental, such as renewable energy and scarcity of resources, and (iv) economic, such as globalization. We strive to set new standards in modern engineering with respect to these trends. We believe that focusing on the global megatrends will enable us to continue to profitably grow faster than the market.

We consider ourselves to be a key contributor to all forms of mobility of the future. We are already offering innovative products for hybrid and electric vehicles today. At the same time, we are continually working to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient.

Focus on rapidly growing markets

We continue to expand our international presence in growth markets, particularly in the Asia/Pacific region which has become a growth driver for the Automotive and Industrial divisions. Nearly one third of all additions to intangible assets and property, plant and equipment in the fiscal year ended December 31, 2014 were made in the Asia/Pacific and Greater China regions. In line with our "in the region – for the region" strategy, we are opening or expanding local plants. For example, two additional plants were opened in Ulyanovsk (Russia) and Nanjing (China) in 2014 and we started the construction of a new greenfield manufacturing site in Thailand in February 2015.

The expansion of the production network in low-cost countries means that a significant proportion of our production is manufactured in low-wage countries such as Slovakia, Hungary, Romania, China, India and Mexico. Additional expansion of the network in growth markets will further improve the relative labor component of our production cost in the future.

Focus on attractive business areas

As part of our global growth strategy, we are also gradually expanding our product portfolio around the world, enabling us to offer our customers an even greater multitude of solutions. We plan to further diversify our products across various markets in order to minimize dependence on individual markets. This approach also involves expanding our expertise in offering system solutions and services.

In addition, our aim is to expand our aftermarket business by increasingly targeting wholesalers and providers of repairs and maintenance services with respect to replacement parts. In addition to reducing revenue volatility, expanding our aftermarket business will also help generating additional business opportunities (for instance in condition monitoring).

Increase cooperation with Continental

Another strategic objective consists of expanding the cooperation with Continental AG. Mechatronic systems (combining mechanical engineering and electronics) are becoming more and more important since OEMs are increasingly expecting their suppliers to provide system solutions that are becoming significantly more complex as digitalization progresses. We believe that extending the existing cooperation with Continental AG will result in competitive advantages. The combination of our expertise in mechanics and mechatronics with Continental AG's electronics know-how will improve our position in the rapidly growing mechatronics segment and help us position ourselves as the leading systems supplier 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

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-Thumann 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.

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. As of December 31, 2014, we held via Schaeffler Beteiligungsholding GmbH & Co. KG 36.0% of Continental AG shares.

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 OEM business division is further segregated into various sectors as described below and supported by our Industrial Aftermarket business.

Automotive Division

As of December 31, 2014, our Automotive Division offers approximately 65,000 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 74% of revenue and 78% of EBITDA in the fiscal year ended December 31, 2014.

Customers

As of December 31, 2014, 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, 83% of the revenue in the fiscal year ended December 31, 2014 related to business with OEMs. The remaining 17% 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 all regions.

Products

The Automotive Division comprises three business divisions with a distinctive product and service portfolio: (1) Engine Systems, (2) Transmission Systems, (3) Chassis Systems and is supported by our Automotive Aftermarket business.

Engine Systems

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 Systems

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 Systems

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, LuK and Ruville 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, among others, "RepXpert," an online portal for automotive workshops and dealerships.

Sales

In the fiscal year ended December 31, 2014, our top ten customers represented approximately 59% of automotive revenues, with no single customer representing more than approximately 17%. We operate sales and marketing facilities in approximately 50 countries. 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 in each country, depending on the respective economic and financial situation as well as national custom.

Industrial Division

As of December 31, 2014, our Industrial Division offers approximately 85,000 articles under the INA and FAG brands for applications used in approximately 60 different industrial sectors, providing rolling and plain bearings, guides and direct drives.

The Industrial Division accounted for approximately 26% of revenue and 22% of EBITDA in the fiscal year ended December 31, 2014.

Customers

Our Industrial Division's customers include, among 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 62% of the revenue in the fiscal year ended December 31, 2014, with the remaining 38% of revenue representing non-OEM customers in the aftermarket.

Industrial sectors

Our Industrial business consists of the Industrial OEM business and the Industrial Aftermarket business.

Industrial OEM

Within the Industrial OEM business division, we mainly 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.

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.

It 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 fiscal year ended December 31, 2014, our top ten customers represented approximately 16% of our Industrial Division's revenues.

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 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 €626 million in 2014, €611 million in 2013 and €593 million in 2012, or approximately 5% of revenue in each period.

As of December 31, 2014, approximately 6,000 R&D staff was employed at 16 R&D centers worldwide. 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 the long-term trends in future mobility, *i.e.*, society trends (*e.g.*, urbanization and population growth), increasing environmental awareness worldwide, and technological change (*e.g.*, electric mobility). Energy efficiency, *i.e.*, the reduction of fuel consumption and, consequently, lowering CO_2 emissions is the key focus area in the automotive industry today.

Around the world, laws are requiring significant reductions in CO_2 emissions of motor vehicles. For instance, CO_2 emissions will be limited to 95 g/km within the European Union starting in 2021. Therefore, the growing need for mobility will have to be met using less resources and, above all, emitting less CO_2. Although the internal combustion engine will continue to dominate for a long time to come, the proportion of electric drives, particularly hybrids, is rising steadily. We offer solutions for all future mobility concepts, employing a multi-faceted strategy that allows us to position ourselves in markets ranging from optimizing conventional internal combustion engines and hybrid solutions to electric mobility.

We have positioned ourselves in the market from optimizing drive trains based on internal combustion engines and hybrid solutions to providing all-electric mobility under the title "*Efficient Future Mobility*."

R&D relating to the Industrial Division

We believe that rolling and plain bearings will remain important for the functionality, cost-effectiveness and reliability of numerous industrial applications. Among other things, we focus our development on optimizing rolling bearing components and standardizing them in configurators and modular systems. In addition, we offer various modular solutions to complete system partnerships.

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. Our Industrial Division 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 December 31, 2014, we held approximately 23,000 patents and patent applications. In 2014, we applied for 2,518 new patents, 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 December 31, 2014, we operated 74 manufacturing plants in more than 20 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 as of December 31, 2014.

Location	Size of property in square meters	Owned or leased/expiry dated for lease terms
Schweinfurt, Germany	336,142.92	Owned, approximately 4,150 m^2 of which are leased
Herzogenaurach, Germany	327,580.27	Owned
Sorocaba, Brazil	161,321.20	Owned
Brasov, Romania	151,262.77	Owned
Kysucke Nove Mesto, Slovakia	119,131.42	Owned
Taicang, China	110,967.53	Owned
Bühl, Germany	107,069.00	Owned
Skalica, Slovakia	103,071.32	Owned
Wuppertal, Germany	100,095.43	Owned
Homburg, Germany	84,867.10	Owned

Purchasing of raw materials and energy resources

In the fiscal year ended December 31, 2014, purchases of production materials (raw materials and components) comprised €4.3 billion. 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. 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 31%, respectively, of total purchases in the fiscal year ended December 31, 2014.

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

As of January 1, 2014, our business activities are divided into four regions—Europe, Americas, Asia/Pacific, and Greater China—which in turn are divided into various sub-regions and countries. In light of its growing global economic importance, China was designated as a separate region named "Greater China." Korea, Japan and the countries in Southeast Asia were combined to form the new region "Asia/Pacific." India has become part of the newly created region "Europe," which also includes the Middle East, Africa and Russia. In addition, the previous regions North and South America have been combined into one region "Americas." In the fiscal year ended December 31, 2014, we generated 57% of our total revenue in Europe (with 24% attributable to Germany), 20% in the Americas, 10% in Asia Pacific and 13% in Greater China. 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 December 31, 2014, we operated 48 plants in Europe, 14 in the Americas, five in Asia/Pacific and seven in Greater China.

Employees

The table below shows the headcount as of December 31, 2012, 2013 and 2014 in our functional areas.

	As of December 31,		
Number of Employees	**2012**	**2013**	**2014**
Production	59,148	61,587	64,558
Research and Development	6,314	6,166	6,532
Selling	6,021	6,102	6,338
General Administration	4,616	4,704	4,866
Total	**76,099**	**78,559**	**82,294**

Headcount rose by 7% to around 82,294 during the fiscal year ended December 31, 2014.

The table below shows the headcount as of December 31, 2012, 2013 and 2014 for each of the regions in which we operate.

	As of December 31,		
Region	**2012**	**2013**	**2014**
Europe	51,847	52,746	57,607
Asia/Pacific	12,664	13,667	12,458
North America	7,246	7,907	8,510
South America	4,342	4,239	3,719
Total	**76,099**	**78,559**	**82,294**

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 several regional employer associations (pertaining to the metal and electrical industry). We are therefore subject to 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*). Other measures to secure employees were also negotiated with this agreement. These measures may be terminated with six-month notice and without prejudice.

We have a close and constructive relationship with our German works 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 December 31, 2014, our total pension obligations amounted to approximately €2,712 million. As of December 31, 2014, our net pension obligations for defined benefit pension plans (pension obligations less pension plan assets, funded status) amounted to approximately €1,957 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

One of the key objectives of our capital expenditure strategy is to strengthen our competitive position by expanding capacity at manufacturing locations in our growth regions.

Our material investments in the fiscal years ended December 31, 2012, 2013 and 2014 can mainly be categorized as investments in organic growth (*i.e.*, investments in production facilities, equipment and software).

Capital expenditures on intangible assets and on property, plant and equipment

Our capital expenditures on intangible assets and on property, plant and equipment in the fiscal year ended December 31, 2014, amounted to €857 million. In the fiscal year ended December 31, 2013, such capital expenditures amounted to €572 million and in the fiscal year ended December 31, 2012, they amounted to €827 million.

Our capital expenditures made to secure growth and customer proximity involved production start-ups, expanding capacity and localizations. For example, over the next few years we plan to expand our European distribution network, constructing a new €150 million distribution center in Kitzingen, Germany as well as distribution centers in Italy, Sweden and another location in Western Europe, with the aim of modernizing logistics processes and increasing the speed of delivery to our customers.

Investments for acquisitions of subsidiaries and management units

In the fiscal years ended December 31, 2012, 2013 and 2014, there were no investments for acquisitions of subsidiaries and management units.

During the period from December 31, 2014 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 outside the ordinary course of business.

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 registered or certified or are currently seeking registration or certification 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

Since 2011, several antitrust authorities, including in the U.S., have been investigating several manufacturers of bearings and related products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted practices violating antitrust laws. The Company is conducting internal investigations into allegations of misconduct in the relevant sectors and is cooperating with the competition authorities in the context of these investigations.

Below is a brief summary of the current status of the relevant antitrust investigations and proceedings in respective jurisdictions:

- ***European Union***: On March 19, 2014, the EU Commission issued a decision under which we were required to pay €370.5 million. The EU antitrust penalty was paid in the second quarter of 2014.
- ***United States and Canada***: The U.S. Department of Justice ("**DOJ**") served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011 and is possibly still investigating antitrust law infringements. Since May 2012, several class action lawsuits have been filed by plaintiffs in the U.S. and Canada against various 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.
- ***Korea***: The Korean Fair Trade Commission has fined our Korean subsidiary Schaeffler Korea Yuhan Hoesa approximately €12 million for collusion regarding imported bearings for the industrial aftermarket and the Korean public prosecutor has initiated criminal proceedings against our subsidiary in this context in which it may impose an additional fine. We intend to file an appeal against the decision of the Korean Fair Trade Commission. A separate investigation of the Korean Fair Trade Commission regarding automotive bearing products is still ongoing. We expect a decision relating to this in the near term.
- ***Spain***: On December 4, 2014, the Spanish Competition Authority issued a fine in the amount of €1 million against Schaeffler Iberia and Schaeffler Verwaltung Zwei GmbH with respect to alleged antitrust law infringements in the railway bearings sector. Both companies have filed an appeal against this decision.
- ***Brazil***: On September 17, 2014, the Brazilian Antitrust Authority ("**CADE**") dawn raided our Brazilian subsidiary. CADE alleges price coordination and exchange of sensitive information with regard to automotive clutches. We expect further developments in this matter in the coming months. In addition, CADE has started an investigation into alleged anticompetitive behavior relating to bearings and clutch facing products. We have started an internal investigation and are cooperating with CADE.

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 2012, our aggregate settlement costs relating to such claims amounted to approximately €50 million on an annual basis. None of the currently pending or threatened product liability proceedings is expected to have a material adverse effect on our business, financial condition and results of operations.

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 and the amounts involved in these proceedings may be substantial, 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 AG & Co. KG as a party to the Cooperation Agreement. Pursuant to the Cooperation Agreement, Continental AG and 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.

Regulatory framework

We are subject to environmental and regulatory laws governing our business activities in the countries in which we operate. These include, *inter alia*, laws regarding (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 and occupational health and safety as well as export control regulations. Moreover, the products manufactured by us have to comply with various legal requirements. Applicability of the various regulations depends on the specific facilities, installations and activities at each of our business locations and the type and use of each of the products manufactured by us. For example, the permits and notifications required for a certain facility depend on many 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.

The environmental and regulatory laws 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 focuses on acts of particular relevance adopted by European institutions. These acts may be complemented by implementing additional (stricter) requirements established by specific EU member states. In addition, this section includes summaries of the regulatory frameworks applicable to 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 (e.g., 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. The regulations applicable within each EU member state may have distinctive characteristics, for instance, due to leeway with regard to the implementation of EU regulations into each EU member state's legal system or within areas of law that have not yet been harmonized fully or in parts at the EU level.

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 may include 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, as last amended by Directive 2011/92/EU of the European Parliament and of the Council of December 13, 2011) and its interpretation by the European Court of Justice.

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.

Industrial emissions control

Directive 2010/75/EU on industrial emissions (the "**Industrial Emissions Directive**," "**IED**"), successor of Directive 2008/1/EC of the European Parliament and of the Council concerning integrated pollution prevention and control, stipulates that certain industrial installations, including installations for the production and processing of metals, are generally required to have a permit. This permit can only be issued by the competent authority if specified environmental conditions are met, *e.g.*, if the operator takes appropriate preventive measures against pollution and if the installation does not cause significant pollution.

The IED includes, *inter alia*, 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**"). BAT is a dynamic concept and continues to evolve as new measures and techniques emerge, science and technologies develop and new or emerging industrial processes are introduced. In order to reflect such developments and the consequences of such developments for BAT, BREFs are subject to periodic review and update. For instance, the BREF on Non-Ferrous Metals, which was adopted by the European Commission in 2001, is currently under review (cf. final draft dated October 2014).

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 a few of our installations fall within the scope of the IED.

For certain installations subject to the IED, there is a new requirement relating to the status of the soil and (ground) water. This new requirement applies not only to new installations, but also to existing installations if a permit is updated. 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.

In Germany, for example, the provisions of the IED were implemented into German law through amendments to the Federal Emission Control Act (*Bundes-Immissionsschutzgesetz*), the Federal Water Management Act (*Wasserhaushaltsgesetz*), the Law on Closed Cycle Management (*Kreislaufwirtschaftsgesetz*) and other environmental laws and ordinances.

Emissions from production processes

Volatile organic compound emissions

We operate installations using volatile organic compounds ("**VOC**"). A few of those installations are subject to regulations on VOC in the IED, which entered 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 and emissions of organic solvents from stationary commercial and industrial sources, such as surface cleaning. For most of the activities concerned, the Directive specifies a consumption threshold. The VOC Directive was repealed as of January 7, 2014, as VOC emissions are since then 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.

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, as last amended by Commission Regulation (EU) No 1357/2014 of December 18, 2014) (the "**Waste Framework Directive**") redefined the legal framework on waste treatment within the European Union. 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 EU rules.

The Waste Framework Directive introduced a new waste hierarchy, *i.e.*, the members states have to 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, EU 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.

EU member states must prohibit the abandonment, dumping or uncontrolled disposal of waste. EU 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. The Waste Framework Directive 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. On July 2, 2014, the European Commission adopted a legislative proposal to review recycling and other waste targets in the Waste Framework Directive (COM/2014/0397 final). The main elements of the proposal aim to improve recycling and the re-use of municipal and packaging waste. Moreover, the disposal of waste by means of landfilling shall be reduced. At its plenary session on December 10 - 11, 2014, the European Economic and Social Committee gave its opinion on the proposal. However, the proposal was withdrawn by the Commission's Work Programme for 2015 on December 16, 2014 with the purpose to be replaced by a new proposal in the course of 2015.

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 eight manufacturing sites in Germany and on further manufacturing sites such as in France, Brazil and the United States. We estimate the total costs for such measures in Germany at approximately €1.5 million. 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 emissions, 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 sectorial policies. It published a proposal for a directive on soil protection in 2006 (COM (2006) 232 final dated September 22, 2006). However, this proposal was withdrawn by the European Commission via a so called obsolete proposal on May 21, 2014. A new proposal has not been submitted yet. 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 29 - 30, 2012 (OJ C 17, January 19, 2013, p. 37), which recommends implementing 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. As the remediation of contaminated sites is part of the priority objectives of the General Union Environment Action Programme to 2020 of November 20, 2013 (Decision No 1386/2013/EU of the European Parliament and of the Council), which entered into force in January 2014, the EU institutions and the Member States are responsible for ensuring that this is implemented and that the priority objectives set out are met by 2020.

In Germany, for example, 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 party who caused the contamination, its universal successor (*Gesamtrechtsnachfolger*) as well as 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 groundwater 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 the parties mentioned above, 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, upon discretion, 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 and waste water treatment

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 Commission Directive 2014/101/EU of October 31, 2014 (the "**Water Framework Directive**"), includes a comprehensive approach to water protection. By means of this Directive, the European Union 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. EU 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, EU 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 45 priority substances in the field of water policy is laid down in Annex X of the Water Framework Directive (as replaced by the Directive of European Parliament and of the Council 2013/39/EU of August 12, 2013). Twenty-one of the identified priority substances were classified as priority hazardous substances and the EU member states are, as a rule, obliged to implement measures with the aim of cessation or phasing out of emissions, discharges and losses of the relevant substances. Further, EU member states must apply environmental quality standards to all priority substances. This is set out in Directive 2008/105/EU of the European Parliament and the Council of December 16, 2008, last amended by Directive 2013/39/EU, which is a daughter directive to the Water Framework Directive.

Groundwater is protected by both the Water Framework Directive and Directive 2006/118/EC of the European Parliament and of the Council of December 12, 2006, as last amended by the

Commission Directive 2014/80/EU of June 20, 2014 ("**Groundwater Daughter Directive**"), which is another 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 EU member state level.

The Groundwater Daughter Directive contains criteria for the identification and reversal of pollution trends and requires EU member states to establish measures to prevent the input of hazardous substances into the groundwater and limit the introduction of other pollutants.

Discharge of waste water and its treatment is regulated by Council Directive 91/271/EEC of May 21, 1991, as last amended by Council Directive 2013/64/EU of December 17, 2013. This Directive concerns the collection, treatment and discharge of urban waste water and the treatment and discharge of waste water from certain industrial sectors. Its aim is to protect the environment from any adverse effects caused by the discharge of such waters.

Control of major-accident hazards involving dangerous substances

Directive 2012/18/EU of the European Parliament and the Council of July 4, 2012, successor of Directive 96/82/EC, with effect from June 1, 2015, lays down rules for the prevention of major accidents which involve dangerous substances, and the limitation of their consequences for human health and the environment, with a view to ensuring a high level of protection. We operate plants that are classified as "lower-tier establishments" and "upper-tier establishments," where dangerous substances are present in quantities equal to or in excess of the quantities listed in the Annex of the mentioned directive.

According to this directive the operator is obliged to take all necessary measures to prevent major accidents and to limit their consequences for human health and the environment. The operator has to send a notification to the competent authority, including information such as the immediate environment of the establishment, and factors likely to cause a major accident or to aggravate the consequences thereof including, where available, details of neighboring establishments, of sites that fall outside the scope of this Directive, areas and developments that could be the source of or increase the risk or consequences of a major accident and of domino effects.

The operator is required to draw up a document in writing setting out the major-accident prevention policy ("**MAPP**") and to ensure that it is properly implemented. The operator shall periodically review and where necessary update the MAPP, at least every five years. The operator of an upper-tier establishment has to produce a safety report for the purpose of demonstrating that a MAPP and a safety management system for implementing it have been put into effect. The operator also has to draw up an internal emergency plan for the measures to be taken inside the establishment and to supply the necessary information to the competent authority, to enable the latter to draw up external emergency plans.

For upper-tier establishments it has to be ensured that all persons likely to be affected by a major accident receive regularly and in the most appropriate form, without having to request it, clear and intelligible information on safety measures and requisite behavior in the event of a major accident.

According to Art. 13 (2) of Directive 2012/18/EU, the EU member states shall ensure to maintain appropriate safety distances between establishments covered by this Directive and residential areas, buildings and areas of public use, recreational areas, and, as far as possible, major transport routes. We may be subject to restrictions, for instance, in respect of site locations of new plants and expansions to our existing plants.

The provisions of the Directive 96/82/EC were mainly implemented into German law through the Federal Hazardous Incident Regulation (*Störfall-Verordnung*). The new Directive 2012/18/EU is supposed to be transposed into German law by May 31, 2015.

Directive 2004/35/EC of the European Parliament and of the Council of April 21, 2004, on environmental liability with regard to the prevention and remedying of environmental damage ("ELD"), as last amended by Directive 2013/30/EU of the European Parliament and of the Council of June 12, 2013, establishes a framework of environmental liability based on the 'polluter-pays' principle. The ELD provides, in particular, that operators carrying out dangerous activities or specific activities listed in the Directive's annexes are liable for fault-based damage, which are restricted to damages to protected species and natural habitats, damage to water and damage to soil.

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. 895/2014 of August 14, 2014). 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 European Union. 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 European Union.

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 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 are prioritized and gradually included in Annex XIV to REACH. Once they are included, the industry has to submit applications to ECHA on authorization for continued use of these substances which are otherwise prohibited. In addition, EU authorities can 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 is done via the classification and labeling system and Safety Data Sheets (SDS), where needed. The requirements of REACH could result in restrictions for chemicals that are used in our products or processes, which could in turn affect our ability to deliver the respective products. See "*Risk factors—Legal, taxation and environmental risks—Our operations are subject to stringent laws and regulations, particularly under applicable environmental laws*" and "*—We could become subject to additional burdensome environmental, safety or other regulations and additional regulation could adversely affect demand for our products and services.*"

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, 2015 (ECE/TRANS/242 Vol. I and Vol. II), includes provisions applicable to the carriage of dangerous goods on roads. Pursuant to the 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 EU member states (such as Germany). Directive 2008/68/EC of the European Parliament and of the Council of September 24, 2008 on the inland transport of dangerous goods, as last amended by Commission Directive 2014/103/EU of November 21, 2014, establishes a common regime for all aspects of the inland transport of dangerous goods, by road, rail and inland waterways within the European Union and incorporates the ADR into European law.

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

Within the European Union, 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 internal market of the European Union 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 (e.g., on the basis of notifications required by Article 108 of the TFEU prior to granting 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. Depending on the law of the relevant EU member state (e.g., Germany), the Commission has not been notified in advance regarding a contract that entail state aid, such contract may be considered, in a worst case scenario, null and void.

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. Concerning R&D activities, the Commission has recently published a Communication (Communication from the Commission, OJ 2014 C 198/1, June 27, 2014), generally lowering barriers for the public support of such activities. In case of a breach of these conditions, the aid may be clawed back by the institution that granted the aid.

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 2015/166 of February 3, 2015) 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 EU member states were required to transpose into national law. In its Annex IV, the Directive refers to the United Nations Economic Commission for Europe ("**UNECE**") Regulations, which apply on a compulsory basis for the purpose of EC type-approval of various models of vehicles. The UNECE regulations listed in Annex IV are based on the obligations of the "Agreement concerning the adoption of uniform technical prescriptions for wheeled vehicles, equipment and parts which can be fitted and/or be used on wheeled vehicles and the conditions for reciprocal recognition of approvals granted on the bases of these prescriptions of March 20, 1958 ("**1958 Agreement**"). The EU became party to the 1958 Agreement on March 24, 1998. The 1958 Agreement allows the contracting parties to adopt uniform technical prescriptions for the approvals of vehicles, parts and equipment that can be fitted and/or used on vehicles and to reciprocally recognize approvals granted on the basis of these prescriptions. The 1958 Agreement currently has 54 contracting parties and 133 UN regulations annexed to it until today. Most UN regulations annexed to the 1958 Agreement cover parts and items of equipment of motor vehicles that are relevant for granting of type approval for a type of vehicle in each of the contracting parties, e.g. lamps, advanced emergency braking system, CO_2 emission and fuel consumption. Most of these UNECE regulations were adopted by a large majority of the contracting parties and integrated into their national legislation.

In order to achieve a wider acceptance and application of these international vehicles regulations, the 1958 Agreement has to be modernized to accommodate the needs of countries with emerging automotive industries and markets. The overall objective of this reform is promoting the principle of mutual recognition of certificates ("tested once, accepted everywhere"), whilst at the same time ensuring and maintaining the highest levels of safety and environmental performance.

Commission Regulations (EU) No 143/2013 of February 19, 2013 and (EU) No 195/2013 of March 7, 2013 have included additional requirements for the EC type approval procedure in Directive 2007/46/EC, aiming at an efficient monitoring of carbon dioxide emissions of vehicles.

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) 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. Further requirements like the proposal of the European Commission COM (2013) 316 final of June 13, 2013 for a regulation of the European Parliament and of the Council concerning type-approval requirements for the deployment of the eCall in-vehicle system for amending Directive 2007/46/EC are currently going through the legislative procedure.

As part of "CARS 2020," an action plan of the European Commission for a competitive and sustainable automotive industry in Europe of November 8, 2012 (COM (2012) 636 final), the CARS 2020 High Level Group was launched in early 2013 as a stakeholder forum for discussion and strategic advice and to ensure that the measures set out in the CARS 2020 Action Plan are implemented. In the area of trade policy, the CARS 2020 Action Plan has identified the acceptance of international vehicle regulations established under the UNECE 1958 Agreement as the best way to remove non-tariff barriers to trade.

The "Agreement concerning the establishing of global technical regulations for wheeled vehicles, equipment and parts which can be fitted and/or be used on wheeled vehicles of June 25, 1998" ("**1998 Agreement**") applies in parallel to the 1958 Agreement. The purpose of the 1998 Agreement is to further improve the process of international harmonization through the development of UN global technical regulations ("**GTRs**"). The 1998 Agreement stipulates that contracting parties will establish, by consensus vote, UN GTRs in a UN Global Register. The UN GTR contains globally harmonized performance requirements and test procedures. The 1998 Agreement currently has 33 Contracting Parties and 16 UN GTRs that have been entered into the Global UN Registry. For instance, current GTRs include UN GTR No. 2 "Measurement procedure for two-wheeled motorcycles equipped with a positive or compression ignition engine with regard to the emission of gaseous pollutants, CO_2 emissions and fuel consumption" and UN GTR No. 8 "Electronic stability control systems."

Further, there is a list of candidates for harmonization or adoption as GTRs, *inter alia*, heavy-duty engine and vehicle standards and highway diesel fuel sulfur control requirements. Moreover, the World Forum for Harmonization of Vehicle Regulations ("**WP.29**") may submit proposals to develop and harmonize the vehicle regulations, for example, the "Proposal for an Electric Vehicle Regulatory Reference Guide" submitted by the working party on pollution and energy.

Emissions from vehicles

Regulatory requirements related to emissions from vehicles as set out below generally 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 the Council Directive 70/157/EEC of February 6, 1970 as last amended by Council Directive 2013/15/EU of May 13, 2013. 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. This Directive will be repealed with effect from July 1, 2027 by the Regulation (EU) No 540/2014 of the European Parliament and the Council of April 16, 2014 which also amends Directive 2007/46/EC. The Regulation (EU) No 540/2014 establishes the administrative and technical requirements for the EU type-approval of new vehicles of specific categories with regard to their sound level and of replacement silencing systems and components. According to Annex III of the Regulation (EU) No 540/2014 the limit values will be lowered in three steps of each 2 db(A) for vehicles used for the carriage of passengers and for vehicles used for the carriage of goods the reduction will be 1 db(A) or 2 db(A) depending on the technically permissible maximum laden mass.

Furthermore, the old test method of the vehicle noise Directive (70/157/EEC) will be replaced by a new test method recognized internationally and better reflecting present driving behavior. It was developed under the auspice of the UNECE. The Commission shall carry out and publish a detailed study on sound level limits by July 1, 2021. In addition, manufactures shall install Acoustic Vehicle Alerting System ("**AVAS**") in new hybrid electric and pure electric vehicles by July 1, 2021.

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 Delegated Regulation (EU) 2015/6 of October 31, 2014) ("**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. In respect of each calendar year from 2012 onwards, manufacturers who do not meet their targets must pay an excess emissions premium.

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 Regulation (EU) No 253/2014 of February 26, 2014) ("**Regulation 510/2011**") 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. 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. Manufacturers may form a pool in order to meet their targets. Further, in respect of each calendar year from 2014 onwards, manufacturers exceeding their individual target have to pay an excess emissions premium.

Both Regulations 443/2009 and 510/2011 provide for a review of the emission targets set out in those regulations by the end of 2015 in order to establish carbon dioxide emission targets for new vehicles for the period beyond 2020.

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)) ("**Regulation 715/2007**") 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 133/2014 of January 31, 2014)). 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 as of January 1, 2018, for existing vehicles. In case of motorcycles, tricycles and heavy quadri-mobiles, these thresholds apply as of January 1, 2016, for new vehicles and as of January 1, 2017, for existing vehicles. A proposal for the amendment of Directives 715/2007 and 595/2009 has been introduced by the Commission on January, 31 2014 (Proposal of the European Commission COM/2014/028 final – 2014/0012 (COD)). With regard to heavy-duty vehicles ("**HDVs**") the Commission issued a "strategy to curb CO_2 emissions from trucks, buses and coaches" on May 21, 2014, which is focused on short-term action to certify, report and monitor HDV emissions. The strategy is addressed to the European Parliament and the Council, which are invited to endorse it and help deliver the actions outlined.

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 on the promotion of the use of energy from renewable sources, as last amended by Council Directive 2013/18/EU of May 13, 2013, requires the member states to ensure that, as from 2020, the share of energy from renewable sources (*e.g.*, biofuels which include 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 "CARS 2020," the European Commission intends to include new driving cycle and test procedures into the regulatory framework, allowing to measure fuel consumption and emissions based on real-world driving behavior (cf. CARS 2020 Report on the state of play of outcome of the work of the High Level Group of October 2014). However, a binding obligation has not yet been adopted.

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 2013/28/EU of May 17, 2013 ("**Directive 2000/53/EC**"), 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.

On July 2, 2014, the European Commission adopted a legislative proposal concerning, inter alia, the amendment of Directive 2000/53/EC (European Commission Proposal COM(2014) 397 final), and including elements of simplification of reporting requirements. Four proposals for amending the Directive 2000/53/EC are currently going through the legislative process.

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 EU regulations governing the safety of products concerned, or if sectorial 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. The commission partially agreed to the amendments on first reading in the European parliament on July 9, 2014.

A draft regulation intended to replace Directive 2001/95/EC and imposing more obligations on manufacturers (*e.g.*, as regards documentation) is currently in the legislative process (cf. proposal of the European Commission COM (2013) 78 final of February 13, 2013). Further, a regulation on market surveillance of products amending Directive 2001/95/EC and closing gaps in market surveillance (Product Safety and Market Surveillance Package) is in the process of being adopted (cf. proposal of the European Commission COM (2013) 75 final of February 13, 2013). The European Parliament approved the two proposals with amendments on April 15, 2014.

This Product Safety and Market Surveillance Package was initially expected to be adopted in 2014 and to enter into force in 2015. However, the legislative process was stalled due to a disagreement between Member States over mandatory indication of the product's origin. Article 7 of the CPSR Proposal imposes on manufacturers and importers the obligation to indicate on a product the country of origin, i.e. the "made in …" element. Where the size or nature of the product does not allow it, the indication is to be provided on the packaging or in a document accompanying the product. In case the country of origin is a member state of the European Union, manufacturers and importers may refer to the EU or to a particular member state.

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 a €500 damage caused by defective products. The Product Liability Directive does not in any way restrict compensation for non-material damage under national legislation.

Energy Efficiency

Directive 2012/27/EU of the European Parliament and the Council of October 25, 2012, as last amended by Council Directive 2013/12/EU of May 13, 2013, requires non-small and medium-sized enterprises to carry out energy audits. The German legislation intends to implement this Directive through a Federal law on energy services (*Gesetz über Energiedienstleistungen*), which is expected to become effective from December 5, 2015. Accordingly, energy audits are, as a rule, mandatory on a four-year basis.

Export control regulations and economic sanctions

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 (EU) No 1382/2014 of 22 October 2014 ("**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 applications. We therefore have to observe export control regulations relating to military products on a national as well as on a EU level. Such deliveries may require notifications of or permits for shipments to EU member states as well as exports, but also limit or prohibit the export of such products if specific countries, entities, individuals or end-users are the destination of such shipments. EU sanctions may also generally restrict us from engaging in business in or with designated countries, entities or individuals.

In addition, export control regulations and economic sanctions of specific countries may have an impact on our customer or supply relationships even if these relationships do not relate directly to such countries. These regulations and sanctions may apply to any of our products that are, or contain components that are, exported, re-exported or made in a country where such regulations apply, or to our operations in countries where such sanctions are applicable.

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 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 69/2014 of January 27, 2014 ("**Regulation 748/2012**"). Further, detailed requirements for the maintenance of aeronautical products are included in Commission Regulation (EU) No 1321/2014 of November 26, 2014, successor of the Commission Regulation (EC) No 2042/2003 of November 20, 2003.

Under Commission Regulation 748/2012 of August 3, 2012, as last amended by Commission Regulation (EU) No 69/2014 of January, 27 2014, 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 Commission Regulation (EU) No 1321/2014. 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, *inter alia*, 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 2014/106/EU of December 5, 2014, sets out requirements which have to be fulfilled by railway systems in order to achieve interoperability on the railway lines within the trans-European transport network included in Regulation (EU) No 1315/2013 of the European Parliament and of the Council of December 11, 2013 (“**TEN-T**”), as last amended by Commission delegated Regulation (EU) No 473/2014 of January 17, 2014. Further, Directive 2008/57/EC establishes the conditions to achieve interoperability within the European Community rail system in a manner compatible with the provisions of Directive 2004/49/EC. Further, the Directive 2008/57/EC establishes the conditions to achieve interoperability within the European Community rail system in a manner compatible with the provisions of Directive 2004/49/EC. 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 Regulation (EU) No 1304/2014 of November 26, 2014. 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 are included in Commission Regulation (EU) No 321/2013 of March 13, 2013, last amended by Commission Regulation (EU) No 1236/2013 of December 2, 2013. 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. Yet, a recast of Directive 2008/57/EC is currently in the legislative process. The proposal of the European Commission extends the scope of the Directive and the TSIs, as a rule, to the entire rail system within the EU (cf. proposal of the European Commission COM (2013) 30 final of January 30, 2013). On May 20, 2014, the European Parliament approved the recast draft with amendments, and on June 5, 2014, the Council agreed to the proposal.

Directive 2004/49/EC on Safety of the Community’s railways was amended by Commission Directive 2014/88/EU of July 9, 2014 in respect of common safety indicators and common methods of calculating accident costs. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive 2014/88/EU by July 30, 2015. Further, Directive 2004/49/EC is currently subject to a recast and is currently going through the legislative process. The intent of this Directive is to improve the railway safety and oblige manufacturers of products for railway vehicles to carry out risk control measures and to report known risks to other actors of the rail system (cf. proposal for a Directive of the European Parliament and of the Council on railway safety COM(2013)031 final of January 30, 2013). On May 20, 2014, the European Parliament approved the draft with amendments, and on June 5, 2014, the Council agreed to the proposal.

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 provides, for example, for more transparency (*e.g.*, registration of medical devices and economic operators in a European data base) and a stricter surveillance and vigilance system (*e.g.*, reporting of serious incidents in an EU portal). Final adoption of the regulation is still outstanding.

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 and amended existing standards on a regular basis. Currently, up to 65 FMVSSs must be considered in a self-certification process before a vehicle may be released into the US market.

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 FMVSS 121, a new air braking standard for vehicles including 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 (a) manufacturers who sell more than 500 vehicles annually in the U.S.; (b) manufacturers of child restraint systems; and (c) tire manufacturers ("Group 1") to provide, among other reporting obligations, 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. NHTSA requires manufacturers who sell less than 500 vehicles annually in the U.S. as well as all vehicle equipment manufacturers other than of tires and child restraint systems ("Group 2"), including us, to comply with more limited reporting obligations, including a requirement (i) to report all fatal accidents occurring inside US where the fatal consequences have been caused by the manufacturer's vehicle parts or components and (ii) to report all fatal accidents outside the US where the fatal consequences have been caused by the manufacturer's vehicle parts or components and these vehicle parts or components, or vehicle parts or components with equivalent technical content, have been marketed inside US. 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 died in Congress, the NHTSA 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 fuel economy, collision avoidance, automatic braking, vehicle communications, lane departure prevention, blind spot and pedestrian detection, as well as additional occupant protection measures.

There are also US 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, which amended the Energy Policy and Conservation Act ("**EPCA**"). 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 finalized CAFE and greenhouse gas emissions standards for light duty vehicles with model years 2017 through 2025 in August 2012, pursuant to which fuel economy will be increased 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 Transport 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 RTVA provides for the recall of vehicles when the structure, equipment or performance of the vehicles does not meet or has a risk of failing to meet the applicable safety standards and the cause is believed to be in the design or manufacture. When manufacturers of vehicles, or importers of vehicles manufactured by foreign manufacturers for export to Japan (collectively, "**Manufacturers**"), intend to take remedial measures to make the vehicles compliant with the safety standards, the Manufacturers must notify the MLIT in advance of: (i) the status of the defect and its cause, (ii) the planned remedial measures and (iii) the means of informing vehicle users. The Manufacturers are also required to report on the status of the implementation of the recall measures to the MLIT. In the absence of a voluntary recall by the Manufacturers, the MLIT may issue a recommendation to the Manufacturers to implement the requisite remedial measures. If the Manufacturers fail to act in accordance with the recommendation, the MLIT may publicize such fact, and if the Manufacturers still refuse to comply without justifiable reasons, the MLIT may issue an order requiring the Manufacturers to take the remedial measures.

Failure to comply with the MLIT order, failure to notify a recall in advance, or making a false report are subject to penal sanctions of imprisonment of up to one year and/or fines of up to JPY3 million for the person(s) responsible for the violation, and a fine of up to JPY200 million for the company that is represented by, or employs, such person(s).

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 and small buses 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 and 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.

Regulatory framework for our products in China

Product safety and liability

General Rules on Product safety and Liability

We have to comply with requirements on product safety stipulated in the Product Quality Law of the People's Republic of China ("**Product Quality Law**"), Law of Protection of Consumer Rights and Interests ("**Consumer Rights Law**") and Tort Liability Law ("**Tort Law**"), promulgated by the Standing Committee of the National People's Congress on July 8, 2000, October 25, 2013 and December 26, 2009, respectively.

Under said laws, the quality of a product shall (i) be free from unreasonable dangers to the personal or property safety, and conform to the national or sector standards for safeguarding the health and personal or property safety if such standards are available; (ii) possess the properties and functions for use that they ought to possess, except for those with directions stating the defects in the functions of the product; and (iii) conform to the product standards marked on the product or on the package thereof, and to the quality conditions indicated by way of product directions and physical sample.

If the defect of a product causes personal injury or damage to another's property, then the victim may hold either the seller or the producer liable for such damage, although the party that pays a claim for liability may ultimately seek indemnification from the other party, depending on who is found to be at fault. In addition, any producer or seller of products not up to the relevant standards for ensuring human health, personal safety and safety of property will be subject to fines of a maximum amount of three times the value of the products illegally produced and other punitive measures.

The Supreme People's Court promulgated and revised provisions on evidence in civil proceedings (the "**Provisions**") on December 21, 2001 and December 16, 2008, respectively. According to the Provisions, in case of a tort action resulting from damage caused by a defective product, the manufacturer of said product shall bear the burden of proof for the existence of the grounds of exemption from liability as provided for by law. In case of a tort action resulting from damage caused by joint risky acts, whoever commits such risky acts shall bear the burden of proof to establish that there is no causation between his act and the harmful consequences. Therefore, as a manufacturer of automobile component, we may bear the burden of proof required to be exempt from paying compensation in potential lawsuits.

Recall of Defective Automobile Products

The State Council of PRC released the Administrative Regulations for Recalls of Defective Automobile Products (the "**Recall Regulations**") on October 22, 2012, which could require us to recall certain products. The Recall Regulations cover the initiation, implementation and reporting procedures of the defective product recalls. On January 17, 2013, the State Administration of Quality Supervision, Inspection and Quarantine ("**AQSIQ**") issued Opinions of the General Administration of Quality Supervision, Inspection and Quarantine on several issues concerning the implementation of the Recall Regulations, elaborating on the definition of defects. The defects that trigger recall procedure should result from design, manufacturing, labeling or other reasons, common as to the same batch, model or type of automobiles, and posing risks to personal or property safety.

Upon confirming a defect, the producers must cease producing, selling and/or importing the defective automobiles and shall recall those that are in market. If a producer fails to do so, the product quality control department under the State Council is empowered to order any producer who fails to comply with the recall procedure to carry out the recall. Producers shall take timely measures including correction or supplementation of marks, repair, replacement, or return of goods to eliminate any defects of the defective automobiles and bear any expenses caused by eliminating defects and any expenses necessary for transporting defective automobiles. In the event that a manufacturer of defective automobile does not comply with the Recall Regulations, the manufacturer is subject to fines of a maximum amount of RMB 1 million or 10% of the value of defective automobiles, along with other punitive measures including revoking a manufacturer's regulatory permits.

A draft of implementation rules intended to supplement the Recall Regulations is currently in the legislative process, which imposes responsibility on producers of automotive parts and components. When investigating the defects, the product quality control department under the State Council may enter the premises of automotive parts and components manufacturers as well as automobile producers and operators to perform onsite investigations, consult and duplicate relevant materials and records, and question any related entity or individual about possible defects of automobile. Automotive parts and component manufacturers who do not cooperate in these investigations are subject to fines of a maximum amount of RMB 30,000.

Three Guarantees of Automobiles and Related Parts

On December 29, 2012, AQSIQ promulgated the Regulations on Liability for Repair, Replacement and Return of Household Automotive Products (the "**Household Automobile Guarantee Regulations**").

Under the Household Automobile Guarantee Regulations, consumers are entitled to request for repair, replacement and return ("**Three Guarantees**") of automobiles and their related parts within certain periods. The sellers of automobiles must assume liability for the Three Guarantees. If the liability is attributable to the producer or other business operators, the sellers are entitled to reimbursement by the latter.

If within the earlier of 60 days or 3,000 km after a seller issues the invoice for a sale of an automobile, it is determined that a major part of the engine or gearbox has defects, then the consumer may choose to replace the entire engine or gearbox for free. In the event that the consumable spare parts of the household vehicle products are found to have defects within the quality assurance period, the interested consumers may choose to replace such spare parts for free. Categories of the consumable spare parts and their quality assurance periods shall be explicitly indicated by the manufacturer in a Three Guarantees Certificate.

Any party who breaches Household Automobile Guarantees Regulations could be subject to fines of a maximum amount of RMB 30,000.

Technical Standards

Compulsory Product Certification

According to Provisions on the Administration of Compulsory Product Certification (the "**Provisions**") promulgated by AQSIQ on July 3, 2009, products listed in the official catalogue, to be updated from time to time, must pass the certification process ("**Compulsory Product Certification**") and be affixed with a China Compulsory Certificate ("**CCC**)" before delivered from factories, marketed, imported or used in any commercial activities.

Products with CCC must comply with recall rules as required under the Provisions where any producer or seller of a CCC product discovers any potential safety danger in the product produced or sold, which poses harm to human health or safety.

On December 16, 2012, the Certification and Accreditation Administration promulgated Catalogue Description and Definition for Compulsory Product Certification, under which automobile as a whole and several types of automotive components are listed and therefore shall pass Compulsory Product Certification.

Environment Protection

Combustion Fuel Consumption Rate Evaluation and Measuring Method

Under the Law of Prevention and Control of Atmospheric Pollution, promulgated by Standing Committee of the National People's Congress on April 29, 2000, no vehicles shall be permitted to discharge atmospheric pollutants in excess of the prescribed discharge standards. No business entity or individual may manufacture, sell or import vehicles that discharge pollutants in excess of the prescribed standards. The Ministry of Environmental Protection ("**MEP**") has the authority to apply automobile fuel economy level certificate to automobiles which satisfy different national fuel economy standards. Accordingly, MEP promulgated national fuel economy standards including Limits and Measurement Methods of Light Vehicle Emission (PRC Stage V) (GB18352.5-2013), Limits and Measurement Methods of Light Vehicle Emission (PRC Stage III/IV) (GB18352.3-2005), Limits and Measurement Methods of Engine (Automotive Compression Ignition Style and Fuel Gas Spark Ignition Style), Automobile Pollutant Emission (PRC Stage III/IV/V) (GB17691-2005). MEP regularly releases list of certified engine manufacturers, automobile manufacturers and emission control device that comply with the above standards.

Law of Prevention and Control of Environmental Noise

According to Law of Prevention and Control of Environmental Noise promulgated by Standing Committee of the National People's Congress on October 29, 1996, silencers and horns of motor vehicles that run in urban districts shall meet certain requirements. It is prohibited to manufacture, sell and import automobiles that produce noise in excess of the restrictions imposed on the range of noise.

Industry Development Planning for "Green Vehicles"

In recent years, the development of "green vehicles", i.e. energy-efficient and new-energy vehicles is strongly promoted in China. According to the Industry Development Planning for Energy-efficient and New-energy Vehicle (2012-2020), (Guo Fa 2012 No.22) promulgated by State Council on June 28, 2012, the government requires and encourages the entire vehicle industry to endeavor to foster and drive the accelerated development of the industry chain covering power cells, electric motors, automotive electronics, advanced internal combustion engines and efficient transmissions.

Energy-efficient Vehicles

According to a project promulgated by the National Development and Reform Commission and Ministry of Finance on May 18, 2009 to promote efficient energy-saving products, the government will provide subsidies to enterprises engaging in the production of energy-efficient products. As a result, the sale price of relevant products is required to reflect the corresponding subsidies in order to eventually benefit consumers. Products and relevant manufacturers must meet certain standards to be eligible for the subsidies.

New-energy Vehicles

Under the rules for the administration of new-energy vehicle manufacturers and their products, promulgated by the Ministry of Industry and Information Technology on June 17, 2009, "new-energy vehicle" means a vehicle of new technology and new structure developed under advanced technology concepts, using unconventional vehicle-purpose fuel as its driving force (or using conventional vehicle-purpose fuel through new-type vehicle-loaded power apparatus) and incorporating advanced technologies on propulsion and its control.

According to Guiding Opinions of the General Office of the State Council on Accelerating the Popularization and Application of Alternative Fuel Vehicles promulgated by General Office of the State Council on July 14, 2014, the government will establish policy regimes including government subsidies, preferential tax treatment etc. to support and promote the development of alternative fuel vehicles.

Management

On October 23, 2014, the former Schaeffler AG legal entity was changed to a limited liability company (*Gesellschaft mit beschränkter Haftung*) and renamed Schaeffler Verwaltung Zwei GmbH. On October 24, 2014, the former INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**") legal entity was changed to a stock corporation (*Aktiengesellschaft*) and renamed Schaeffler AG ("**Schaeffler AG**"). At the same time, all executive board and corporate center functions were transferred from the Parent Guarantor to Schaeffler AG and Schaeffler AG assumed Schaeffler Verwaltung Zwei GmbH's functions as the parent company of the Schaeffler Group.

Schaeffler AG'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*), the Articles of Association (*Satzung*) and the Rules of Procedure (*Geschäftsordnung*).

Board of managing directors

The Schaeffler Group is managed by the board of managing directors of Schaeffler AG. Under the new organizational structure, the board of managing directors consists of the Schaeffler Group CEO and the board members responsible for divisions and functions.

The board of managing directors manages the Schaeffler Group in accordance with applicable laws, and the provisions of the Articles of Association and the Rules of Procedure, taking into account the resolutions adopted by the general shareholders' meeting. The board of managing directors represents Schaeffler AG in its dealings with third parties. The board of managing directors is required to ensure the establishment and operation by Schaeffler AG of an appropriate risk management and internal monitoring system facilitating the timely identification of developments that might jeopardize the continued existence of Schaeffler AG. 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 Schaeffler AG 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 Schaeffler AG.

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 Schaeffler AG. Generally, a member of Schaeffler AG'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 Schaeffler AG. A broad spectrum of interests, especially those of Schaeffler AG, 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
Klaus Rosenfeld	48	Chief Executive Officer and Chief Financial Officer (until April 1, 2015)	06/30/2019
Dr. Ulrich Hauck	50	Chief Financial Officer (effective April 1, 2015)	03/31/2018
Prof. Dr. Peter Gutzmer . . .	61	Chief Technology Officer and Deputy CEO	12/31/2019
Norbert Indlekofer	57	Co-CEO Automotive with responsibility for Transmission Systems, Automotive Aftermarket and Automotive Research and Development	12/31/2016
Oliver Jung	53	Chief Operating Officer	09/30/2018
Kurt Mirlach	57	Head of Human Resources	12/31/2015
Prof. Dr. Peter Pleus	60	Co-CEO Automotive with responsibility for business development (automotive), Global Key Account Management, Engine Systems and Chassis Systems	12/31/2016
Robert Schullan	57	CEO Industrial	12/31/2015

The members of the board of managing directors can be contacted at Schaeffler AG'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 Schaeffler AG and their private interests or other duties.

Klaus Rosenfeld is our Chief Executive Officer and, until April 1, 2015, our Chief Financial Officer. 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, among 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. He also serves as a member of Continental AG's supervisory board and its audit committee.

Dr. Ulrich Hauck will be our Chief Financial Officer effective April 1, 2015. He studied business economics at the Ludwig-Maximilian-University of Munich and holds a doctorate degree from the University of Innsbruck. From 2003 until his appointment by the Schaeffler Group, he was in charge of worldwide accounting and group controlling at Bayer AG. He previously held a leading position at Rheinmetall AG and served as an auditor and tax consultant at Deloitte.

Prof. Dr. Peter Gutzmer is our Chief Technology Officer and Deputy CEO. 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. He also serves as a member of Continental AG's supervisory board.

Norbert Indlekofer serves as Co-CEO Automotive with responsibility for Transmission Systems, Automotive Aftermarket and Automotive Research and Development. 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.

Oliver Jung is our Chief Operating Officer. 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. Mr. Jung joined Schaeffler in 2008 and took over responsibility for corporate production technology in 2011.

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.

Prof. Dr. Peter Pleus serves as Co-CEO Automotive with responsibility for business development (automotive), Global Key Account Management, Engine Systems and Chassis Systems. 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.

Robert Schullan serves as our CEO Industrial. 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.

The aggregate compensation of the board of managing directors (in its then current composition) for the fiscal year ended December 31, 2014 was €15 million (2013: €26 million; 2012: €23 million) and included short-term employee benefits of €12 million for the fiscal year ended December 31, 2014 (2013: €18 million; 2012: €21 million). Post-employment benefits expenses for the fiscal year ended December 31, 2014 amounted to €3 million (2013: €3 million; 2012: €2 million).

Regional CEOs

The composition of the board of managing directors reflects the Schaeffler Group's organization by divisions and functions. In order to ensure that the regions are appropriately represented within the multi-dimensional matrix organization of the Schaeffler Group, regional CEOs have been designated to represent each of our four regions. The regional CEOs regularly attend meetings of the board of managing directors. The board of managing directors and the regional CEOs together represent Schaeffler AG's executive board.

The following table sets forth certain information concerning the regional CEOs.

Name	Age	Position
Dietmar Heinrich	51	Regional CEO, Europe
Andreas Schick	44	Regional CEO, Asia/Pacific
Bruce Warmbold	59	Regional CEO, Americas
Dr. Yilin Zhang	51	Regional CEO, Greater China

Dietmar Heinrich serves as regional CEO for Europe and acts additionally as managing director of Schaeffler Finance B.V. and Schaeffler Holding Finance B.V. He studied industrial engineering at the University of Karlsruhe and joined the Schaeffler Group in 1995. Subsequently he held various positions within the Schaeffler Group. In 2001 to 2005, he worked as CFO in Korea and in 2006 assumed the responsibility as CFO Asia/Pacific. End of 2009, he became president of the business unit Linear Technology and in 2011 took over as CFO Europe. In March 2014, he was appointed CEO Europe.

Andreas Schick serves as regional CEO for Asia/Pacific and acts additionally as automotive president for Schaeffler AP. He studied automotive engineering at the University of Munich for applied sciences and joined the Schaeffler Group in 1994. He held various positions in Schaeffler

Brazil and Schaeffler North America, such as President LuK NA. In 2008, he moved to Herzogenaurach and became the president of business unit transmission applications. During the years 2009 and 2010 he took a special assignment to introduce MOVE into the Schaeffler organization. In January 2014, he was appointed CEO Asia/Pacific.

Bruce Warmbold serves as regional CEO for the Americas. He received a Bachelor of Commerce degree from Queens University in Canada and also holds a Chartered Professional Accountant Certification. Prior to joining the Schaeffler Group, he spent six years with a large public accounting firm. He joined the Schaeffler Group in 1984 and held various positions until assuming the role of president and CEO of INA Bearing Company in 1992. During the integration of LuK, INA and FAG in 2002, he was named president and CEO of Schaeffler Group North America and, in 2014, CEO Americas.

Dr. Yilin Zhang serves as regional CEO for Greater China. He studied mechanical engineering at Hunan University in China and acquired his Dr.-Ing. degree in vehicle engineering at University Hannover in Germany in 1994. He then joined ITT Automotive Europe GmbH as manager business development and moved to China as chief representative for Continental Teves in 1999 and acted as member of the board and CFO of one of the Continental joint ventures in China. In 2004, he joined Schaeffler China as President Automotive. In January 2014, he was appointed as president and regional CEO Schaeffler Greater China.

Supervisory board

The supervisory board of Schaeffler AG initially comprised three members in accordance with Section 10(1) of Schaeffler AG's articles of association: Maria-Elisabeth Schaeffler-Thumann, Georg F. W. Schaeffler and Prof. KR Ing. Siegfried Wolf. All three members were elected by the shareholders.

Following the completion of status proceedings (*Statusverfahren*) on November 28, 2014, (i) the 20-member supervisory board of Schaeffler Verwaltung Zwei GmbH ceased to exist and (ii) the supervisory board of Schaeffler AG was increased to 20 members in accordance with Section 10 of the articles of association of Schaeffler AG and the German Codetermination Act (*Mitbestimmungsgesetz*). In accordance with the German Codetermination Act, ten members are elected by the shareholders and ten members are elected by the employees. On the request of the executive board of Schaeffler AG, the court appointed the ten employee representatives to the supervisory board of Schaeffler AG on December 2, 2014. The central German works council has initiated the election of the employee representatives to the supervisory board. The term of office of the court-appointed employee representatives will end upon election of the employee representatives.

The supervisory board of Schaeffler AG 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.

The supervisory board reaches a quorum if not fewer than half its members and at least three 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. Resolutions of the supervisory board shall be taken by a majority of the votes cast, save as otherwise provided for by law. If the chairman so stipulates, and provided no member of the supervisory board objects to such stipulation, 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 table below sets forth certain information concerning the members of the current supervisory board of Schaeffler AG.

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	50	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson)	73	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Jürgen Wechsler (Deputy Chairperson)	59	Regional Director of IG Metall Bavaria
Jürgen Bänsch	52	Trade Union Secretary of IG Metall Bavaria
Prof. Dr. Hans-Jörg Bullinger	70	Senator of the Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V.
Dr. Holger Engelmann	49	CEO of Webasto SE
Prof. Dr. Bernd Gottschalk	71	Managing Partner of the AutoValue GmbH
Norbert Lenhard	57	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG
Dr. Siegfried Luther	70	Corporate consultant
Dr. Reinold Mittag	58	Attorney and union secretary with the executive board of IG Metall
Thomas Mölkner	52	Chairman of the central German works council, Schaeffler Group and Chairman of the works council, Herzogenaurach plant, Schaeffler Technologies AG & Co. KG
Stefanie Schmidt	41	Chairwoman of the works council, Wuppertal plant, Schaeffler Technologies AG & Co. KG
Dirk Spindler	50	Chairman of the corporate spokesmen committee of the executive staff, Schaeffler Technologies AG & Co. KG and Senior Vice President Research & Development Industrial, Schaeffler Technologies AG & Co. KG
Robin Stalker	57	CFO of adidas AG
Jürgen Stolz	49	Chairman of the works council of LuK GmbH & Co. KG, Bühl
Salvatore Vicari	48	Chairman of the local works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG
Dr. Otto Wiesheu	70	President of the Economic Advisory Board of Union e.V. in Bavaria
Prof. KR Ing. Siegfried Wolf	57	Chairman of the Board of Russian Machines Corporation
Jürgen Worrich	60	Chairman of the European works council, Schaeffler Group
Prof. Dr.-Ing. Tong Zhang	54	Director of Clean Energy Automotive Engineering Center, Tongji University, Shanghai, China

The members of the supervisory board can be contacted at Schaeffler AG's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

The above members of the supervisory board of Schaeffler AG do not have potential conflicts of interest between any duties to Schaeffler AG 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-Thumann is the owner of the Schaeffler Group. She studied medicine at Vienna University. She is a supervisory board member of Continental AG. She was a member of the supervisory board of Nürnberger Lebensversicherungs 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 is the regional director of IG Metall Bavaria. He completed his trainee program as a qualified electrician in 1983 and as an energy facility electrician in 1985. In addition, he completed a training program as mediator. After several years as service and start-up technician for offset rotation printing machines at MAN Roland, he changed to the works council in 1990 where he held positions as chairman of the local works council and the general works council for several years. He also served as member of the supervisory board of MAN AG and MAN Roland AG before joining IG Metall Bavaria as regional director in 2012.

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 was head of the committee defining the high tech strategy for Germany of the German government.

Dr. Holger Engelmann is the CEO of Webasto SE and of its roof & components division. He studied business administration in Münster and Cologne and holds a PhD from the University of Cologne. Before joining Webasto SE as CFO in 2007 and before becoming Webasto SE's CEO in 2013, he held various positions with Fichtel & Sachs AG and Mannesmann Plastics Machinery GmbH.

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.

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 a corporate consultant. 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. From 1990 to 2014, he was the managing director of Reinhard Mohn Verwaltungs GmbH. From 2005 to 2013, he served as a member of the Auditors Oversight Commission in Germany.

Dr. Reinold Mittag is the union secretary with the executive board of IG Metall. Before joining IG Metall, he practiced as a litigator and worked in several law firms related to the Federation of German Unitions (DGB). He holds various law degrees as well as a doctorate in law from the University of Bielefeld.

Thomas Mölkner is the chairman of the central German 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.

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 a member 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. In 2013, he was appointed as head of product development for the Industrial Division.

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.

Jürgen Stolz is the chairman of the local works council of LuK GmbH & Co. KG, Bühl, and deputy chairman of the central German works council of the Schaeffler Group. He completed his trainee program as motor mechanic and professional driver and works as technical employee for the Schaeffler Group. Mr Stolz joined the Schaeffler Group in 1988.

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.

Prof. KR Ing. Siegfried Wolf serves as the Chairman of the Board of Russian Machines Corporation. Siegfried Wolf trained at Philips as a tool and die-maker and holds an engineering degree. From 2005 to 2010, Siegfried Wolf was Co-CEO of Magna International Inc. He previously held a number of senior executive positions since joining Magna in 1994, including Executive Vice Chairman at Magna International Inc. and President & CEO at Magna Steyr AG & Co. KG. Prior to joining Magna, Mr. Wolf worked as General Manager and Vice President at Hirtenberger AG and as Assistant Director, Quality Control, at Vereinigte Metallwerke Wien. Mr. Wolf also sits on the boards of a number of leading international businesses.

Jürgen Worrich is the chairman of the European 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.

Prof. Dr.-Ing. Tong Zhang is the director of Clean Energy Automotive Engineering Center, Tongji University, Shanghai, China. Prof. Zhang holds degrees in automotive engineering from the Tsinghua University Beijing, China, and the Technical University Berlin as well as a doctorate degree from the Technical University in Berlin. Between 1992 and 2006, he held various positions with Ford Werke GmbH in Cologne, including the positions of group leader and engineering manager. In 2006, Prof. Zhang joined the Clean Energy Automotive Engineering Center of Tongji University in Shanghai as vice director and became its director in 2011.

Remuneration of the Supervisory Board

The aggregate compensation of the supervisory board (in its then current composition) for the fiscal year ended December 31, 2014 was approximately €2 million (prior year: €1 million).

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 current supervisory board of Schaeffler AG has established and currently maintains a general committee, an audit committee and a conciliation 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 executive board. The general committee gives recommendations for the appointment and dismissal of members of the executive board. 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 of Schaeffler AG:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	50	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	73	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Norbert Lenhard	57	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG
Dr. Reinold Mittag	58	Attorney and union secretary with the executive board of IG Metall
Jürgen Wechsler	59	Regional Director of IG Metall Bavaria
Prof. KR Ing. Siegfried Wolf	57	Chairman of the Board of Russian Machines Corporation

Audit Committee (Prüfungsausschuss)

The audit committee's tasks relate to 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 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 of Schaeffler AG:

Name	Age	Position
Dr. Siegfried Luther (Chairman)	70	Corporate Consultant
Georg F. W. Schaeffler	50	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Jürgen Bänsch	52	Trade Union Secretary of IG Metall Bavaria
Robin Stalker	57	CFO of adidas AG
Salvatore Vicari	48	Chairman of the works council, Homburg/ Saar plant, Schaeffler Technologies AG & Co. KG
Jürgen Worrich	60	Chairman of the European works council, Schaeffler Group

Conciliation Committee (Vermittlungsausschuss)

The conciliation committee's task pursuant to the German Codetermination Act is to nominate candidates for the executive board in case the required majority is not reached in the first round of voting. The conciliation committee consists of the chairman of the supervisory board and his deputy, as well as one member elected by the supervisory board members of the employees and one member elected by the supervisory board members of the shareholders.

The following table sets forth the current members of the conciliation committee of Schaeffler AG:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	50	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	73	Partner of the INA-Holding Schaeffler GmbH & Co. KG
Norbert Lenhard	57	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG
Jürgen Wechsler	59	Regional Director of IG Metall Bavaria

Share capital of Schaeffler AG

The issued share capital of Schaeffler AG amounts to €600,000,000, divided into 60,000,000 no-par-value registered shares, all of which are fully paid up.

Our shareholders

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler-Thumann (20%) and Georg F. W. Schaeffler (80%). The immediate parent companies are Schaeffler Verwaltung Zwei GmbH and Schaeffler Verwaltungs GmbH and the ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG.

Certain relationships and related party transactions

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 AG & Co. KG as a party to the Cooperation Agreement. Pursuant to the Cooperation Agreement, Continental AG and 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.*"

Manual cash management and offsetting agreement

On July 9, 2014, Schaeffler AG and Schaeffler Verwaltung Zwei GmbH concluded a manual cash management and offsetting agreement. Under this agreement Schaeffler Verwaltung Zwei GmbH may transfer cash in pre-agreed currencies to Schaeffler AG to be credited by Schaeffler AG to the internal current account of Schaeffler Verwaltung Zwei GmbH. Any transfer shall be subject to Schaeffler AG's prior consent. In case of debit balances on the bank accounts of Schaeffler Verwaltung Zwei GmbH, Schaeffler Verwaltung Zwei GmbH may request Schaeffler AG to balance such debit balances within Schaeffler Verwaltung Zwei GmbH's credit limit. Any sums transferred by Schaeffler Verwaltung Zwei GmbH to Schaeffler AG shall constitute a loan granted by Schaeffler Verwaltung Zwei GmbH to Schaeffler AG. Any sums transferred by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH shall constitute a loan granted by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH. The loans granted by Schaeffler Verwaltung Zwei GmbH to Schaeffler AG and the loans granted by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH shall be netted on a daily basis. Any receivables of Schaeffler Verwaltung Zwei GmbH bear interest on the basis of EONIA or comparable rates in other currencies (base rate) less 0.10% per annum (margin) less a management fee of 0.05% plus an additional risk premium in certain circumstances. Any payables of Schaeffler Verwaltung Zwei GmbH shall bear interest at the applicable base rate plus 0.41% per annum (margin) plus a management fee of 0.05%. The margins and the risk premium may be adjusted by Schaeffler AG annually on June 30. Interest is calculated monthly and shall be paid on the second bank working day after the end of a calculation period. The agreement is concluded for an indefinite term and may be terminated by either party by giving one month's prior written notice to the other party. In addition, the agreement enumerates reasons for a termination for good cause including if one party has reasonable doubt whether the other party is able to meet its obligations under this agreement. As of December 31, 2014, a loan in the principal amount of €235.7 million granted by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH was outstanding under the manual cash management and offsetting agreement.

Loan and deposit master agreement

On July 9, 2014, Schaeffler AG and Schaeffler Verwaltung Zwei GmbH entered into a loan and deposit master agreement. Under this agreement Schaeffler AG may grant loans to Schaeffler Verwaltung Zwei GmbH in EUR or Schaeffler Verwaltung Zwei GmbH may place deposits in EUR with Schaeffler AG with a term of up to five years. Loans and deposits in other currencies may be agreed between the parties. The specific details of each loan/deposit including but not limited to amount, currency and term will be agreed on a case by case basis between the parties and confirmed by a written confirmation. The loans bear interest at the applicable interbank rate plus 0.41% per annum (margin) and deposits bear interest at the applicable interbank rate minus 0.10% per annum (margin) plus an additional risk premium in certain circumstances. The margins and the risk premium may be adjusted by Schaeffler AG annually on June 30. Interest is due every December 31 and at the due date of repayment of the deposit. The agreement may be terminated by either party at the end of a calendar month by giving three month's prior written notice. However, any loan granted or deposit made shall not be affected by the termination. As of December 31, 2014, there were no amounts outstanding under the loan and deposit master agreement.

Intra-group financing arrangements

On December 12, 2014, Schaeffler AG as lender and Schaeffler Verwaltung Zwei GmbH as borrower entered into a €1,071 million loan agreement governed by German law providing for a €1,071 million term facility. The term facility is fully drawn, whereas the drawing and the corresponding outstanding loan receivable of Schaeffler AG against Schaeffler Verwaltung Zwei GmbH resulted from the contribution by Schaeffler Verwaltungs GmbH of a loan receivable against Schaeffler Verwaltung Zwei GmbH in an equivalent amount into the share capital of Schaeffler AG in connection with the December 2014 Reorganization (see "*Summary—Trading update and recent developments—December 2014 Reorganization*"). The term facility matures on December 12, 2024 and bears cash interest at 4.00% per annum. The terms of this loan relating to the payment of interest stipulate that Schaeffler Verwaltung Zwei GmbH has the option of capitalizing the interest accrued during any one interest period rather than paying such interest immediately. Interest on the entire loan balance, including the interest capitalized, is then calculated at the rate applicable to the original loan plus an interest premium, for a total rate of between 4.75% and 6.00%. For purposes of the consolidated financial statements of Schaeffler Verwaltung Zwei GmbH for 2014, this loan was eliminated upon consolidation.

On December 12, 2014, Schaeffler AG as lender and Schaeffler Beteiligungsholding GmbH & Co. KG as borrower entered into a €629 million loan agreement governed by German law providing for a €629 million term facility. The term facility is fully drawn, whereas the drawing and the corresponding outstanding loan receivable of Schaeffler AG against Schaeffler Beteiligungsholding GmbH & Co. KG resulted from the contribution by Schaeffler Verwaltungs GmbH of a loan receivable against Schaeffler Beteiligungsholding GmbH & Co. KG in an equivalent amount into the share capital of Schaeffler AG in connection with the December 2014 Reorganization (see "*Summary—Trading update and recent developments—December 2014 Reorganization*"). The term facility matures on December 12, 2024 and bears cash interest at 4.00% per annum. The terms of this loan relating to the payment of interest stipulate that Schaeffler Beteiligungsholding GmbH & Co. KG has the option of capitalizing the interest accrued during any one interest period rather than paying such interest immediately. Interest on the entire loan balance, including the interest capitalized, is then calculated at the rate applicable to the original loan plus an interest premium, for a total rate of between 4.75 % and 6.00%.

The €1,071 million term facility and the €629 million term facility referred to above are secured by pledges over shares in Continental AG with a market value as of December 12, 2014 equal to approximately twice the principal amount of the loans.

General information about the Parent Guarantor

Formation, incorporation, trade name and registered office

Schaeffler Verwaltung Zwei GmbH (until October 22, 2014, Schaeffler AG, until October 13, 2011, Schaeffler GmbH and, until June 28, 2010, Schaeffler Verwaltung Zwei GmbH) was founded on September 29, 2009 and is registered in the Commercial Register of the Fürth Local Court (*Amtsgericht*) under HRB 14734. The Parent Guarantor's registered office is Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

Corporate purpose

Pursuant to Section 2 of the Parent Guarantor's Articles of Association, the Parent Guarantor is a management holding company which pools other companies under a uniform leadership and provides corresponding services, including management services. The Parent Guarantor may set up subsidiaries and may incorporate, form or acquire other companies.

Fiscal year and term of the Parent Guarantor

The duration of the Parent Guarantor is perpetual. Pursuant to Section 5 of the Parent Guarantor's Articles of Association, the fiscal year of the Parent Guarantor is the calendar year.

Financial statements

The Parent Guarantor produces and will continue to produce quarterly interim reports.

Management

The board of managing directors of the Parent Guarantor consists of Georg F. W. Schaeffler, Maria-Elisabeth Schaeffler-Thumann, Klaus Rosenfeld and Klaus Deißenberger (general counsel of Schaeffler AG).

Description of the Issuer

General information about Schaeffler Finance B.V.

History and development

The legal and commercial name of the Issuer is Schaeffler Finance B.V.

Schaeffler Finance B.V. was incorporated on October 14, 2011 for an indefinite period of time under the laws of the Netherlands. It is registered at the Dutch Commercial Register. Schaeffler Finance B.V.'s registration number is 53761790.

Schaeffler Finance B.V.'s registered office is located at Gildeweg 31, 3771 NB Barneveld, The Netherlands. Its phone number is +31 (0) 34 240 3288.

Schaeffler Finance B.V. is incorporated as a private limited liability company under the laws of the Netherlands.

Schaeffler Finance B.V. has outstanding debt instruments consisting of the Outstanding February 2012 Notes (to be redeemed with the proceeds of the Notes offered hereby), the April 2013 Notes and the May 2014 Notes. Since the issuance of the May 2014 Notes and the redemption of the Redeemed Notes, there have been no relevant recent events particular to Schaeffler Finance B.V. which are to a material extent relevant to the evaluation of Schaeffler Finance B.V.'s solvency.

Articles of association

Pursuant to Article 3 of the Articles of Association of Schaeffler Finance B.V. dated October 14, 2011, it is the objective of Schaeffler Finance B.V. to (i) borrow, lend and raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with the aforementioned activities; (ii) incorporate, participate in any way whatsoever in, manage or supervise businesses and companies; (iii) finance businesses and companies; (iv) render advice and services to businesses and companies with which the Issuer forms a group and to third parties; and (v) grant guarantees, bind the Issuer and pledge its assets for obligations of businesses and companies with which it forms a group and on behalf of third parties.

Organizational structure

Schaeffler Finance B.V. is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*Business*."

Business activity

The Issuer has been established as a special purpose vehicle for the purpose of financing transactions, such as the issuance of the Existing Notes and the issuance of the Notes.

Trend information

There has been no material adverse change in the prospects of Schaeffler Finance B.V. since December 31, 2014.

Administrative, management and supervisory bodies

Schaeffler Finance B.V. is managed by a management board, which is comprised of two members: Cornelis Bol (58) and Dietmar Heinrich (51).

Cornelis Bol is also CFO of Schaeffler Nederland Holding B.V., Schaeffler Nederland B.V. and Radine B.V. and serves as managing director of Schaeffler Holding Finance B.V.

Dietmar Heinrich is also regional CEO 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 Schaeffler Portugal S.A. and of the board of directors of FAG Bearings India Ltd. He also serves as managing director of Schaeffler Holding Finance B.V. and is chairman of the boards of Schaeffler Norge AS, Schaeffler Sverige AB and Schaeffler Finland Oy. Besides these activities, there are no principal activities performed by the managing directors outside of Schaeffler Finance B.V.

Schaeffler 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 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 Finance B.V. and their private interests and/or other duties.

Board practices

Schaeffler 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 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 authorized share capital of Schaeffler Finance B.V. as of December 31, 2014 amounted to €90,000, divided into 90,000 shares of €1.00 nominal value each. The issued capital of Schaeffler Finance B.V. as of December 31, 2014 amounted 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.

Due to the issuance of the Existing Notes, the Issuer's indebtedness was approximately €4,634 million as of December 31, 2014.

Financial statements

The financial year of the Issuer shall begin on January 1 and shall terminate on December 31 of the same year.

Audited financial statements of the Issuer were produced in relation to the financial year ended December 31, 2014. The Issuer does not currently produce any interim reports.

Besides the Existing Notes, the Issuer does not have any material liabilities.

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 December 31, 2014.

Description of other indebtedness

Senior Facilities Agreement

On October 27, 2014, Schaeffler AG as borrower and certain of its subsidiaries as guarantors entered into a senior term loan and revolving credit facilities agreement (the "**Senior Facilities Agreement**") providing for credit facilities in the aggregate amount of €2.9 billion-equivalent with, among others, Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Bayerische Landesbank, BNP Paribas Fortis SA/NV, 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, Deutsche Bank Luxembourg S.A. 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 Senior Facilities Agreement, the lenders have made available to the borrowers the following credit facilities:

- a €750 million term loan facility ("**Facility B-EUR**") which matures on May 15, 2020;
- a $1,300 million term loan facility ("**Facility B-USD**" and, together with Facility B-EUR, the "**Term Facilities**") which matures on May 15, 2020; and
- a €1,000 million revolving credit facility (the "**Revolving Facility**" and, together with the Term Facilities, the "**Facilities**"), which matures on the fifth anniversary of the date of the Senior Facilities Agreement. 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. In addition, Schaeffler AG or any of its subsidiaries may agree with a lender under the Revolving Facility 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 Schaeffler AG and the lender. The maximum account of all commitments made available under ancillary facilities must not exceed €350 million.

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 B-EUR only is, if EURIBOR is below 0.75%, 0.75% and LIBOR in relation to Facility B-USD only is, if LIBOR is below 0.75%, 0.75%), plus the applicable margin. The applicable margin is 3.50% per annum in relation to Facility B-EUR and Facility B-USD. The applicable margin in relation to the Revolving Facility is initially 2.875 per annum, 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 Senior Facilities Agreement is delivered, (ii) Schaeffler AG is assigned a long-term credit rating, or such rating is withdrawn or changed, or (iii) all long-term credit ratings previously assigned to Schaeffler AG are withdrawn after the date of the Senior Facilities Agreement. Thereafter the applicable margin in relation to the Revolving Facility is or, as the case may be, will be a percentage per annum determined in accordance with certain combined rating/leverage ratchet.

The term loans outstanding under the Term Facilities were used to repay all outstanding amounts under the then-existing senior facilities agreement and are due to repayment in one amount on May 15, 2020. The Revolving Facility may be used towards general corporate purposes of Schaeffler AG and its subsidiaries. Any loan made available under the Revolving Facility shall be repaid on the last day of its interest period and all amounts outstanding under the Revolving Facility shall be repaid on the final maturity date of the Revolving Facility. Subject to certain conditions, Schaeffler AG may voluntarily prepay its utilizations and/or permanently cancel all or part of the available commitments under the Facilities. In addition to voluntary prepayments, the Senior Facilities Agreement requires mandatory prepayment of the term loans made available under the Term 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 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 (although such lender will, at the request of Schaeffler AG, 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) and (B) any debt capital issue, loan or other financing, and from excess cash flow.

Security and Guarantees

The Senior Facilities Agreement requires that (i) the aggregate gross assets (excluding all intra-group items) of Schaeffler AG and each guarantor represents not less than 75% of their consolidated gross assets; (ii) the aggregate unconsolidated EBITDA of Schaeffler AG and each guarantor represents not less than 70% of their total unconsolidated EBITDA; and (iii) the aggregate turnover (excluding all intra-group items) of Schaeffler AG and each guarantor represents not less than 70% of their consolidated turnover, *provided* that the gross assets, EBITDA and turnover of any subsidiary of Schaeffler AG incorporated or established in South Korea, China, India or the Russian Federation will be disregarded for such purposes.

The Senior Facilities Agreement also requires that each subsidiary of Schaeffler AG (i) whose unconsolidated gross assets represent 2% or more of the total unconsolidated gross assets of Schaeffler AG and its subsidiaries; (ii) whose unconsolidated turnover represents 2% or more of the total unconsolidated turnover of Schaeffler AG and its subsidiaries; or (iii) whose unconsolidated EBITDA represents 2% or more of the total unconsolidated EBITDA of Schaeffler AG and its subsidiaries ("**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 or Russia) guarantees the 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 subsidiary of Schaeffler AG which directly or indirectly holds shares or interests in a guarantor (other than Schaeffler AG), Schaeffler Immobilien AG & Co. KG and Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung, (ii) the material cash pooling master accounts (other than any such account maintained in the U.S. or China), (iii) material accounts receivables (and ancillary rights and claims but excluding, *inter alia*, accounts receivable and the respective ancillary rights of U.S. companies), (iv) claims against any hedging counterparty which is not Schaeffler AG or any of its subsidiaries (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 any subsidiaries of Schaeffler AG incorporated or organized under the laws of, Brazil, India, China, Korea or South Africa) and (v) 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 release of collateral.*"

Financial Covenants

In respect of its financial condition, Schaeffler AG and its subsidiaries must comply with certain financial covenants as set out in the 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 Schaeffler AG's latest consolidated financial statements (provided that in respect of the testing period ending on September 30, 2014, compliance with the financial covenants was tested by reference to the consolidated financial statements of Schaeffler Verwaltung Zwei GmbH). The relevant components of testing compliance with the financial covenants are calculated with respect to Schaeffler AG's ratios of consolidated total net debt on each testing date to its consolidated EBITDA for the testing period ending on the relevant testing date, Schaeffler AG's consolidated EBITDA to its consolidated net finance charges on a rolling aggregate basis for each testing period and its consolidated cash flow to consolidated debt service on a rolling aggregate basis for each testing period.

Under the financial covenants, Schaeffler AG 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 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
March 31, 2015	3.25:1
June 30, 2015	3.25:1
September 30, 2015	3.25:1
December 31, 2015	3.00:1
March 31, 2016	3.00:1
June 30, 2016	3.00:1
September 30, 2016	3.00:1
December 31, 2016	2.75:1
March 31, 2017	2.75:1
June 30, 2017	2.75:1
September 30, 2017	2.75:1
December 31, 2017	2.50:1
March 31, 2018	2.50:1
June 30, 2018	2.50:1
September 30, 2018	2.50:1
December 31, 2018	2.25:1
March 31, 2019	2.25:1
June 30, 2019	2.25:1
September 30, 2019	2.25:1
December 31, 2019	2.00:1
March 31, 2020	2.00:1

- the ratio of consolidated EBITDA to consolidated net finance charges (both as calculated in accordance with the terms and provisions of the 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
March 31, 2015	3.50:1
June 30, 2015	3.50:1
September 30, 2015	3.50:1
December 31, 2015	4.30:1
March 31, 2016	4.30:1
June 30, 2016	4.30:1
September 30, 2016	4.30:1
December 31, 2016	4.50:1
March 31, 2017	4.50:1
June 30, 2017	4.50:1
September 30, 2017	4.50:1
December 31, 2017	4.50:1
March 31, 2018	4.50:1

Testing period ending	Interest Cover Ratio
June 30, 2018	4.50:1
September 30, 2018	4.50:1
December 31, 2018	4.50:1
March 31, 2019	4.50:1
June 30, 2019	4.50:1
September 30, 2019	4.50:1
December 31, 2019	4.50:1
March 31, 2020	4.50:1

Covenants

The Senior Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the Senior Facilities Agreement in respect of the relevant covenant (customized to the business of Schaeffler AG and its subsidiaries and adjusted to the current credit standing of Schaeffler AG and its subsidiaries). 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) certain enterprise agreements with entities other than Schaeffler AG or any of its subsidiaries or certain enterprise agreements with entities which are members of the Continental Group, and (viii) substantial changes to the general nature of the business of Schaeffler AG and its subsidiaries (taken as a whole). Additionally, Schaeffler AG and its subsidiaries have the obligation to provide certain financial information and other information regarding their financial condition to the lenders under the Senior Facilities Agreement.

In addition, the Senior Facilities Agreement requires Schaeffler AG and its subsidiaries 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 Schaeffler AG and the payment of taxes.

Restricted payments and separation of decks

The Senior Facilities Agreement generally restricts dividend payments or distributions in kind, and any other payments in cash or in kind (whether by way of dividend, other distribution, repayment of shareholder loans, granting of loans, granting of guarantees in respect of indebtedness of any Restricted Person (as defined below), payment of German withholding tax (*Kapitalertragsteuer*) with respect to dividends declared by Schaeffler AG to its shareholder(s) or otherwise), by Schaeffler AG and its Subsidiaries to: (i) prior to an initial public offering of equity securities in Schaeffler AG, any of its direct or indirect shareholders or any affiliate of any such shareholder (except for Schaeffler AG and any of its subsidiaries or any member of the Continental Group); and (ii) following an initial public offering of equity securities in Schaeffler AG, 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 Schaeffler AG and any of its subsidiaries 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 (€245.5 million in 2014, €325 million in 2015, €350 million in 2016, €375 million in 2017, €400 million in 2018, €425 million in 2019 and €450 million in 2020 (with a carry forward (100% of the unused amount) and backward (20%) mechanism)) which may be paid in any financial year for particular purposes, 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, if the Leverage Ratio is 3.125x or better, from net proceeds received by Schaeffler AG from an increase of its share capital. The availability of these permitted payments will be subject to the absence of certain defaults under the Senior Facilities Agreement.

Under the Senior Facilities Agreement, subject to certain exceptions, Schaeffler AG and its subsidiaries must not 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 AG and its subsidiaries may be owned or held by any Restricted Person. Subject to certain exceptions, all employees and managers involved in the business of Schaeffler AG and its subsidiaries shall be employed (for such purposes) by Schaeffler AG and/or any of its subsidiaries and not by a Restricted Person.

Reset Dates, relaxation of covenants and release of collateral

The Senior Facilities Agreement provides for a mechanism according to which certain covenants will relax.

First Reset Date: If and for as long as leverage of Schaeffler AG and its subsidiaries 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 Schaeffler AG and/or its subsidiaries), 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.

Second Reset Date: If and for as long as Schaeffler AG is assigned a solicited long-term investment grade credit rating (Baa3/BBB-) by at least two of Moody's, S&P and Fitch,

(a) 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;

(b) 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 net income of Schaeffler AG and its subsidiaries and a floor amount set out in the Senior Facilities Agreement (being €245.5 million in 2014, €325 million in 2015, €350 million in 2016, €375 million in 2017, €400 million in 2018, €425 million in 2019 and €450 million in 2020);

(c) the financial indebtedness covenant no longer applies in relation to Schaeffler AG and any finance subsidiary;

(d) the guarantor coverage undertaking no longer applies;

(e) Schaeffler AG may request the release of all security interests other than any security interest over shares or interests in any obligor or other subsidiary of Schaeffler AG;

(f) acquisitions on arm's length terms are generally permitted (subject to a confirmation by Schaeffler AG 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);

(g) 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

(h) Schaeffler AG is no longer required to deliver its annual budgets.

Events of Default

The 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 Senior Facilities Agreement;

(b) failure to comply with the financial covenants;

(c) the making of payments to a Restricted Person which are not permitted;

(d) a cross-default with respect to other financial indebtedness of Schaeffler AG and/or its subsidiaries, subject to a threshold of €50 million;

(e) certain insolvency events or proceedings;

(f) certain creditors' processes, including expropriations, attachments or sequestration of assets or similar events subject to a threshold of €25 million;

(g) change of ownership events, including where an obligor (other than Schaeffler AG) ceases to be a subsidiary of Schaeffler AG;

(h) failure to comply with the provisions of the Security Pooling and Intercreditor Agreement by Schaeffler AG or any of its subsidiaries, Schaeffler Holding GmbH & Co KG or Schaeffler Verwaltungs GmbH; and

(i) qualification of the audit report for the annual audited financial statements in a way that is materially adverse.

Governing Law

The 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 million in aggregate principal amount of 7.75% senior secured notes due 2017 and $600,000,000 in aggregate principal amount of 7.75% senior secured notes due 2017 under a New York law governed indenture dated February 9, 2012 (together, the "**Outstanding February 2012 Notes**") among, *inter alios*, itself as issuer, the Company and its 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 and Deutsche Bank Luxembourg S.A. as security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the Outstanding February 2012 Notes accrues at the rate of 7.75% per annum. Interest on the Outstanding February 2012 Notes is payable in the currency in which such Outstanding February 2012 Notes are denominated semi-annually in arrears on February 15 and August 15, commencing on August 15, 2012. Interest is payable on each interest payment date to the noteholders of record on the immediately preceding February 1 and August 1.

On March 26, 2015, the Issuer called for redemption (the "**Redemption**") of the Outstanding February 2012 Notes. The Redemption is subject to the successful closing of the offering of the Notes.

April 2013 Notes

Schaeffler Finance B.V. issued €600 million in aggregate principal amount of 4.25% senior secured notes due 2018 and $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 under a New York law governed indenture dated April 29, 2013 (together, the "**April 2013 Notes**"), among, *inter alios*, itself as issuer, the Company and its subsidiaries that guarantee the April 2013 Notes, Deutsche Bank AG, London Branch as trustee and Deutsche Bank Luxembourg S.A. as security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the euro-denominated April 2013 Notes accrues at the rate of 4.25% per annum and interest on the dollar-denominated April 2013 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. Interest is payable on each interest payment date to the noteholders of record on the immediately preceding May 1 and November 1.

May 2014 Notes

Schaeffler Finance B.V. issued €500 million in aggregate principal amount of 2.75% senior secured notes due 2019, €500 million in aggregate principal amount of 3.50% senior secured notes due 2022 and $700 million in aggregate principal amount of 4.25% senior secured notes due 2021 under a New York law governed indenture dated May 14, 2014 (collectively, the "**May 2014 Senior Secured Notes**"), and €500 million in aggregate principal amount of 3.25% senior notes due 2019 under a New York law governed indenture dated May 14, 2014 (the "**May 2014 Senior Notes**," and, together with the May 2014 Senior Secured Notes, the "**May 2014 Notes**") in each case, among, *inter alios*, itself as issuer, the Company and its subsidiaries that guarantee the May 2014 Notes, Deutsche Trustee Company Limited as trustee and Deutsche Bank Luxembourg S.A. as security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the euro-denominated May 2014 Senior Secured Notes due 2019 accrues at the rate of 2.75% per annum, interest on the euro-denominated May 2014 Senior Secured Notes due 2022 accrues at the rate of 3.50% per annum, interest on the dollar-denominated May 2014 Senior Secured Notes accrues at the rate of 4.25% per annum and interest on the May 2014 Senior Notes accrues at the rate of 3.25% per annum. Interest on the May 2014 Notes is payable in the currency in which such May 2014 Notes are denominated semi-annually in arrears on May 15 and November 15, commencing on November 15, 2014. Interest is payable on each interest payment date to the noteholders of record on the immediately preceding May 1 and November 1.

In parallel with the October 2014 Refinancing, Schaeffler Finance B.V. announced the successful completion of our bond consent solicitations to make certain changes to the terms and conditions of our Existing Notes and the S-Verwaltungs Group July 2013 Notes. The changes were aimed at harmonizing the terms and conditions of the various bonds and increasing our financial flexibility to facilitate potential future refinancings, recapitalizations and deleveraging steps.

Schaeffler Finance B.V. successfully completed several consent solicitations to make certain changes to the terms and conditions of the Existing Notes. The changes were aimed at harmonizing the terms and conditions of the various bonds and increasing the Schaeffler Group's financial flexibility to facilitate potential future refinancings, recapitalizations and deleveraging steps.

Terms and conditions of the Existing Notes

The terms and conditions of the Existing Notes are, except for the maturity and the interest rate (and, with respect to the Existing Senior Notes only, the collateral), substantially similar to the terms and conditions set forth 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 indentures governing the Existing Notes 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 payments 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 €425.0 million in each calendar year (with unused amounts in any calendar year being carried over to the next succeeding calendar year). 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 indentures governing the Existing Notes, 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 Existing Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts.

The indentures governing the Existing Notes 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 Existing Notes.

In accordance with the requirements of the indenture governing the Existing Senior Notes, concurrently with the issuance of the Notes, the Subsidiary Guarantors will also provide a guarantee with respect to the Existing Senior Notes. The Existing Senior Notes and the guarantees of the Existing Senior Notes are not subject to the Security Pooling and Intercreditor Agreement and, as a result, are not subject to the subordination, standstill, payment blockage or turnover provisions set forth therein. See "*Risk factors—Risks related to the Notes—The Existing Senior Notes and the guarantees of the Existing Senior Notes are not subject to the Security Pooling and Intercreditor Agreement.*"

Security Pooling and Intercreditor Agreement

Overview

In connection with the approximately €8,000 million refinancing in February 2012, Schaeffler Holding GmbH & Co. KG, Schaeffler Verwaltungs GmbH, the Company, the Issuer, certain subsidiaries of the Company as obligors and security providers, entered into a security pooling and intercreditor agreement dated January 27, 2012, as amended (the "**Security Pooling and**

Intercreditor Agreement") to, among others, 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) the original ancillary lenders named therein; (vii) Deutsche Bank Luxembourg S.A. as security trustee; (viii) Deutsche Bank Luxembourg S.A. as facility agent under the Senior Facilities Agreement and (ix) the trustees for the Existing Senior Secured Notes and the trustee for any other notes that accede to the Security Pooling and Intercreditor Agreement in the future, including the Notes. By accepting a Note, the Note Holder shall be deemed to have agreed to, and accepted the terms and conditions of, the Security Pooling and Intercreditor Agreement.

The Company, the obligors, the Collateral providers and the intra-group debtors are referred to in this description as "Debtors."

The 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 Security Pooling and Intercreditor Agreement, that relate to the rights and obligations of the Note Holders and our other senior creditors. It does not restate the 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 entities Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH or capital expenditures. As such, we urge you to read the Security Pooling and Intercreditor Agreement in its entirety because it, and not the description that follows, defines the rights of the Note Holders. In this summary, capitalized terms have the meanings given to them in the 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 Security Pooling and Intercreditor Agreement will agree that the Liabilities owed by the Debtors to (i) the lenders under the Senior Facilities Agreement, the Note 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 and Schaeffler Verwaltungs GmbH (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).

The Parent Liabilities are and will remain unguaranteed and unsecured by any member of the 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 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 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 that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors will not be granted directly to the Note Holders but has been, or will be before the issuance of the Notes, granted only in favor of the Security Trustee.

The Collateral is shared between the Note Holders, certain hedge counterparties, the holders of any *pari passu* additional debt and the lenders under our Senior Facilities Agreement and includes liens and other forms of security interests over the shares in, *inter alia,* the Issuer and the Subsidiary Guarantors (other than Schaeffler AG and Schaeffler Beteiligungsholding GmbH & Co. KG), certain cash pool header accounts, certain intra-group liabilities and certain account receivables of Schaeffler AG and certain of its restricted subsidiaries. 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 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 Security Pooling and Intercreditor Agreement agrees that certain 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 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 Security Pooling and Intercreditor Agreement.

Security and Guarantees—Note Creditors

The Trustee (acting on behalf of the Note Holders) and the Note Holders may take, accept or receive the benefit of:

- any Security in respect of the Note 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 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 Security Pooling and Intercreditor Agreement or any equivalent provisions under any other Notes Documents relating to any other Notes; or (ii) the 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 Note 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 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 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 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 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 Security Pooling and Intercreditor Agreement, unless consented to in writing by each facility agent.

Option to purchase: Note Holders

Following any Enforcement Action, the relevant Trustee may, at the direction and the expense of the relevant Note Holders (the "**Purchasing Note 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 Note Holders, acquire or procure the acquisition by a person nominated by the relevant Trustee on behalf of the Purchasing Note 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 Syndicated Facilities Agreement or the corresponding provision in any other finance documents or relevant hedging agreement.

Restriction on Enforcement: Note Holders

Subject to the description in the two paragraphs below and certain provisions of the Security Pooling and Intercreditor Agreement relating to hedge counterparties and hedging liabilities, each Note 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 Note 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 Security Pooling and Intercreditor Agreement, after the occurrence of an Insolvency Event in relation to a Debtor, each Note 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 Group, any party entitled to receive a distribution out of the assets of that member of the 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 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 Security Pooling and Intercreditor Agreement and as described under "*—Application of Proceeds.*"

Set-Off

Subject to certain exceptions relating to the operation of ancillary banking facilities and certain netting arrangements for hedging transactions, to the extent that any member of the 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 Group, any Creditor (and in case of the Trustee, subject to the provisions of the Security Pooling and Intercreditor Agreement described under the caption "*—Turnover Obligations*"), 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 Group, each Creditor irrevocably authorizes the Security Trustee, on its behalf, to:

- take any Enforcement Action (in accordance with the terms of the Security Pooling and Intercreditor Agreement) against that member of the Group;
- demand, sue, prove and give receipt for any or all of that member of the Group's Liabilities;
- collect and receive all distributions on, or on account of, any or all of that member of the 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 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 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 Security Pooling and Intercreditor Agreement.

Turnover of Receipts

Turnover by the Creditors

Subject to the provisions set forth in the 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 Group (other than after the occurrence of an Insolvency Event in respect of that member of the 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 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 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 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 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 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;*"
- that has been distributed by a Trustee to any of the relevant Note 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; or
- by an ancillary lender by way of that ancillary lender's right of netting or set-off relating to a multi-account overdraft facility.

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 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 Company 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 of the Instructing Group, the Security Trustee shall revoke the Default Notice specified in such request vis-à-vis the Company 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 19 of the 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 Company 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 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 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 Group as instructed by the Security Trustee.

The Security Trustee shall give instructions as directed by the Instructing Group.

The provisions of the 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, each 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 may be, Parent Liability other than the Special Receivables Loan or the WHT Bridge 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 any participation in Schaeffler Beteiligungsholding GmbH & Co. KG):

- 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 Company 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 Group, to release the Transaction Security and/or any other claim (relating to a Debt Document) over that member of the 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 Group ceasing to be a Subsidiary of the Company 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.

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*" 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 hereby authorized to execute on behalf of itself, 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 Company 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 Company 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 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

General Transaction Security

If, prior to an Enforcement Decision, the Facility Agent and each Trustee has delivered to the Security Trustee the General 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 Company 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 Company 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 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 Company 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 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

Subject to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Prospective liabilities and determination of quotas,*" the proceeds shall be held by the relevant Security Trustee on trust and, to the extent permitted by applicable mandatory law, 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 Note 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 Parent II towards the discharge of any Parent Liabilities; and
- ***sixth***, the balance, if any, in payment to the relevant Debtor,

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 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 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 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 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 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 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 Security Pooling and Intercreditor Agreement, the Company 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 Security Pooling and Intercreditor Agreement in the same way as the refinanced Secured Obligations and rank accordingly as Senior Liabilities in accordance with the 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 Money

Subject to the terms and provisions of all Transaction Finance Documents including the specific provisions of the Security Pooling and Intercreditor Agreement, the Company 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 Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the Security Pooling and Intercreditor Agreement.

The Company may incur additional liabilities under the Syndicated Facilities Agreement (or any Facilities Agreement replacing it in whole or in part) by way of a push-down of debt from Parent II, with such pushed-down debt being implemented into the Syndicated Facilities Agreement (or any Facilities Agreement replacing it in whole or in part) in accordance with the terms thereof by operation of the Debt Push-Down Tranche, *provided that;*

- at such time no Enforcement Decision has been taken in accordance with the Security Pooling and Intercreditor Agreement;
- before or simultaneously with the implementation of the Debt Push-Down Tranche other Facilities Liabilities are prepaid in a corresponding amount;
- such Senior Financing is permitted under the Finance Documents;
- such Senior Financing is not prohibited under the Notes Documents; and
- each obligor, each guarantor, each Security provider and each creditor (including, as the case may be, any agent, trustee or representative appointed by such creditors) in respect of such Senior Financing is or becomes a Party to the 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 Security Pooling and Intercreditor Agreement in the same way as any other Secured Obligations and rank accordingly as Senior Liabilities in accordance with the 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 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.

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 Security Pooling and Intercreditor Agreement as Trustee;
  - — the relevant Trustee or the Company 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 Company that the respective Note 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;
  - — each 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 a legal opinions from legal counsel to it or to the Company capable of being relied upon by, each Facility Agent, each Trustee, the Security Trustee and the other Secured Creditors other than the Note Holders (in form and substance satisfactory to the Security 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 from each Notes 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 Company, 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 Company; 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 Company 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 Company that the respective Note Holders are, on or after the occurrence of any Enforcement Action pursuant to the 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 Company that the terms of the relevant Notes Documents are satisfactory to it with respect to its position as security trustee,

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).

Facilities Effective Date

If in respect of a Senior Facilities Refinancing or Senior Facilities Financing,

- written notices have been received by the Security Trustee,
  - — either 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 Company 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 Company 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 Company 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 Note Holders (in form and substance satisfactory to the Security 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 Company, 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 Company;

then the Security Trustee shall notify in writing the other Secured Creditors (other than the Note 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).

Decisions of Secured Creditors

With respect to any Notes other than the Notes offered hereby, 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 any 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 declared) and the other Secured Obligations equally and ratably, in each case subject to the terms of the 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 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 Security Pooling and Intercreditor Agreement (any such agreement named above, a German Security Amendment Agreement);

- French 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 Lower Ranking Security with respect to any security interest created by way of pledges, in each case subject to the terms of the Security Pooling and Intercreditor Agreement (any such agreement, a French Security Amendment Agreement); and
- Brazilian 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 Lower Ranking Security with respect to any security interest created by way of pledges, in each case subject to the terms of the Security Pooling and Intercreditor Agreement (any such agreement, a Brazilian Security Amendment Agreement and together with the German Security Amendment Agreement and the French Security Amendment Agreement, each 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.

Junior Secured Debt

Incurrence of Junior Secured Debt

If the Company gives written notice to the Agents that it intends to enter into one or more loan and/or credit or guarantee facilities and/or issue any bonds, notes or similar instruments under which it will incur additional or replacement indebtedness permitted under the Transaction Finance Documents and which is, pursuant to the terms of the Finance Documents and the Notes Documents, permitted to share in the Transaction Security on a junior basis (the "**Junior Secured Debt**"), then the Parties will (at the cost of the Company but subject to the conditions stated in the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Authorization of Agents*" and "*—Conditions to execution of documentation*" (i) enter into a replacement security pooling and intercreditor agreement (the "**New ICA**") either on substantially the same terms as the Security Pooling and Intercreditor Agreement including terms with respect to the limitation on enforcement and release of guarantees, ranking and priority of payments (or on terms more favorable to the Finance Parties, the Note Holders and the Hedge Counterparties) but implementing adjustments and changes vis-à-vis the Security Pooling and Intercreditor Agreement or (ii) make one or more amendments to the Security Pooling and Intercreditor Agreement, in each case solely to achieve one or more of the following:

- increase, so as to include the Junior Secured Debt, the amount or type of indebtedness which is envisaged and regulated by the Security Pooling and Intercreditor Agreement or, as the case may be, the New ICA;

- to the extent applicable, make provision for the Security securing Junior Secured Debt to rank junior with respect to the Transaction Security, but without impacting on the validity, enforceability or vulnerability of the Transaction Security; and
- make any other change which is required in order to accommodate the Junior Secured Debt, on the terms stated above, within the Security Pooling and Intercreditor Agreement or as the case may be the New ICA and that does not adversely affect the rights of, or impose any additional obligations on, the Secured Creditors in any respect.

Authorization of Agents

Any Trustee(s) may execute as a deed and otherwise effect the conclusion of the New ICA or as the case may be the amendment agreement to the Security Pooling and Intercreditor Agreement described above (the "**Document**"), for itself and as attorney for and (whether or not expressly in its name) on behalf of the relevant Note Holders, and the Document will thereupon be binding for all purposes on the Note Holders.

Any Facility Agent may execute as a deed and otherwise effect the conclusion of the Document on the date falling thirty Business Days after the date on which it is requested to do so by the Company (unless the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Conditions to execution of documentation*" below apply) for itself and as attorney for and (whether or not expressly in its name) on behalf of the Finance Parties for which it has been appointed as agent under the relevant Finance Documents, and the Document will thereupon be binding for all purposes on each such Finance Party.

For the avoidance of doubt, but without prejudice to the rights of the Agents under the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Conditions to execution of documentation* below" no further consent, sanction, authority or other approval or further confirmation from a Secured Creditor is required to enable and authorize an Agent to execute the Document.

Conditions to execution of documentation

Any Facilities Agent shall, and any Trustee may, give notice or any request from the Company pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Incurrence of Junior Secured Debt*" above to each Finance Party for which they respectively act as agent or as the case may be trustee.

Each Agent shall be entitled to require any certification, opinion (including legal opinion) or other clarification or comfort which it may believe to be necessary or prudent prior to execution of the Document in order to confirm that it fulfills the requirements stated in the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Incurrence of Junior Secured Debt,*" and may delay execution of the Document until any such requirements have been satisfied.

If a Facility Lender or a Hedge Counterparty has notified the relevant Facility Agent, prior to such date on which that Facility Agent would otherwise execute the Document, that the entry into the Document would be illegal for or contrary to any regulation with which the relevant Facility Lender or as the case may be Hedge Counterparty is required to comply or customarily complies, the Facility Agent shall not be required to execute the Document.

Decisions of the Instructing Group

Resolutions

If, pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement, a decision, instruction or consent of the Instructing Group is required or requested by the Company, the Security Trustee or any Secured Creditor (in case of the Finance Parties acting through the relevant Facility Agent and in case of the Note Holders acting through the Trustee(s)) the following shall apply:

- Any decision, instruction or consent of the Instructing Group for the purpose of the Security Pooling and Intercreditor 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 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 Note Holders shall be adopted by such Note 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 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 conversion rate of the respective currency which is published on the internet page 'www.db-markets.com' or on any other internet page replacing such internet page (or, if no such internet page is available, 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 the Security Pooling and Intercreditor 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 Company 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 Note 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 Note Holders, to the Trustee(s) acting for or on account of the respective Note 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 Note Holders, to the Trustee(s) acting for or on account of the respective Note 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: Notes Documents*" only, the Company 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 Company 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 Note 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 Note 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 Security Pooling and Intercreditor 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 each of the Security Trustee 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 or (iii) under any Ancillary Facility made available by any Finance Party under, and in accordance with, the relevant Facilities Agreement (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 Group to any Trustee or any Note 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 sums equal to, and in the currency of, any sums owing by it to the relevant Trustee or the relevant Note 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 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 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 the Security Trustee shall also discharge (in the amount of the relevant payment) the corresponding Principal Obligations (unless the respective Paying Agent has received payment of such amount but not forwarded such amount to the respective Note 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 Note 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. 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 Security Pooling and Intercreditor 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 Security Pooling and Intercreditor 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 Ancillary Lender, 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 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 Note 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 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 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 Note Holders, through the Trustee(s), subject to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Turnover by the Creditors*" will make such payments among 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 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 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 Note Holder

Any Note 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 Note Holder under the Security Pooling and Intercreditor Agreement and be subject to the limitations and obligations of a Note Holder under the Security Pooling and Intercreditor Agreement.

Consents, Amendments and Override

Required consents

Subject to the below, the Security Pooling and Intercreditor Agreement may be amended or waived with the consent of the Company, 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 Security Pooling and Intercreditor Agreement under the caption "*—Group Lenders and Intra-Group Liabilities,*" "*—Parents and Parent Liabilities,*" "*—Parent I and Parent II Undertakings,*" "*—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 Company, 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 "*—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 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 Security Pooling and Intercreditor Agreement, in the case of any conflict between the Security Pooling and Intercreditor Agreement and any other Debt Document, the Security Pooling and Intercreditor Agreement shall prevail.

Amendment in connection with the SVZ Guarantee Fall-Away Event

As a prerequisite to the substitution of the Parent Guarantor (as described under "*Description of the Notes—Note Guarantees—Substitution of the Parent Guarantor*") and, accordingly, the SVZ Guarantee Fall-Away Event, the Security Pooling and Intercreditor Agreement will be amended in order to reflect that following the SVZ Guarantee Fall-Away Event, the Parent Guarantor will no longer be the parent company of the Schaeffler Group and that, accordingly, the Parent Guarantor will forthwith qualify as a "Parent" entity for purposes of the Security Pooling and Intercreditor Agreement so that any liabilities of any Debtor owed towards the Parent Guarantor will qualify as Parent Liabilities under the amended Security Pooling and Intercreditor Agreement. The amendment of the Security Pooling and Intercreditor Agreement will also take into account that the shares held by Schaeffler Beteiligungsholding GmbH & Co. KG in Continental AG as well as the partnership interests in Schaeffler Beteiligungsholding GmbH & Co. KG and Schaeffler Familienholding Drei GmbH & Co. KG do not serve as Collateral any longer. Accordingly, the Continental Share Security Trustee will cease to be a party to the amended Security Pooling and Intercreditor Agreement and any provision dealing with the Continental Share Security Trustee, any Continental Shares or any Transaction Security granted over Continental Shares will be deleted or, as the case may be, amended. Furthermore, the amended Security Pooling and Intercreditor Agreement will no longer provide for a debt push down concept according to which the Company may incur additional Senior Liabilities under the Syndicated Facilities Agreement (or any Facilities Agreement replacing it in whole or in part) by way of a push-down of debt from Schaeffler Verwaltungs GmbH. In addition, Clause 8 (*Parent I and Parent II Undertakings*) of the Security Pooling and Intercreditor Agreement will be deleted in its entirety and as a result, the amended Security Pooling and Intercreditor Agreement will no longer restrict the ability of the direct and indirect parent companies of the Parent Guarantor to amend their financing instruments, to incur additional debt or to use any Flotation Proceeds at their sole discretion.

Manual cash management and offsetting agreement

On July 9, 2014, Schaeffler AG and Schaeffler Verwaltung Zwei GmbH concluded a manual cash management and offsetting agreement. Under this agreement Schaeffler Verwaltung Zwei GmbH may transfer cash in pre-agreed currencies to Schaeffler AG to be credited by Schaeffler AG to the internal current account of Schaeffler Verwaltung Zwei GmbH. Any transfer shall be subject to Schaeffler AG's prior consent. In case of debit balances on the bank accounts of Schaeffler Verwaltung Zwei GmbH, Schaeffler Verwaltung Zwei GmbH may request Schaeffler AG to balance such debit balances within Schaeffler Verwaltung Zwei GmbH's credit limit. Any sums transferred by Schaeffler Verwaltung Zwei GmbH to Schaeffler AG shall constitute a loan granted by Schaeffler Verwaltung Zwei GmbH to Schaeffler AG. Any sums transferred by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH shall constitute a loan granted by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH. The loans granted by Schaeffler Verwaltung Zwei GmbH to Schaeffler AG and the loans granted by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH shall be netted on a daily basis. Any receivables of Schaeffler Verwaltung Zwei GmbH bear interest on the basis of EONIA or comparable rates in other currencies (base rate) less 0.10% per annum (margin) less a management fee of 0.05% plus an additional risk premium in certain circumstances. Any payables of Schaeffler Verwaltung Zwei GmbH shall bear interest at the applicable base rate plus 0.41% per annum (margin) plus a management fee of 0.05%. The margins and the risk premium may be adjusted by Schaeffler AG annually on June 30. Interest is calculated monthly and shall be paid on the second bank working day after the end of a calculation period. The agreement is concluded for an indefinite term and may be terminated by either party by giving one month's prior written notice to the other party. In addition, the agreement enumerates reasons for a termination for good cause including if one party has reasonable doubt whether the other party is able to meet its obligations under this agreement. As of December 31, 2014, a loan in the principal amount of €235.7 million granted by Schaeffler AG to Schaeffler Verwaltung Zwei GmbH was outstanding under the manual cash management and offsetting agreement.

Loan and deposit master agreement

On July 9, 2014, Schaeffler AG and Schaeffler Verwaltung Zwei GmbH entered into a loan and deposit master agreement. Under this agreement Schaeffler AG may grant loans to Schaeffler Verwaltung Zwei GmbH in EUR or Schaeffler Verwaltung Zwei GmbH may place deposits in EUR with Schaeffler AG with a term of up to five years. Loans and deposits in other currencies may be agreed between the parties. The specific details of each loan/deposit including but not limited to amount, currency and term will be agreed on a case by case basis between the parties and confirmed by a written confirmation. The loans bear interest at the applicable interbank rate plus 0.41% per annum (margin) and deposits bear interest at the applicable interbank rate minus 0.10% per annum (margin) plus an additional risk premium in certain circumstances. The margins and the risk premium may be adjusted by Schaeffler AG annually on June 30. Interest is due every December 31 and at the due date of repayment of the deposit. The agreement may be terminated by either party at the end of a calendar month by giving three month's prior written notice. However, any loan granted or deposit made shall not be affected by the termination. As of December 31, 2014, there were no amounts outstanding under the loan and deposit master agreement.

Intra-group financing arrangements

On December 12, 2014, Schaeffler AG as lender and Schaeffler Verwaltung Zwei GmbH as borrower entered into a €1,071 million loan agreement governed by German law providing for a €1,071 million term facility. The term facility is fully drawn, whereas the drawing and the corresponding outstanding loan receivable of Schaeffler AG against Schaeffler Verwaltung Zwei GmbH resulted from the contribution by Schaeffler Verwaltungs GmbH of a loan receivable against Schaeffler Verwaltung Zwei GmbH in an equivalent amount into the share capital of Schaeffler AG in connection with the December 2014 Reorganization (see "*Summary—Trading update and recent developments—December 2014 Reorganization*"). The term facility matures on December 12, 2024 and bears cash interest at 4.00% per annum. The terms of this loan relating to the payment of interest stipulate that Schaeffler Verwaltung Zwei GmbH has the option of capitalizing the interest accrued during any one interest period rather than paying such interest immediately. Interest on the entire loan balance, including the interest capitalized, is then calculated at the rate applicable to the original loan plus an interest premium, for a total rate of between 4.75% and 6.00%. For purposes of the consolidated financial statements of Schaeffler Verwaltung Zwei GmbH for 2014, this loan was eliminated upon consolidation.

On December 12, 2014, Schaeffler AG as lender and Schaeffler Beteiligungsholding GmbH & Co. KG as borrower entered into a €629 million loan agreement governed by German law providing for a €629 million term facility. The term facility is fully drawn, whereas the drawing and the corresponding outstanding loan receivable of Schaeffler AG against Schaeffler Beteiligungsholding GmbH & Co. KG resulted from the contribution by Schaeffler Verwaltungs GmbH of a loan receivable against Schaeffler Beteiligungsholding GmbH & Co. KG in an equivalent amount into the share capital of Schaeffler AG in connection with the December 2014 Reorganization (see "*Summary—Trading update and recent developments—December 2014 Reorganization*"). The term facility matures on December 12, 2024 and bears cash interest at 4.00% per annum. The terms of this loan relating to the payment of interest stipulate that Schaeffler Beteiligungsholding GmbH & Co. KG has the option of capitalizing the interest accrued during any one interest period rather than paying such interest immediately. Interest on the entire loan balance, including the interest capitalized, is then calculated at the rate applicable to the original loan plus an interest premium, for a total rate of between 4.75% and 6.00%.

The €1,071 million term facility and the €629 million term facility referred to above are secured by pledges over shares in Continental AG with a market value as of December 12, 2014 equal to approximately twice the principal amount of the loans.

S-Verwaltungs Group Debt Instruments

S-Verwaltungs Group Facilities Agreement

On October 21, 2014, Schaeffler Verwaltungs GmbH as borrower entered into a term loan and revolving credit facilities agreement (the "**S-Verwaltungs Group Facilities Agreement**") providing for credit facilities in the aggregate amount of €700 million with, among others, 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, Deutsche Bank Luxembourg S.A. as facility agent and Commerzbank Aktiengesellschaft, Filiale Luxemburg 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 available to the Parent Guarantor the following credit facilities:

- a €500 million term loan facility ("**S-Verwaltungs Group Term Facility**"), which matures on October 21, 2019; and
- a €200 million revolving credit facility ("**S-Verwaltungs Group Revolving Facility**," and together with the S-Verwaltungs Group Term Facility, the "**S-Verwaltungs Group Facilities**"), which matures on October 21, 2019. The S-Verwaltungs Group 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.

The S-Verwaltungs Group Term Facility and the S-Verwaltungs Group Revolving Facility bear interest at a rate of EURIBOR, plus the applicable margin. The initial applicable margin in relation to the S-Verwaltungs Group Facilities is 4.50% per annum, in each case, until the earlier of (i) the delivery of the first compliance certificate relating to the first covenant testing date following the original date of the New S-Verwaltungs Group Facilities Agreement and (ii) the release of the guarantees granted by Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, respectively, in favor of and any collateral provided by Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, respectively, for the holders of the Existing Notes and the Notes offered hereby (the "**SVZ Guarantee Fall-Away Event**"), in which case these guarantees in favor of the relevant finance parties under the Senior Facilities Agreement fall away automatically. Thereafter, the applicable margin in relation to the S-Verwaltungs Group Facilities 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, prior to the occurrence of the SVZ Guarantee Fall-Away Event, 3.50% per annum and 5.00% per annum or, following the occurrence of the SVZ Guarantee Fall-Away Event, 3.25% per annum and 4.75% per annum for the S-Verwaltungs Group Facilities.

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. 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 Schaeffler Verwaltungs GmbH of its share capital.

Security has been granted over material assets of the S-Verwaltungs Group (excluding any member of the Schaeffler Group) to secure satisfaction of the claims of the finance parties under the S-Verwaltungs Group Debt Instruments. There are certain restrictions to the scope of the security documents arising from German and U.S. tax requirements.

S-Verwaltungs Group Notes

July 2013 Notes

Schaeffler Holding Finance B.V. issued €800 million in aggregate principal amount of 6.875% / 7.625% senior secured PIK toggle notes due 2018 and $1,000 million in aggregate principal amount of 6.875% / 7.625% senior secured PIK toggle notes due 2018 under a New York law governed indenture dated July 24, 2013 (together, the "**S-Verwaltungs Group July 2013 Notes**"), among, *inter alios*, itself as issuer, Schaeffler Verwaltungs GmbH as parent guarantor, Deutsche Trustee Company Limited as trustee and Commerzbank Aktiengesellschaft, Luxembourg Branch, as security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

October 2014 Notes

Schaeffler Holding Finance B.V. issued €350 million in aggregate principal amount of 5.750% / 6.500% senior secured PIK toggle notes due 2021, $475 million in aggregate principal amount of 6.250% / 7.000% senior secured PIK toggle notes due 2019 and $675 million in aggregate principal amount of 6.750% / 7.500% senior secured PIK toggle notes due 2022 under a New York law governed indenture dated October 28, 2014 (together, the "**S-Verwaltungs Group October 2014 Notes**" and, together with the S-Verwaltungs Group July 2013 Notes, the "**S-Verwaltungs Group Notes**"), among, *inter alios,* itself as issuer, Schaeffler Verwaltungs GmbH as parent guarantor, Deutsche Trustee Company Limited as trustee and Commerzbank Aktiengesellschaft, Luxembourg Branch, as security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Description of the Notes

Schaeffler Finance B.V. (the "**Issuer**") will issue the Notes (as defined below) under an indenture to be dated as of the Issue Date (the "**Indenture**") among, *inter alios,* itself as Issuer, Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) as parent guarantor (the "**Parent Guarantor**"), the Parent Guarantor's subsidiaries that guarantee the Notes (the "**Subsidiary Guarantors**" and, together with the Parent Guarantor, the "**Guarantors**"), Deutsche Trustee Company Limited as trustee (the "**Trustee**"), and Deutsche Bank Luxembourg S.A. 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. 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 Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**")) ("**Schaeffler AG**") 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 (including application of the proceeds therefrom), its rights under the Note Proceeds Loan and under the proceeds loans made in connection with the issuance of the Existing Notes. As a result, the Issuer will be wholly dependent on payments by Schaeffler AG 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 Guarantees will be subject to the terms of the Security Pooling and Intercreditor Agreement and any Additional Security Pooling and Intercreditor Agreements entered into in the future. The terms of the Security Pooling and Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantees. Please see "*Description of other indebtedness—Security Pooling and Intercreditor Agreement*" for a summary of the material terms of the Security Pooling and Intercreditor Agreement.

The following description is only a summary of the material provisions of the Indenture, the Notes, the Note Guarantees and the Security Documents and refers to the Security Pooling and Intercreditor Agreement. It does not restate those agreements in their entirety. We urge you to read the Indenture, the Security Documents and the Security Pooling and 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 Security Pooling and 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 Finance B.V. and not to any of the Parent Guarantor's other 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 Guarantees

The Notes

The Notes:

- will be general senior obligations of the Issuer;
- will be structurally subordinated to any indebtedness of the Parent Guarantor's subsidiaries (other than the Issuer) that are not Guarantors;
- will, together with the Obligations under the Senior Facilities Agreement and related finance documents the Existing Senior Secured Notes and certain Hedging Obligations, be secured by the Collateral as described below under "—*Security*;"
- will be guaranteed by the Guarantors;
- 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 Guarantees

The Notes will be guaranteed by the Parent Guarantor and initially by each of AS Auslandsholding GmbH (*Germany*), Egon von Ruville GmbH (*Germany*), FAG Aerospace GmbH & Co. KG (*Germany*), FAG Kugelfischer GmbH (*Germany*), IAB Holding GmbH (*Germany*), IAB Verwaltungs GmbH (*Germany*), INA Beteiligungsverwaltungs GmbH (*Germany*), Industrieaufbaugesellschaft Bühl mit beschränkter Haftung (*Germany*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Germany*), LuK Auslandsholding GmbH (*Germany*), LuK Beteiligungsgesellschaft mbH (*Germany*), LuK GmbH & Co. KG (*Germany*), LuK Vermögensverwaltungsgesellschaft mbH (*Germany*), Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) (Germany), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Germany*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Germany*), Schaeffler Beteiligungsverwaltungs GmbH (*Germany*), Schaeffler Technologies AG & Co. KG (*Germany*), Schaeffler Verwaltungsholding Drei GmbH (*Germany*), Schaeffler Verwaltungsholding Eins GmbH (*Germany*), Schaeffler Verwaltungsholding Vier GmbH (*Germany*), Schaeffler Verwaltungsholding Zwei GmbH (*Germany*), WPB Water Pump Bearing GmbH & Co. KG (*Germany*), Schaeffler Austria GmbH (*Austria*), Schaeffler Brasil Ltda (*Brazil*), Schaeffler France SAS (*France*), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Hungary*), Schaeffler Romania S.R.L. (*Romania*), INA Kysuce, spol. s r.o. (*Slovakia*), INA SKALICA spol. s r.o. (*Slovakia*), Grico-Invest G.m.b.H. (*Switzerland*), Hydrel GmbH (*Switzerland*), INA Invest GmbH (*Switzerland*), Octon G.m.b.H. (*Switzerland*), LuK (UK) Limited (*England and Wales, UK*), Schaeffler (UK) Limited (*England and Wales, UK*), Schaeffler Automotive Aftermarket (UK) Ltd. (*England and Wales, UK*), The Barden Corporation (UK) Ltd. (*England and Wales, UK*), LuK Transmission Systems, LLC (*Delaware, USA*), LuK USA LLC (*Delaware, USA*), Schaeffler Group USA Inc. (*Delaware, USA*) and The Barden Corporation (Connecticut, USA) on the Issue Date (the "**Initial Subsidiary Guarantors**").

The Note Guarantee of each Guarantor:

- will be a general senior obligation of that Guarantor;
- will be structurally subordinated to all existing and future indebtedness of any of such Guarantor's subsidiaries that are not Subsidiary Guarantors;

- will, together with the Obligations under the Senior Facilities Agreement and related finance documents, the Existing Senior Secured Notes 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 such 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 such 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 such Guarantor that is subordinated in right of payment to such Note Guarantee; and
- will be effectively senior to all of such Guarantor's existing and future unsecured Indebtedness to the extent of the assets securing such Note Guarantee.

Certain of the Guarantees will be limited in value. These limitations are generally related to local corporate or other law. See "*Risk factors—Risks related to the Notes—Enforcement of the Guarantees across multiple jurisdictions may be difficult*," "*Risk factors—Risks related to the Notes—Enforcement of the Collateral across multiple jurisdictions may be difficult*," and "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations*."

A Subsidiary Guarantee (but not, except when the Notes have an Investment Grade Rating from both Rating Agencies, the Subsidiary Guarantee of Schaeffler Technologies AG & Co. KG) will be automatically and unconditionally released concurrently with the release of any and all guarantees given by the relevant Subsidiary Guarantor with respect to Indebtedness of the Issuer or any Guarantor, subject to the satisfaction of certain conditions. See "*—Note Guarantees—Note Guarantees Release*."

Not all of the Parent Guarantor's Restricted Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Restricted Subsidiaries, the non-guarantor 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 Issuer or a Guarantor. The Subsidiary Guarantors represented approximately 65.3% of our consolidated external third party revenue and approximately 67.8% of our consolidated EBITDA for the fiscal year ended December 31, 2014 and approximately 77.2% of our total consolidated assets as of December 31, 2014.

The operations of the Schaeffler Group are conducted through Subsidiaries of the Parent Guarantor and, therefore the Issuer depends on the cash flow of the Parent Guarantor's Subsidiaries to meet its obligations, including its obligations under the Notes. The Notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of any of the non-guarantor Subsidiaries. Any right of the Issuer or any Guarantor to receive assets of any of the non-guarantor Subsidiaries upon that non-guarantor 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 non-guarantor Subsidiary's creditors, except to the extent that the Issuer or such Guarantor is itself recognized as a creditor of the non-guarantor Subsidiary, in which case the claims of the Issuer or such Guarantor, as the case may be, would still be subordinated in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Issuer or such Guarantor. As of December 31, 2014, after giving *pro forma* effect to the Transactions, the Parent Guarantor's subsidiaries (other than the Issuer) that will not guarantee the Notes would have had approximately €6.9 million of Indebtedness outstanding. See "*Risk factors—Risks related to the Notes—The Issuer is a financing vehicle for us, has no material* *assets or sources of revenue except for claims against group companies resulting from intercompany loans and relies on distributions from the Parent Guarantor's subsidiaries to service its debt obligations and repay 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 and will not guarantee the Notes.

Principal, maturity and interest

The Issuer will issue €400,000,000 in aggregate principal amount of senior secured notes due 2020 (the "**2020 Euro Notes**"), €600,000,000 in aggregate principal amount of senior secured notes due 2025 (the "**2025 Euro Notes**" and, together with the 2020 Euro Notes, the "**Euro Notes**") and $600,000,000 in aggregate principal amount of senior secured notes due 2023 (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 €1,000 in excess thereof and Dollar Notes in minimum denominations of $200,000 and integral multiples of $1,000 in excess thereof. The 2020 Euro Notes will mature on May 15, 2020. The 2025 Euro Notes will mature on May 15, 2025. The Dollar Notes will mature on May 15, 2023. The redemption price at maturity will equal 100% of the principal amount of the Notes redeemed.

Interest on the 2020 Euro Notes will accrue at the rate of 2.50% per annum, interest on the 2025 Euro Notes will accrue at the rate of 3.25% per annum and interest on the Dollar Notes will accrue at the rate of 4.75% per annum. 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 August 15, 2015. 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.

Payments on the Notes

Principal, premium, if any, interest, and Additional Amounts, if any, on the Global Notes (as defined below) will be payable and the Global Notes may be exchanged and transferred, at the corporate trust office or agency of the Paying Agent in London, United Kingdom except that, 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. 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.

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.

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 Council 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 will be Deutsche Bank Trust Company Americas in New York 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 "**Rule 144A 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 Interests may be transferred to a person who takes delivery in the form of 144A 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 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 in certificated form ("**Definitive Registered Notes**") are issued, they will be issued only in minimum denominations of €100,000 or $200,000 and integral multiples of

€1,000 or $1,000 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. 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 €1,000 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 $1,000 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 any 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 any of the Guarantors under or with respect to any 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 any jurisdiction in which the Issuer or any Guarantor (including any successor Person to the Issuer or the 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 any jurisdiction of the 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 Guarantors with respect to any Note Guarantee, including, without limitation, payments of principal, redemption price, purchase price, interest or premium, the Issuer or the relevant 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 the holders of the Notes 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 acquisition and holding of such Note, the exercise or enforcement of rights under such Note or under a Note Guarantee or the receipt of any payments under or in respect of such Note or a 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, 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 Council Directive 2003/48/EC dated June 3, 2003 (as amended, in particular by council Directive 2014/48/EC)) that are required to be made pursuant to Council Directive 2003/48/EC (as amended) or any other European Directive or regulation 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) any Taxes withheld within the context of the Luxembourg law of 23 December 2005, as amended;

(6) 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;

(7) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(8) 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 a 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 any event 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, official guidance 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;

(9) 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**");

(10) any Taxes imposed on or with respect to any payment by the Issuer or 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

(11) any combination of items (1) through (10) above.

In addition to the foregoing, the Issuer and the Guarantors 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, enforcement or transfer (other than a transfer of the Notes after this offering) of any of the Notes, the Indenture, any 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 any Note Guarantee.

If the Issuer or any 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 any Note Guarantee, each of the Issuer or the relevant 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 relevant 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 on the relevant payment date. The Issuer and the relevant Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Trustee shall be entitled to, and shall, rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer or the relevant 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 relevant Guarantor will furnish to a holder upon written request, within 60 days 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 a 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 holder) by such entity.

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 any 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 any Guarantor is then incorporated, engaged in business for tax purposes or otherwise resident for tax purposes or any jurisdiction from or through which such Person, Issuer or Guarantor makes any payment under or with respect to the Notes (or any Note Guarantee) and any department or political subdivision thereof or therein.

Note Guarantees

The Notes will be guaranteed by the Parent Guarantor and initially by the Initial Subsidiary Guarantors. These Note Guarantees will be joint and several obligations of the Guarantors. The obligations of the Guarantors will be contractually limited under the applicable Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such limitations, see "*Risk factors—Risks related to the Notes—Enforcement of the Guarantees across multiple jurisdictions may be difficult*" and "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations.*"

For as long as the 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 (as defined in the Security Pooling and Intercreditor Agreement), all payments in respect of any Note Guarantees 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 any Note Guarantee only to the effect that such payments be made to the Security Trustee) for application pursuant to the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement, as the case may be.

Note Guarantees Release

The Note Guarantee of a Subsidiary Guarantor (and of the Parent Guarantor in the case of clauses (5) and (6) below) will be released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger, consolidation, amalgamation or combination) 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 or does not otherwise violate the "Asset Sale" provisions of the Indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Subsidiary Guarantor to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or a Restricted Subsidiary, if the sale or other disposition is not prohibited by or does not otherwise violate the "Asset Sale" provisions of the Indenture and that Subsidiary Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;

(3) concurrently with the release of any and all guarantees given by the relevant Subsidiary Guarantor with respect to Indebtedness of the Issuer or any Guarantor in an amount in excess of €50.0 million outstanding under any Credit Facility, so long as (i) no Event of Default exists at such time or would arise as a result of such release and (ii) upon giving effect to such release, the relevant Subsidiary Guarantor would not be prohibited from incurring at least €1.00 of additional Indebtedness by the fourth paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*;" *provided* that the Subsidiary Guarantee of Schaeffler Technologies AG & Co. KG shall be released pursuant to this clause (3) only if at such time a Suspension Period is in effect;

(4) if the Issuer designates any Restricted Subsidiary that is a Subsidiary Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(5) 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*;"

(6) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(7) in connection with an enforcement sale pursuant to the terms of the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement, or as otherwise provided for under the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement; or

(8) as described under "—Amendment, supplement and waiver."

Notwithstanding any of the foregoing, in all circumstances a Note Guarantee shall only be released if (a) the relevant Guarantor has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for in the Indenture relating to such transaction have been complied with and (b) other than in case of a release pursuant to clause (5) or (6) above, such Guarantor is released from its guarantees of the Senior Facilities Agreement.

Upon any occurrence giving rise to a release of a Note Guarantee as specified above, the 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 such Note Guarantee. Neither the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Substitution of the Parent Guarantor

The Parent Guarantor may, without the consent of the Holders, substitute for itself Schaeffler AG as Parent Guarantor (a "**Substitution**;" references in this section to the "**Predecessor Parent Guarantor**" are references to the Parent Guarantor immediately prior to effectiveness of the Substitution), if:

(1) immediately prior to such Substitution, (a) Schaeffler AG is a Subsidiary of the Parent Guarantor and is a corporation duly incorporated and validly existing under the laws of any member state of the Pre-Expansion European Union, and (b) the Parent Guarantor does not carry on any business or own any assets other than (i) the ownership of Capital Stock of Schaeffler AG and, directly or through one or more Continental Holding Companies, Unrestricted Continental Shares, (ii) the provision of administrative services and management services to its Subsidiaries of a type customarily provided by a holding company to its Subsidiaries and the ownership of assets necessary to provide such services, or (iii) directly related or reasonably incidental to the establishment and/or maintenance of its or its Subsidiaries' corporate existence;

(2) immediately after giving effect to such Substitution, no Default or Event of Default exists;

(3) Schaeffler AG, by way of a supplemental indenture, expressly agrees to the Substitution and assumes all of the Parent Guarantor's obligations under the Indenture and the Parent Guarantee;

(4) the Security Pooling and Intercreditor Agreement (and any Additional Security Pooling and Intercreditor Agreement) is amended or supplemented so that, upon effectiveness of the Substitution, the provisions of Security Pooling and Intercreditor Agreement referring to the "Company" shall refer instead to Schaeffler AG (if all conditions to a Substitution set forth in this section other than this condition (4) are satisfied, the Trustee and the Security Trustee are authorized to affect such amendment or supplement to the Security Pooling and Intercreditor Agreement without the consent of the Holders); and

(5) the Parent Guarantor delivers to the Trustee an Officer's Certificate and an Opinion of Counsel, in each case stating that such substitution complies with this paragraph; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact.

Upon any such Substitution that complies with the provisions of the first paragraph of this section, (i) Schaeffler AG shall succeed to, and be substituted for (so that from and after the date of such Substitution, the provisions of the Indenture, the Notes and the Note Guarantees referring to the "Parent Guarantor" shall refer instead to Schaeffler AG), and may exercise every right and power of the Parent Guarantor under the Indenture, the Notes and the Note Guarantees with the same effect as if Schaeffler AG had been named as the Parent Guarantor therein and (ii) the Predecessor Parent Guarantor shall be released from its obligations under the Indenture and the Parent Guarantee and (iii) the Liens created by the relevant Security Documents over the Capital Stock of Schaeffler AG and the Continental Holding Companies shall be released. If all conditions to a Substitution set forth in the first paragraph of this section are satisfied, the Trustee and the Security Trustee will execute any documents reasonably required in order to evidence or effect such Substitution.

The Issuer will promptly deliver a notice in accordance with the procedures described under "*—Selection and notice*" stating that a substitution has occurred.

Security

General

The Notes and the Note Guarantees will be secured by the Collateral as described below. The Collateral will initially include the following properties and assets:

(1) pledges over the Capital Stock of the Issuer (the "**Issuer Share Pledge**"), each Subsidiary Guarantor (other than Schaeffler AG and Schaeffler Beteiligungsholding GmbH & Co. KG) and Schaeffler Iberia S.L.U. (*Spain*), each Restricted Subsidiary of Schaeffler AG through which shares in any Subsidiary Guarantor or Schaeffler Iberia S.L.U. (*Spain*) are held, Schaeffler Immobilien AG & Co. KG (*Germany*) and Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung (*Germany*);

(2) pledges over certain (present and future) cash-pool header accounts of Schaeffler AG and certain of its Restricted Subsidiaries;

(3) pledges over, or security assignments of, certain intra-group loan receivables of Schaeffler AG and certain of its Restricted Subsidiaries, including of the Note Proceeds Loan (the "**Proceeds Loan Assignment**"); and

(4) pledges over, or security assignments of, certain accounts receivables of Schaeffler AG and certain of its Restricted Subsidiaries.

The liens securing the Notes will be effectively *pari passu* with the first priority liens securing obligations outstanding under the Existing Senior Secured Notes, the Senior Facilities Agreement and certain hedging obligations under the terms of the Security Pooling and Intercreditor Agreement that provides that any proceeds received from enforcement of the Security Documents will be shared equally and ratably between the holders of the Notes and any other indebtedness that is or becomes subject to the Security Pooling and Intercreditor Agreement, including the Existing Senior Secured Notes and indebtedness under the Senior Facilities Agreement and certain hedging obligations.

The Liens securing the Notes and the Note Guarantees will initially also secure the obligations of the Issuer and the Guarantors under the Senior Facilities Agreement and related finance documents under the Existing Senior Secured Notes and under certain Hedging Obligations. 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.

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 trustees and holders of the Existing Senior

Secured Notes, for the lenders under the Senior 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 Security Pooling and Intercreditor Agreement, the Holders will be required to share recovery proceeds with other secured creditors, 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 Notes—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 Security Pooling and Intercreditor Agreement and the Security Trustee to enter into the Security Documents and the Security Pooling and 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 Security Pooling and Intercreditor Agreement and authorizes it to act as such.

Subject to the terms of the Security Documents, the Issuer and the Guarantors, 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, as applicable, have entered or will enter into Security Documents defining the terms of the Liens that secure the Notes and the Note Guarantees 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 Guarantors under the Notes, the Indenture, the Note Guarantees and the Security Documents. The terms of the Security Documents will limit the enforcement generally to an effect similar to the limitations on the Note Guarantees. See "*Risk factors—Risks related to the Notes—Enforcement of the Guarantees across multiple jurisdictions may be difficult*," "*Risk Factors—Risks related to the Notes—Enforcement of the Collateral across multiple jurisdictions may be difficult*," and "*Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations*."

In certain jurisdictions, 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 Security Trustee in the Security Pooling and Intercreditor Agreement that (subject to limitations generally to an effect similar to the limitations on the Note Guarantees) is equal to the total amounts payable under the Indenture and the Notes. Please see "*Risk factors—Risks related to the Notes—Enforcement of the Guarantees across multiple jurisdictions may be difficult*," "*Risk factors—Risks related to the Notes—Enforcement of the Collateral across multiple jurisdictions may be difficult*," and "*Limitations on validity and enforceability of the Guarantees and the 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 Security Trustee taking enforcement action. The Security Trustee will only take enforcement action if an enforcement decision is taken under the Security Pooling and 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 Security Pooling and Intercreditor Agreement is in favor of such action.

The Security Pooling and Intercreditor Agreement provides that the Security Trustee will take an enforcement action with respect to any of the respective 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 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 the Existing Senior Secured Notes and 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 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 the trustees for the Existing Senior Secured Notes and any trustee for notes issued in the future that become subject to the 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 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 Senior Facilities Agreement (and under future facilities agreements that become subject to the 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 facilities agreements that voted (or are deemed to have voted) against the resolution, in each case on a euro-equivalent basis.

The 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 *pro forma* effect to the Transactions, the total principal amount of the Notes, together with the total principal amount of the Existing Senior Secured Notes, will represent approximately 71.0% of the total principal amount of notes and commitments under facilities agreements subject to the Security Pooling and 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 respective Collateral. For a description of security enforcement and other intercreditor provisions, please see "*Description of other indebtedness—Security Pooling and 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 Security Pooling and Intercreditor Agreement without requiring any consent of the Holders or the Trustee.

Release

The Issuer and the Guarantors 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) in the case of a Subsidiary Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Subsidiary Guarantor;

(3) upon the release and discharge (other than as a result of an enforcement action) of any and all Liens (other than Permitted Liens (except for Permitted Liens specified in clause (xxx) of the definition thereof)) over the relevant Collateral securing Indebtedness, so long as no Event of Default exists at such time or would arise as a result of such release;

(4) 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;

(5) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(6) 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*;"

(7) in connection with an enforcement sale pursuant to the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement, or as otherwise provided for under the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement; or

(8) 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 Guarantees, in accordance with the provisions of the Indenture, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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.

Security Pooling and Intercreditor Agreement; Turnover

On the Issue Date, the Trustee will accede to the Security Pooling and Intercreditor Agreement, as described under "*Description of other indebtedness—Security Pooling and Intercreditor Agreement*." The terms of the Security Pooling and Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantees.

The Indenture, the Security Pooling and Intercreditor Agreement and any Additional Security Pooling and Intercreditor Agreement will contain provisions providing that, if at any time prior to the Senior Discharge Date (as defined in the Security Pooling and 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 Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement.

Optional redemption

2020 Euro Notes

At any time prior to May 15, 2017, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2020 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 102.50% of the principal amount of the 2020 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 Parent Guarantor; 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 2020 Euro Notes (calculated after giving effect to any issuance of Additional Notes) originally issued under the Indenture (excluding any 2020 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 May 15, 2017, the Issuer may on any one or more occasions redeem all or a part of the 2020 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 2020 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 2020 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 2020 Euro Notes will not be redeemable at the Issuer's option prior to May 15, 2017.

On or after May 15, 2017, the Issuer may on any one or more occasions redeem all or a part of the 2020 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 2020 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2020 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2020 Euro Notes
2017	101.250%
2018	100.625%
2019 and thereafter	100.000%

2025 Euro Notes

At any time prior to May 15, 2020, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2025 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 103.25% of the principal amount of the 2025 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 Parent Guarantor; 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 2025 Euro Notes (calculated after giving effect to any issuance of Additional Notes) originally issued under the Indenture (excluding any 2025 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 May 15, 2020, the Issuer may on any one or more occasions redeem all or a part of the 2025 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 2025 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 2025 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 2025 Euro Notes will not be redeemable at the Issuer's option prior to May 15, 2020.

On or after May 15, 2020, the Issuer may on any one or more occasions redeem all or a part of the 2025 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 2025 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2025 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2025 Euro Notes
2020	101.625%
2021	100.813%
2022 and thereafter	100.000%

Dollar Notes

At any time prior to May 15, 2018, 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 104.75% 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 Parent Guarantor; 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 after giving effect to any issuance of Additional Notes) originally issued under the Indenture (excluding any 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 May 15, 2018, 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 May 15, 2018.

On or after May 15, 2018, 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 May 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:

Year	Redemption Price Dollar Notes
2018	102.375%
2019	101.188%
2020 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 a Guarantor would be unable for reasons outside their control to procure payment by the Issuer (or another Guarantor that would be able to make the relevant payment without paying Additional Amounts) and in making payment itself the relevant Guarantor would be required to pay Additional Amounts, and the Issuer or the relevant Guarantor, as applicable, cannot avoid any such payment obligation by taking reasonable measures available, and the requirement to pay such Additional Amounts 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 90 days prior to the earliest date on which the Issuer or the Guarantor, as applicable, would be obligated to make such payment or withholding if a payment in respect of the relevant 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 of recognized standing in form and substance reasonably satisfactory to the Trustee 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 the obligation to pay Additional Amounts cannot be avoided by the or the relevant Guarantor 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

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 €1,000 in excess thereof, in the case of the Euro Notes, and in denominations of $200,000 and in integral multiples of $1,000 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 U.S. Securities Exchange Act of 1934, as amended (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 ability of the Issuer to pay cash to the Holders following the occurrence of a Change of Control may 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. We expect that we would require third party financing to make an offer to repurchase the Notes upon a Change of Control. We cannot assure you that we would be able to obtain such financing. Any failure by the Issuer to offer to purchase Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under the Senior Facilities Agreement. Please see "*Risk factors—Risks related to the Notes—Although the occurrence of specific change of control events will permit Note Holders to require repurchase of the Notes, the Issuer may not be able to repurchase such Notes*."

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. 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 (other than contingent and subordinated liabilities), that are assumed by the transferee of any such assets and as a result of which the Parent Guarantor and its Restricted Subsidiaries 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) 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) 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.

Within 365 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 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 Guarantees 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 and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto or (ii) any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor or the Issuer;

(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.

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.

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.

No Notes of €100,000 or $200,000, as the case may be, or less can be redeemed in part. 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) unless 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:

(a) the Consolidated Coverage Ratio would be at least 2.00 to 1.00 and

(b) to the extent such additional Indebtedness is purported to be secured by Liens, the Consolidated Secured Debt Leverage Ratio would not be more than 3.75 to 1.00.

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 under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed an amount equal to €8,250.0 million, plus, in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of all fees, underwriting discounts, premiums and other costs and expenses in connection with such refinancing, less (i) the aggregate net proceeds of the Issuer from the initial sale of the Existing Notes and (ii) 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 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 of the Parent Guarantor; *provided* that: (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 (2);

(3) Indebtedness under the Notes (but excluding any Additional Notes issued after the Issue Date) and the related Note Guarantees and the related parallel debt obligations for the benefit of the Security Trustee under the Security Pooling and Intercreditor Agreement;

(4) Indebtedness (other than the Indebtedness described in clauses (1) and (2) of this covenant) outstanding on the Issue Date;

(5) Indebtedness of the Parent Guarantor 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;

(6) Indebtedness of the Parent Guarantor 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 Parent Guarantor and its Restricted Subsidiaries in the ordinary course of business;

(7) Indebtedness of the Parent Guarantor 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 Parent Guarantor after the Issue Date; provided that the maximum liability of the Parent Guarantor 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 Parent Guarantor and its Restricted Subsidiaries in connection with such disposition;

(8) 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;

(9) customer deposits and advance payments received from customers for goods and services purchased in the ordinary course of business;

(10) Indebtedness under cash management, cash pooling or netting or setting off arrangements in the ordinary course of business and Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes as determined in good faith by the Parent Guarantor;

(11) Indebtedness of the Parent Guarantor and its Restricted Subsidiaries in an aggregate principal amount not to exceed €500.0 million at any one time outstanding;

(12) any Permitted Refinancing Indebtedness incurred with respect to the refinancing of any Indebtedness permitted under the first paragraph of this covenant or under clauses (3), (4), (12) or (13);

(13) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary of the Parent Guarantor or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Parent Guarantor 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 Parent Guarantor or was otherwise acquired by the Parent Guarantor or any of its Restricted Subsidiaries); provided, however, with respect to this clause (13), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Parent Guarantor would have been able to incur €1.00 of additional Indebtedness pursuant to clause (a) of the first paragraph of this covenant after giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (13); or (y) the Consolidated Coverage Ratio of the Parent Guarantor would not be less than it was immediately prior to giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (13);

(14) the Guarantee by the Parent Guarantor or any Restricted Subsidiary of Indebtedness of the Parent Guarantor or any Restricted Subsidiary to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; provided that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes or a Note Guarantee, then the Guarantee must be subordinated to or *pari passu* with, as applicable, to the same extent as the Indebtedness guaranteed; and

(15) Indebtedness incurred in any Qualified Securitization Financing.

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 (15) 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 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 clause (1) of the second paragraph of this covenant. In addition, any item of Indebtedness initially classified as incurred pursuant to one or more of clauses (2) through (15) 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.

Notwithstanding the first two paragraphs of this covenant, aggregate Indebtedness incurred by Restricted Subsidiaries of the Parent Guarantor (excluding Subsidiary Guarantors or Finance Subsidiaries) under the first paragraph or clauses (1) or (11) of the second paragraph of this covenant may not exceed an amount at any one time outstanding equal to the greater of €850.0 million and 8.0% of Total Assets.

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 (in the case of term Indebtedness) or first committed or first incurred, whichever yields the lower euro equivalent (in case of revolving credit Indebtedness); *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, plus the aggregate amount of all fees, underwriting discounts, premiums and other costs and expenses in connection with such refinancing; (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 will be calculated so as to take account of the effects of 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 Payment if, at the time of such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) the Parent Guarantor, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment 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 Consolidated Coverage Ratio test set forth in the first paragraph of the covenant described under the caption "—*Limitation on Indebtedness*;" and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments 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 Parent Guarantor on a cumulative basis during the period beginning on April 1, 2013 and ending on the last day of the Parent Guarantor's last fiscal quarter ending prior to the date of such proposed Restricted Payment for which consolidated financial statements of the Parent Guarantor are available (or, if such Consolidated Net Income of the Parent Guarantor 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 of the Parent Guarantor is reduced on the Parent Guarantor's consolidated 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 Parent Guarantor 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, 100% of the Fair Market Value of the Restricted Investment of the Parent Guarantor 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 Parent Guarantor or a Restricted Subsidiary or the assets of an Unrestricted Subsidiary are transferred to the Parent Guarantor or its Restricted Subsidiaries (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Payment), the Fair Market Value of assets received by the Parent Guarantor or Restricted Subsidiary or the Parent Guarantor'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 Payment 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 Parent Guarantor 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 Parent Guarantor 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 (9), (10) and (14) below) no Default or Event of Default of the type specified in clauses (1), (2), (3), (5) or (9) 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 of the Parent Guarantor 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 to an amount not to exceed the net cash proceeds from the sale of Capital Stock of the Parent Guarantor or Restricted Subsidiary received by the Parent Guarantor or 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 clauses (4) and (5) of this paragraph;

(4) the making of any Restricted Payment 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 Payment will be excluded from the calculation of amounts under clause (3)(b) of the second paragraph of this covenant and clauses (3) and (5) of this paragraph;

(5) the declaration and payment of a dividend in the form of an assumption by the Parent Guarantor of Indebtedness of a Parent Entity in an aggregate principal amount equal to the net cash proceeds of the 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 contribution of common equity capital to the Parent Guarantor; provided that (i) the Indebtedness to be assumed by the Parent Guarantor and its Restricted Subsidiaries is permitted to be incurred under the Indenture, (ii) prior to or substantially concurrently with the declaration and payment of such dividend such net cash proceeds are applied to repay Indebtedness outstanding under the Senior Facilities Agreement and (iii) the declaration and payment of such dividend are made no later than 365 days after such issuance and sale of Qualified Capital Stock or options, warrants or other rights to acquire Qualified Capital Stock or such contribution of common equity capital; provided further that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from the calculation of amounts under clause (3)(b) of the second paragraph of this covenant and clauses (3) and (4) of this paragraph;

(6) 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;

(7) 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;

(8) 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;

(9) the making of Permitted Upstream Payments in an amount not to exceed €425.0 million in each calendar year (with unused amounts in any calendar year being carried over to the succeeding two-year period);

(10) the transfer, by way of dividend or otherwise, of Unrestricted Continental Shares or amounts equal to the net proceeds from the sale of, or dividends received with respect to, Unrestricted Continental Shares;

(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 any 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 held by any Parent Entity as of the Issue Date from such Parent Entity;

(15) other Restricted Payments; provided that the aggregate amount of all Restricted Payments made under this clause (15) does not exceed €200.0 million since the Issue Date; and

(16) the transfer, by way of dividend or otherwise, of the Equity Interests in Schaeffler AG or amounts equal to the proceeds from the sale of, a capital increase in or dividends received with respect to, the Equity Interests in Schaeffler AG.

The actions described in clauses (1), (9), (14) and (15) are Restricted Payments that will be permitted to be made but that will reduce the amount that would otherwise be available for Restricted Payments 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 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 (as determined in good faith by the Parent Guarantor);

(2) the Indenture, the Notes, the Note Guarantees, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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 (a) 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 Senior Facilities Agreement and the 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), or (b) the Parent Guarantor determines in good faith that such restrictions will not materially adversely impact the ability of the Issuer and the Guarantors to make required principal and interest payments on the Notes and the Note Guarantees;

(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 Parent Guarantor 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 (as determined in good faith by the Parent Guarantor);

(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 (as determined in good faith by the Parent Guarantor).

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 (as determined in good faith by the Parent Guarantor);

(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 Guarantees 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 any Note Guarantees, on a priority or senior basis, with the same relative priority as the Notes or such 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 Parent Guarantee, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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) the Parent Guarantor 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 Consolidated Coverage Ratio test set forth in the first paragraph of the covenant described under the caption "*Limitation on Indebtedness*;" or (ii) have a Consolidated Coverage Ratio 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 Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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.

A Subsidiary Guarantor (other than a Subsidiary Guarantor whose Note Guarantee is to be released in accordance with the terms of Note Guarantee and the Indenture) will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not such Subsidiary Guarantor is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of such Subsidiary Guarantor and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person unless:

(1) immediately after giving effect to such transaction, no Default or Event of Default exists and the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of such Subsidiary Guarantor under its Note Guarantee, the Indenture, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement and the Security Documents to which such Guarantor is a party pursuant to a supplemental indenture and appropriate Security Documents reasonably satisfactory to the Trustee; or

(2) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

This "*Merger, Consolidation or Sale of Assets*" covenant will not apply to any consolidation or merger of any Restricted Subsidiary that is not a Guarantor into a Guarantor. Clauses (2) and (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 any other Guarantor, and 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, Consolidation or Sale of Assets*" covenant will not apply to any consolidation or merger among the Issuer and any Guarantor.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Parent Guarantor may designate any Restricted Subsidiary 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 Payments 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 obtain and 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 the Issuer is unable to obtain listing of the Notes on the Luxembourg Stock Exchange or if at any time the Issuer determines that it will not maintain such listing, it will use its reasonable best efforts to obtain and 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 Issuer activities

The Issuer will not engage in any business activity or undertake any other activity, except (i) any activity reasonably relating to the offering, sale, issuance and servicing, purchase, redemption, refinancing or retirement of the Notes, the Existing Notes or the incurrence of other indebtedness permitted by the terms of the Indenture and distributing, lending or otherwise advancing funds to the Parent Guarantor or any of its Restricted Subsidiaries; (ii) any activity undertaken with the purpose of fulfilling any other obligations under the Notes, the Existing Notes, the Note Proceeds Loans, other Indebtedness permitted by the terms of the Indenture, any Security Document to which it is a party or the Security Pooling and Intercreditor Agreement; (iii) Permitted Investments constituting Investments in the Parent Guarantor or another Restricted Subsidiary, Investments in the form of cash and Cash Equivalents and repurchases of the Notes; (iv) any activity directly related to the establishment and/or maintenance of the Issuer's corporate existence or otherwise complying with applicable law; and (v) other activities not specifically enumerated above that are de minimis in nature. Issuer will at all times remain a wholly-owned Restricted Subsidiary of Schaeffler AG.

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 that is not a Subsidiary Guarantor, 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 any Guarantor in an amount in excess of €50.0 million outstanding under any Credit Facility unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Note Guarantee of the payment of the Notes by such Restricted Subsidiary, which Note Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness.

Simultaneously with the execution of such supplemental indenture, the Parent Guarantor will cause all of the Capital Stock in such Restricted Subsidiary owned by the Parent Guarantor and the Restricted Subsidiaries to be pledged to secure the Notes and the Note Guarantees.

Each additional Note 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 (i) Schaeffler Iberia S.L.U. (*Spain*) and (ii) 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 Security Pooling and 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 Security Pooling and Intercreditor Agreement, (b) the Parent Guarantor and the Restricted Subsidiaries may incur Permitted Collateral Liens and (c) the Security Documents 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), provided that, in the case of clauses (b) and (c), the Security Documents may not be amended, extended, renewed, restated, supplemented or otherwise modified, replaced or released, unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification, replacement or release, 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 Security Pooling and 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 a Guarantor of Indebtedness that is permitted to share the Collateral pursuant to clause (ii), (iii), (iv) or (v) of the definition of "Permitted Collateral Liens," the Issuer or the relevant Guarantor, the Trustee and the Security Trustee shall enter into with the holders of such Indebtedness (or their duly authorized representatives) a security pooling agreement (an

"**Additional Security Pooling and Intercreditor Agreement**") on substantially the same terms as the Security Pooling and Intercreditor Agreement, including terms with respect to the limitation on enforcement and release of guarantees and priority as set forth in the Security Pooling and Intercreditor Agreement (or on terms more favorable to the Holders); *provided*, that such Additional Security Pooling and Intercreditor Agreement will not impose any personal obligations on the Trustee or the Security Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or the Security Trustee under the Indenture or the Security Pooling and 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 a Guarantor of Indebtedness permitted to be incurred pursuant to the preceding paragraph, the Issuer or the relevant Guarantor, the Trustee and the Security Trustee shall enter into one or more amendments to any Security Pooling and Intercreditor Agreement or Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement or Additional Security Pooling and Intercreditor Agreement that may be incurred by the Issuer or a Guarantor that is subject to any Security Pooling and Intercreditor Agreement or Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement or an Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement in accordance with the terms thereof; or (7) make any other change to any such Security Pooling and Intercreditor Agreement or an Additional Security Pooling and Intercreditor Agreement that does not adversely affect the rights of Holders in any material respect.

The Issuer shall not otherwise direct the Trustee or the Security Trustee to enter into any amendment to the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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 the Security Trustee under the Indenture, the Security Pooling and Intercreditor Agreement or such Additional Security Pooling and Intercreditor Agreement.

In relation to the Security Pooling and Intercreditor Agreement or, to the extent applicable, an Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement or any amendment of the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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 Payments 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 (4) 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. In addition, in the event of any such reinstatement, the Parent Guarantor and the Restricted Subsidiaries will be permitted, without causing a Default or an Event of Default, to honor any contractual commitments or take any actions, as long as the contractual commitments were entered into during the Suspension Period and not in anticipation of the occurrence of a Reversion Date.

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 Parent Guarantor's fiscal year beginning with the fiscal year ending December 31, 2015, 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 Parent Guarantor as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Parent Guarantor 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 Parent Guarantor (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 Parent Guarantor, all material affiliate transactions, Indebtedness and material financing arrangements and a description of all material contractual arrangements, including material debt instruments; and (e) material recent developments;

(2) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of the Parent Guarantor beginning with the fiscal quarter ending March 31, 2015, 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 Parent Guarantor, together with condensed footnote disclosure; (b) *pro forma* income statement and balance sheet information of the Parent Guarantor (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 Parent Guarantor and any material change between the current quarterly period and the corresponding period of the prior year; and (d) material developments in the business of the Parent Guarantor 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 Parent Guarantor or in the auditors of the Parent Guarantor; (c) the entering into an agreement that will result in a Change of Control; or (d) any material events that the Parent Guarantor 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 Parent Guarantor 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 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, 2014 by delivering the corresponding annual and quarterly reports of the Parent Guarantor 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, hold a conference call to discuss such reports and the results of operations for the relevant reporting period; and

(b) 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 Parent Guarantor 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 Parent Guarantor'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 Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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 Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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 exchange or tender offer; 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 interest or Additional Amounts, if any, with respect to the Notes; or

(3) failure by the Issuer or any Guarantor to comply with the provisions set forth under "*—Certain covenants—Merger, Consolidation or Sale of Assets*;" or

(4) failure by the Issuer or any 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 Guarantees, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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) or (3)); or

(5) 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 €75.0 million or more (or its equivalent in any other currency or currencies);

(6) 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 €75.0 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

(7) except as permitted by the Indenture, if (A) any 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) any Guarantor, or anyone acting on behalf of any Guarantor, denies or disaffirms its obligations under its Note Guarantee; or

(8) with respect to any Collateral having a Fair Market Value in excess of €20.0 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 Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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

(9) 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 latest audited consolidated financial statements for the Parent Guarantor and its Restricted Subsidiaries), would constitute a Significant Subsidiary.

In the case of an Event of Default specified in clause (9) 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 Issuer 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 any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Note Guarantees, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and 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 Guarantors discharged with respect to their Note Guarantees ("**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 Guarantors' 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 Guarantors released with respect to certain covenants (including its obligation to make an 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 of United States counsel reasonably acceptable to the Trustee 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 and the beneficial owners 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 of United States counsel reasonably acceptable to the Trustee confirming that the holders and the beneficial owners 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 Guarantors with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer, the Guarantors 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 Guarantees, the Security Documents, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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 Guarantees, the Security Documents, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and 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 Security Pooling and 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 any 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 any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Security Pooling and 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 Security Pooling and Intercreditor Agreement; or

(11) make any change in the preceding amendment and waiver provisions,

provided that, if any Existing Notes then outstanding or each of the indentures governing any such Existing Notes have been or are concurrently being amended pursuant to the terms thereof to release any Guarantor from its obligations under its Guarantee of such Existing Notes or each of the indentures governing such Existing Notes or to release all or substantially all of the Liens on the Collateral, then the corresponding release of such Guarantor from its obligations under its Note Guarantee or the Indenture or of the corresponding Liens over such Collateral securing the Notes pursuant to clauses (9) and (10) above, respectively, may be made if consented to by the holders of at least 75% of the aggregate principal amount of the outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

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 Guarantors, the Trustee and the Security Trustee (as applicable) may amend or supplement the Indenture, the Notes, the Note Guarantees, the Security Pooling and 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 (provided, that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code);

(3) to provide for the assumption of the Issuer's or a Guarantor's obligations to Holders and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such 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 Guarantees, any Security Documents or the Security Pooling and 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 Guarantees, the Security Documents, or the Security Pooling and Intercreditor Agreement;

(6) to enter into additional or supplemental Security Documents;

(7) to release any Note Guarantee in accordance with the terms of the Indenture and the Security Pooling and Intercreditor Agreement;

(8) to release the Collateral in accordance with the terms of the Indenture, the Security Pooling and 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 Guarantor to execute a supplemental indenture and/or a Note 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 not treated as "registration required" under Section 163(f)(2)(A) of the Code);

(12) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;

(13) to add additional parties to the Security Pooling and Intercreditor Agreement or any Security Document to the extent permitted hereunder and thereunder;

(14) to delete Clause 8 (*Parent I and Parent II Undertakings*) of the Security Pooling and Intercreditor Agreement in its entirety; or

(15) to make any changes to the Indenture, the Notes, the Note Guarantees, the Security Documents or the Security Pooling and Intercreditor Agreement of a technical or conforming nature to implement the Substitution in accordance with the provisions set forth under "*Note Guarantees—Substitution of the Parent Guarantor*."

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 any 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 any 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 Guarantees 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 a Guarantor will constitute a discharge of the Issuer and the Guarantors 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 Guarantors will indemnify the recipient against any loss sustained by it as a result. In any event the Issuer and the Guarantors 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 Guarantors, 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 Note 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 Guarantors 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. There can be no assurance that the application to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes on the Euro MTF Market will be approved and settlement of the Notes is not conditioned on obtaining this listing. 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 Security Pooling and Intercreditor Agreement and the Senior 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 Guarantees and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Security Pooling and 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 each Guarantor (other than any Guarantor incorporated in the United States) will appoint C T Corporation System, 111 Eighth Avenue, 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 Guarantees 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 non-U.S. Guarantors are outside the United States. As a result, any judgment obtained in the United States against the Issuer or any such Guarantor may not be collectable within the United States. See "*Service of process and enforcement of civil liabilities.*"

Prescription

Claims against the Issuer or any 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 any 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 governed 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 Unrestricted Continental Shares;

(15) the issuance of Equity Interests in Schaeffler AG or the sale by the Parent Guarantor or any of its Restricted Subsidiaries of Equity Interests in Schaeffler AG.

"**Asset Sale Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**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 May 15, 2017, in the case of the 2020 Euro Notes and May 15, 2020, in the case of the 2025 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, in the case of the 2020 Euro Notes, the then outstanding principal amount of the 2020 Euro Notes and of a maturity most nearly equal to May 15, 2017 and, in the case of the 2025 Euro Notes, the then outstanding principal amount of the 2025 Euro Notes and of a maturity most nearly equal to May 15, 2020; provided, however, that, if the period from such redemption date to May 15, 2017, in case of the 2020 Euro Notes and May 15, 2020, in case of the 2025 Euro Notes, 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 of a plan or proposal for the liquidation or dissolution of the Parent Guarantor, other than a transaction permitted under "*Certain covenants—Merger, Consolidation or Sale of Assets;*"

(3) prior to the consummation of an Initial Public Equity Offering, 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, (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); or

(5) Schaeffler AG 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 Guarantees 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 Guarantors under the Notes, the Note Guarantees and the Indenture from time to time.

"**Consolidated Coverage Ratio**" means, as of any date of determination, the ratio of (1) the aggregate amount of the Consolidated EBITDA for the period of its most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements are in existence to (2) the aggregate amount of the Consolidated Net Interest for such four fiscal quarters; *provided* that with respect to the calculation of the Consolidated Coverage Ratio:

(a) the Consolidated EBITDA and the Consolidated 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 Consolidated 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 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 and Consolidated 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 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); and

(ii) Consolidated Net Interest for such period will be reduced by an amount equal to the Consolidated 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 Restricted Subsidiary of the Parent Guarantor are sold, the Consolidated Net Interest for the relevant 12-month period directly attributable to the Indebtedness of such Restricted Subsidiary if and to the extent the Parent Guarantor and its continuing Restricted Subsidiaries 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 (or any Person which becomes a Restricted Subsidiary 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 and Consolidated 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 Parent Guarantor. 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 on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

"**Consolidated EBITDA**" for any period means Consolidated Net Income of the Parent Guarantor 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; plus

(b) provisions for taxes based on income or profits of the Parent Guarantor 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 the Parent Guarantor 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 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, for any period, the aggregate of the net income (loss) of the Parent Guarantor and the 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 the Parent Guarantor) that is not a Restricted Subsidiary 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 the Parent Guarantor or a Restricted Subsidiary as a dividend or other distribution;

(3) solely for the purpose of determining the amount available for Restricted Payments 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 (other than any Subsidiary Guarantor) 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 the Issuer (or any Guarantor that holds the Equity Interests of such Restricted Subsidiary, as applicable) 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 the Parent Guarantor'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 the Issuer, the Parent Guarantor or another Restricted Subsidiary 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 the Parent Guarantor or any 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 the Parent Guarantor 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, 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 the Parent Guarantor 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 the Parent Guarantor and its Restricted Subsidiaries that was capitalized during such period; plus

(3) any interest on Indebtedness of another Person that is guaranteed by the Parent Guarantor or one of its Restricted Subsidiaries or secured by a Liens on assets of the Parent Guarantor 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, other than dividends on Equity Interests payable to the Parent Guarantor or a Restricted Subsidiary.

"**Consolidated Secured Debt Leverage Ratio**" means, as of any date of determination, the ratio of (1) the Senior Secured Indebtedness as of the last day of the Parent Guarantor's most recent fiscal quarter ending prior to the date of such determination for which financial statements are in existence to (2) the aggregate amount of the Consolidated EBITDA for the period of its most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements are in existence; *provided* that with respect to the calculation of the Consolidated Secured Debt Leverage Ratio:

(a) the Consolidated EBITDA and the Senior Secured Indebtedness shall be calculated for, or as of the end of, 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 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 Consolidated Secured Debt Leverage Ratio is the creation of a Lien to secure Indebtedness, as if the Indebtedness to be incurred had been incurred, and such Lien had been created, 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*");

(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; and

(iv) as if any Lien to secure Indebtedness created after the end of the last relevant quarter end date had been created on the first day of the relevant 12-month period.

(b) if any Indebtedness 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 for such period and Senior Secured Indebtedness as of the end of 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 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); and

(ii) the Senior Secured Indebtedness as of the end of such period will be reduced by an amount equal to the Indebtedness that is 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, but only to the extent such Indebtedness was originally included in the calculation of Senior Secured Indebtedness (or, if the shares of any Restricted Subsidiary of the Parent Guarantor are sold, the Senior Secured Indebtedness as of the end of such period directly attributable to such Restricted Subsidiary if and to the extent the Parent Guarantor and its continuing Restricted Subsidiaries are no longer liable for the Indebtedness included in the calculation of Senior Secured 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 (or any Person which becomes a Restricted Subsidiary 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 for such period and Senior Secured Indebtedness as of the end of 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 on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

"**Continental**" means Continental Aktiengesellschaft.

"**Continental Group**" means Continental and any Subsidiary of Continental.

"**Continental Holding Company**" means any Subsidiary of the Parent Guarantor that does not carry on any business or own any assets other than (i) the ownership, directly or through one or more other Continental Holding Companies, of Unrestricted Continental Shares, (ii) the provision of administrative services and management services to its Subsidiaries of a type customarily provided by a holding company to its Subsidiaries and the ownership of assets necessary to provide such services, or (iii) directly related or reasonably incidental to the establishment and/or maintenance of its or its Subsidiaries' corporate existence.

"**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 Senior 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 Senior 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 May 15, 2018 (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 May 15, 2018 (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 2020 Euro Note and a 2025 Euro Note, as applicable, at any redemption date, the excess of (A) the present value at such redemption date of (1) the redemption price of such 2020 Euro Note on May 15, 2017 and such 2025 Euro Note on May 15, 2020 (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 2020 Euro Note on May 15, 2017 and such 2025 Euro Note on May 15, 2020 (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 April 2013 Notes and the May 2014 Notes.

"**Existing Senior Notes**" means the May 2014 Senior Notes.

"**Existing Senior Secured Notes**" means the February 2012 Notes, the April 2013 Notes and the May 2014 Senior Secured 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 chief executive officer, chief financial officer or responsible accounting or financial officer of the Parent Guarantor.

"**Family Shareholders**" means Georg F. W. Schaeffler and Maria Elisabeth Schaeffler-Thumann and in each case their respective legal or appointed heirs.

"**February 2012 Notes**" means the €800,000,000 senior secured notes due 2017 and the $600,000,000 senior secured notes due 2017 issued by Schaeffler Finance B.V. under a New York law governed indenture dated February 9, 2012.

"**Finance Subsidiary**" means each direct or indirect Subsidiary of the Parent Guarantor (including the Issuer) whose sole purpose is to raise financing for the Parent Guarantor's consolidated group, and which neither owns any material assets (other than receivables arising from loans to other members of the group and bank deposits) nor has any equity interests in any Person.

"**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).

"**Guarantors**" means, collectively, each of the Parent Guarantor, the Initial Subsidiary Guarantors and any Subsidiary of the Parent Guarantor that executes a Note Guarantee in accordance with the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"**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.

"**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 Parent Guarantor or any Parent Entity (the "**IPO Entity**") following which there is a Public Market.

"**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 April 13, 2015.

"**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.

"**May 2014 Notes**" means the May 2014 Senior Notes and the May 2014 Senior Secured Notes.

"**May 2014 Senior Notes**" means the €500,000,000 senior notes due 2019 issued by Schaeffler Finance B.V. under a New York law governed indenture dated May 14, 2014.

"**May 2014 Senior Secured Notes**" means €500,000,000 senior secured notes due 2019, €500,000,000 senior secured notes due 2022 and $700,000,000 senior secured notes due 2021 issued by Schaeffler Finance B.V. under a New York law governed indenture dated May 14, 2014.

"**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 each 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.

"**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.

"**Parent Entity**" means any direct or indirect parent company or entity of the Parent Guarantor.

"**Parent Guarantee**" means the Note Guarantee by the Parent Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

"**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 any Note Guarantee, Indebtedness which is *pari passu* in right of payment with such 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 Guarantees issued on the Issue Date;

(ii) Liens on the Collateral to secure (i) Indebtedness permitted to be incurred under clause (b) of the first paragraph of the covenant described under the caption "*—Certain Covenants—Limitation on Indebtedness*" or (ii) the Existing Senior Secured Notes and the guarantees of the Existing Senior Secured Notes; provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantees (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 Security Pooling and Intercreditor Agreement;

(iii) 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 clauses (i) or (ii) above or this clause (iii); provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantees (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 Security Pooling and Intercreditor Agreement;

(iv) Liens on the Collateral to secure Indebtedness permitted under clause (1) or (11) 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 Guarantees (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 Security Pooling and Intercreditor Agreement;

(v) Liens securing the Parent Guarantor's or any Restricted Subsidiary's obligations under Hedging Obligations (other than Hedging Obligations in respect of commodity prices and only to the extent such Hedging Obligations (x) relate to Indebtedness referred to in clauses (i) through (iv) above or (y) constitute foreign currency hedging in the ordinary course of business) permitted by clause (10) 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 Guarantees on a senior or *pari passu* basis; provided, further, that each of the parties thereto will have entered into the Security Pooling and Intercreditor Agreement;

(vi) Liens on the Collateral securing Indebtedness permitted under clause (14) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*" (to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured and is specified in this definition of "Permitted Collateral Liens"); and

(vii) 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.

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 of the Parent Guarantor; or (ii) another Person if as a result of such Investment such other Person becomes a Restricted Subsidiary of the Parent Guarantor 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 of the Parent Guarantor;

(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; and

(h) Investments in joint ventures 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) €1,000.0 million; and (ii) 8.0% 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 (10) 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 or Schaeffler AG, Subordinated Shareholder Debt or Capital Stock of any Parent Entity;

(q) other Investments in any 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 €1,000.0 million and 8.0% 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 and/or the Note Guarantees;

(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 Parent Guarantor or any Restricted Subsidiary; 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 Parent Guarantor or any Restricted Subsidiary; provided that such Lien was in existence prior to the contemplation of such Person becoming a Restricted Subsidiary 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 Parent Guarantor or any Restricted Subsidiary;

(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 (10) 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 (5) 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 securing obligations (including Indebtedness); 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; and

(xxxiv) any Lien created or subsisting over any assets of any Restricted Subsidiary of the Parent Guarantor incorporated in Brazil, China, India or South Korea securing Indebtedness permitted to be incurred under the Indenture.

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 Guarantees, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, on terms at least as favorable to the Holders or the Note Guarantees, as the case may be, as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; and

(4) such Indebtedness is incurred either by the Issuer, a Finance Subsidiary or a Guarantor if the Issuer or any Guarantor was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;

provided that if such renewal, refund, refinancing, replacement, exchange, defeasance or discharge in full or in part of the Indebtedness is initially funded from sources other than Permitted Refinancing Indebtedness, the Permitted Refinancing Indebtedness is raised within twelve months of such renewal, refund, refinancing, replacement, exchange, defeasance or discharge and is identified in good faith by a responsible accounting or financial officer of the Parent Guarantor as being a replacement of such Indebtedness.

"**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.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company or government or other entity.

"**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 Parent Guarantor 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).

"**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 Parent Guarantor 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 Parent Guarantor 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 Parent Guarantor 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 Parent Guarantor'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 Parent Guarantor'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 at the option of Holders—Change of Control*" and "*—Repurchase at the option of 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 at the option of Holders—Change of Control*" and "*—Repurchase at the option of 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.

"**Restricted Investment**" means an Investment other than a Permitted Investment.

"**Restricted Payments**" 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 of the Parent Guarantor 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 of the Parent Guarantor) except for dividends or distributions payable solely in, or subsequently converted into, 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 Subsidiary**" means any Subsidiary of the Parent Guarantor that is not an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services.

"**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.

"**Security Pooling and Intercreditor Agreement**" means the security pooling and intercreditor agreement dated as of January 27, 2012 made between, among others, the Issuer, the Guarantors, the mandated lead arrangers under the Senior Facilities Agreement, the lenders under the Senior Facilities Agreement, the Security Trustee, the agent for the Senior Facilities Agreement, certain hedging counterparties, Schaeffler Verwaltungs GmbH and the other parties named therein, and to which the Trustee accedes on or about the Issue Date, as amended, restated or otherwise modified or varied from time to time.

"**Senior Facilities Agreement**" means the €1,750,000,000 and $1,300,000,000 syndicated senior term loan and revolving credit facilities agreement originally dated October 27, 2014, among, among others, the Guarantors, Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Bayerische Landesbank, BNP Paribas Fortis SA/NV, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, HSBC Bank plc, J.P. Morgan Limited and UniCredit Bank AG as arrangers, and Deutsche Bank Luxembourg S.A. as agent and security trustee, as amended, restated or otherwise modified or varied from time to time.

"**Senior Secured Indebtedness**" means, as of any date of determination, the amount of any outstanding Indebtedness of the Parent Guarantor and its Restricted Subsidiaries that is secured by a Lien and Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor.

"**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 Parent Guarantor; 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 Parent Guarantor.

"**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 any Guarantor that is expressly subordinated in right of payment to the Notes or the Note Guarantee of such Guarantor, as the case may be, pursuant to a written agreement, *provided* that no Indebtedness will be deemed to be subordinated in right of payment to any other Indebtedness solely by virtue of being unsecured or by virtue of being secured on a junior Lien basis.

"**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 Guarantees in the event of any default, bankruptcy, reorganization, liquidation, winding up or other disposition of assets of the Issuer and the Guarantors at least to the same extent as the "Parent Liabilities" (as defined in the Security Pooling and Intercreditor Agreement) are subordinated to the Notes and the Note Guarantees under the Security Pooling and 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 Guarantees or compliance by the Issuer or the Guarantors with their respective obligations under the Notes, the Note Guarantees 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 (other than in connection with an event or circumstance described in clause (16) of the third paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Restricted Payments*"), 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 the 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, without limitation, 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.

"**Total Assets**" means the total assets of the Parent Guarantor and its Restricted Subsidiaries as shown on the most recent balance sheet of the Parent Guarantor, 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 May 15, 2018; *provided, however,* that if the period from the redemption date to May 15, 2018 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 May 15, 2018 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 those shares of Capital Stock of Continental that are "Unrestricted Continental Shares" pursuant to the terms of the Senior Facilities Agreement (or, if the Senior Facilities Agreement has been replaced, including by way of a refinancing, by another credit facility agreement, pursuant to the terms of such agreement, as amended) from time to time.

"**Unrestricted Subsidiary**" means any Subsidiary of the Parent Guarantor 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 Guarantees and the Collateral and certain insolvency law considerations

The validity and enforceability of the Guarantees and 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 their validity and enforceability. The following is a summary description of certain limitations on the validity and enforceability of the Guarantees and the Collateral, and a summary of certain insolvency law considerations, in the jurisdictions in which the Issuer, the Guarantors and the providers of Collateral are organized. In the event that any one or more of the Issuer, the Guarantors 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 Guarantors 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 the Guarantees and the Collateral. If additional Guarantees and/or Collateral are required to be granted pursuant to the Indenture in the future, such Guarantees and/or Collateral will also be subject to limitations on enforceability and validity, which may differ from those discussed below. See "*Risk factors—Risks related to the Notes—Enforcement of the Guarantees across multiple jurisdictions may be difficult*."

European Union

The Issuer and several of the providers of the Guarantees and the Collateral 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 but may change from time to time for a particular company, and such determination is made at the time of filing of the insolvency petition. 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 ruled in 2011 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, where it holds its board meetings and/or has its head office, all places in which it holds assets, in so far as they are ascertainable by third parties, and the perception of creditors as to the center of the debtor company's business operations.

If the center of main interests of a company is and will remain located in the member state in which it has its registered office or in any other member state where its "center of main interests" has been determined to be located at the timing of filing of the insolvency petition, 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 has jurisdiction 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.* 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) (save for situations in which recognition of the opening of the insolvency proceedings would be manifestly contrary to a member state's public policy, in particular its fundamental principles or the constitutional rights and liberties of the individual), 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.

Furthermore, the European Commission has proposed amendments to the EU Insolvency Regulation which, if enacted, may alter the manner in which the test for determining where a company has its "center of main interests" might be applied during the term of the Notes. However there is some uncertainty around the timing of these amendments and at this stage it is not possible to conclusively determine what (if any) impact there might be in relation to the Notes.

Austria

Insolvency

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Austria and/or having its center of main interests in Austria (the "**Austrian Provider**"), insolvency proceedings will be governed by Austrian law (for example, if the Austrian Provider's center of main interests is within Austria or if it has an establishment in the territory of the Republic of Austria or, where the EU Insolvency Regulation does not apply, if it has assets in Austria). Under certain circumstances, insolvency proceedings may also be opened in Austria in accordance with Austrian law over the assets of companies that are not organized under Austrian law.

The following is a brief description of certain aspects of Austrian insolvency law.

Insolvency proceedings (*Insolvenzverfahren*) must be opened by a court upon application by the debtor or a creditor whenever it has been established that a company is illiquid (*zahlungsunfähig*), *i.e.*, in principle unable to pay its debts when they fall due, or is over-indebted in terms of insolvency law (*insolvenzrechtlich überschuldet*), *i.e.*, in principle that the liabilities exceed its assets at liquidation values and there is a negative forecast on the company's future survival (*negative Fortbestehensprognose*), provided that the insolvency estate's value is sufficient to cover at least the costs of the insolvency proceedings. Restructuring proceedings (*Sanierungsverfahren*), upon application by the debtor, may also be initiated, if the risk of the debtor's inability to pay its debts when they fall due is at least imminent (*drohende Zahlungsunfähigkeit*) and the debtor files an application for the opening of such proceedings.

Depending on whether or not a permissible restructuring plan (*Sanierungsplan*) is presented together with the application for the opening of insolvency proceedings, the insolvency proceedings will be designated either as restructuring proceedings (*Sanierungsverfahren*) or as bankruptcy proceedings (*Konkursverfahren*). Whenever the debtor applies for the opening of insolvency proceedings as restructuring proceedings and presents a permissible restructuring plan (*Sanierungsplan*) offering a quota of at least 20% to the unsecured creditors payable within a maximum of two years after the approval of the plan (in case of entrepreneurs), the insolvency proceeding will be designated a restructuring proceeding (*Sanierungsverfahren*). If a debtor presents such a restructuring plan after the insolvency proceedings were opened, the proceeding will be continued to be designated as a bankruptcy proceeding (*Konkursverfahren*).

Restructuring plans (*Sanierungspläne*) generally intend to discharge the debtor from a part of its debts (up to 80%) and to enable the debtor to continue its business activities. A qualified simple majority of unsecured creditors must approve the restructuring plan. Qualified simple majority means that the simple majority of unsecured creditors in number present at the hearing must vote in favor of the restructuring plan and that the total sum of these unsecured creditors' claims must amount to more than 50% of the unsecured claims present at the hearing. If the restructuring plan (*Sanierungsplan*) is accepted by the creditors, confirmed by the court and fulfilled by the debtor, the latter is released from the rest of its debts.

If the debtor applies for the opening of insolvency proceedings and presents qualified documents together with a restructuring plan (*Sanierungsplan*) offering a quota of at least 30% to the unsecured creditors payable within a maximum of two years after the approval of the plan, it is entitled to self-administration (*Sanierungsverfahren mit Eigenverwaltung unter Aufsicht eines Verwalters*) which may be withdrawn, if, for example, negative effects on the creditors' positions can be expected. If the realization of a restructuring plan (*Sanierungsplan*) fails, the insolvency proceeding will be continued as bankruptcy proceeding (*Konkursverfahren*).

Unless the debtor meets the requirements for self-administration, the debtor is no longer in the position to dispose of the assets subject to insolvency, *i.e.*, the insolvent's estate (*Insolvenzmasse*), from the opening of insolvency proceedings. The opening takes effect as of 0:00 a.m. Austria time of the day following the publication of the receiving order (*Insolvenzedikt*) in the official insolvency database (www.edikte.justiz.gv.at). After the initiation of insolvency proceedings, legal acts of the debtor in relation to the debtor's estate take no effect towards the creditors. The court appoints an insolvency administrator (*Insolvenzverwalter*) along with its decision on the opening of insolvency proceedings, and, if it deems this necessary in view of the specifics or size of the debtor's business or in case certain legal requirements are met (*e.g.*, intended sale of the entire business of the debtor), the court may also appoint a creditors' committee (*Gläubigerausschuss*) to assist the insolvency administrator. After the opening of insolvency proceedings without self-administration (*i.e.*, bankruptcy proceedings or restructuring proceedings without self-administration), only the insolvency administrator is entitled to act on behalf of the debtor's estate.

The insolvency administrator's main task is to administer and realize the assets of the insolvent's estate effectively. According to Austrian insolvency law, the insolvency administrator generally shall continue the debtor's business in order to enable a potential reorganization of the debtor's business either by realizing the debtor's restructuring plan (which the debtor may also apply for during the bankruptcy proceedings) or by a sale of the debtor's business or assets. If neither a restructuring plan nor the sale of the debtor's business or assets is possible, the insolvency administrator will break up the company and the bankruptcy proceedings will ultimately lead to the sale of the debtor's assets and distribution of the proceeds of such sale, the debtor remaining liable for its residual debts.

If the debtor meets the requirements for self-administration, the debtor is monitored by a court-appointed restructuring administrator (*Sanierungsverwalter*) to whom certain transactions (respectively the approval thereof) are reserved.

Unsecured creditors (*Insolvenzgläubiger*) shall file their claims with the competent court within the time period set out in the court order on the opening of insolvency proceedings. At the so-called examination hearing (*Prüfungstagsatzung*), which is held at the competent court, the insolvency administrator has to declare whether he acknowledges or contests a claim filed. If the insolvency administrator acknowledges a creditor's claim, this creditor is entitled to participate in the insolvency proceeding, which means that he will receive a pro rata allocation of the final amount that is distributed to the unsecured creditors. If a creditor's claim is contested by the insolvency administrator, the creditor has to assert its claim in civil proceedings in order to maintain its right to participate in the insolvency proceedings.

Claims of unsecured creditors in insolvency proceedings, which were created before the opening of these proceedings, rank *pari passu*. Taxes, social security contributions, wages and salaries are not, as such, privileged or preferential claims under Austrian insolvency law. Claims which lawfully arose against the debtor's estate after the opening of the proceedings, so called privileged claims (*Masseforderungen*) or claims which are secured by collateral (such as by a mortgage, a pledge over bank accounts or shares, a pledge or an assignment of receivables for security purposes or a pledge or security transfer of moveable assets), so-called preferential claims (*Absonderungsrechte*), enjoy priority in insolvency proceedings. Creditors who have a right to preferential treatment may participate in the pro rata distribution only to the extent that the proceeds from the realization of the assets charged to them do not cover their claims or if they waive their right to preferential treatment. Secured creditors do not have a voting right on the restructuring plan to the extent their claim is covered by security.

The costs of the insolvency proceedings and certain liabilities accrued during insolvency proceedings are privileged claims (*Masseforderungen*) and rank prior to all other claims. Creditors with a right of separation of assets (*Aussonderungsberechtigte*), such as creditors with retention of title, remain unaffected by the opening of insolvency proceedings, though they may be barred from exercising their rights for a maximum period of six months following the opening of insolvency proceedings, if the exercise of such rights would endanger the carrying on of the debtor's business and the interdiction does not cause a severe personal or economic damage to the secured creditors. The same applies for secured creditors of preferential claims (*Absonderungsberechtigte*).

Once formal proceedings have been opened, it is no longer possible to obtain an execution lien against the assets of the debtor. All execution proceedings against the debtor are stayed (*Vollstreckungssperre*). Execution liens obtained within 60 days prior to the commencement of formal proceedings expire.

Section 25a para 1 of the Austrian Insolvency Code provides that for a period of six months from the opening of insolvency proceedings, contractual partners of the debtor may terminate contracts only for cause. In this context, the deterioration of the economic situation or the lack of timely performance by the debtor prior to the opening of insolvency proceedings is not considered a cause allowing a termination. This restriction only applies if a termination of a contract would jeopardize the continuation of the debtor's business. No restrictions apply if a termination of a contract is inevitable to prevent the contractual partner from incurring severe personal or economic damages or the debtor does not timely perform its contractual obligations after the opening of the insolvency proceedings.

Pursuant to section 25b para 2 of the Austrian Insolvency Code, a contractual stipulation providing for the right to withdraw from an agreement or an automatic termination in the event of opening of insolvency proceedings against the other party is not enforceable.

The Austrian Business Reorganization Act (*Unternehmensreorganisationsgesetz*) governs business reorganizations, which are designed to enable businesses in temporary financial distress to continue to do business after having undergone a reorganization procedure. Only the debtor may apply for the opening of a reorganization procedure, provided, however, that it is still solvent at the time of its application. The relevant criteria for the opening of a business reorganization procedure are a quota of own funds (*Eigenmittelquote*) of less than 8% and a fictitious duration of debt redemption (*fiktive Schuldentilgungsdauer*) of more than 15 years, in each case as defined in the Austrian Business Reorganization Act.

Pursuant to section 19 of the Austrian Business Reorganization Act, a contractual stipulation providing for the right to withdraw from an agreement or for its automatic termination in the event of the opening of reorganization proceedings relating to the other party is not enforceable.

Austrian law also provides for certain creditors to be subordinated by law (including, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the return of funds or payment of a consideration).

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings.

Limitation on enforcement

The grant of Collateral and Guarantees by the Austrian Provider is subject to Austrian capital maintenance rules (*Kapitalerhaltungsvorschriften*) pursuant to Austrian corporate law, in particular Section 82 of the Austrian Act on Limited Liability Companies (*Gesetz über Gesellschaften mit beschränkter Haftung*) ("**GmbHG**").

The GmbHG prohibits an Austrian limited liability company from disbursing its assets to its shareholders in circumstances other than as a distribution of profits (if, to the extent and as long as available for distribution under Austrian law), by a reduction of share capital or as liquidation surplus on liquidation of that corporation. Guarantees, share pledges and any other collateral granted by an Austrian limited liability company or limited partnership (the unlimited partner of which is a corporation) in order to guarantee or secure liabilities of a direct or indirect parent or sister company are considered disbursements under the GmbHG and are thus invalid and unenforceable if the granting of such guarantees or security interests by the Austrian Provider was not at arm's length terms or for the Austrian Provider's corporate benefit (*betriebliche Rechtfertigung*). Therefore, in order to enable Austrian subsidiaries to guarantee, or to grant collateral to secure, liabilities of a direct or indirect parent or sister company and in order to reduce the risk of violating the GmbHG and the resultant invalidity and unenforceability, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called "limitation language" in relation to subsidiaries incorporated or established in Austria. Pursuant to such limitation language, the grant of collateral and the provision of up- and side-stream guarantees of Austrian subsidiaries is limited to such extent that such grant of collateral or provision of up- and side-stream guarantees does not result in a breach of Austrian capital maintenance rules. Accordingly, any guarantees of the Austrian Provider and the security will be so limited, potentially even to zero.

No case law is available to confirm and it is thus not certain whether such limitations, in particular regarding limitation of the guarantee or security interest to abide by the Austrian capital maintenance rules, would be valid and enforceable under Austrian law and achieve the desired effect of legally preserving the guarantee or security interest to the extent possible or whether the guarantee or security interest could be deemed void in its entirety. Moreover, Austrian capital maintenance rules are subject to ongoing court decisions. Future court rulings may further limit the access of creditors and/or shareholders to assets of the Austrian Provider.

Hardening periods and fraudulent transfer

Under the avoidance rules of the Austrian Insolvency Code (*Insolvenzordnung*), an insolvency administrator may, by action of avoidance or by defense of avoidance, under certain circumstances, challenge any transaction (which term for the purposes of this section "Hardening Periods and Fraudulent Transfer" includes, without limitation, the granting of security and the guaranteeing, assuming and/or paying of debt).

General requirements for avoidance are: (i) the avoidance must result in an increase of the insolvent's estate (*Befriedigungstauglichkeit*); (ii) the challenged legal action or challenged legal transaction must have caused a direct or indirect discrimination of the other creditors (*Gläubigerbenachteiligung*); and (iii) the avoidance claim generally must be filed by the insolvency administrator within one year after the opening of the insolvency proceedings at the latest.

In particular, the following legal transactions and legal acts (*Rechtshandlungen*) are voidable with respect to the debtor's creditors:

- Avoidance due to intent to discriminate (*Anfechtung wegen Benachteiligungsabsicht*): Pursuant to Section 28 nos. 1-3 of the Austrian Insolvency Code, transactions concluded in order to discriminate other creditors may be challenged if they were entered into within 10 years prior to the opening of insolvency proceedings and the other party knew about the debtor's intention to discriminate. If the other party was not aware but should have been aware of the debtor's intention to discriminate its creditors the period is shortened to two years prior to the opening of the insolvency proceedings. If the legal act was concluded with or for the benefit of a close relative (relatives, in-laws) the burden of proof regarding the knowledge of the intention to discriminate is shifted to the relative, *i.e.*, the relative must prove that he or she had no knowledge and was not negligent in having no knowledge respectively. Should the debtor be a legal entity capable of being a party in a lawsuit then members of the managerial and supervisory bodies, shareholders with unlimited liability as well as shareholders pursuant to section 5 of the Austrian Equity Subordination Act (*Eigenkapitalersatzgesetz*) (*i.e.*, in particular shareholders controlling the debtor or holding a stake of at least 25% or other persons not being a shareholder and exercising a dominant influence like a majority shareholder) are deemed to be close relatives. The same applies to persons which were a "relative" in the year preceding the opening of insolvency proceedings.
- Avoidance due to squandering of assets (*Anfechtung wegen Vermögensverschleuderung*): Avoidance may apply to certain contracts, including purchase, supply and exchange contracts, entered into by the debtor that are considered a squandering of assets at the expense of other creditors, if the counterparty to the contract had or should have had knowledge of such squandering. Squandering of assets is assumed if an obvious incongruity exists between performance and consideration. Section 28 no 4 of the Austrian Insolvency Code applies to transactions that took place within one year prior to the opening of insolvency proceedings.
- Avoidance of transactions with no consideration and analogous transactions (*Anfechtung wegen unentgeltlicher und ihnen gleichgestellter Verfügungen*): Dispositions of the debtor that were concluded free of charge or are equivalent to such dispositions may be challenged. A disposition free of charge requires that the disposing person acts with the intention not to receive any consideration in return. The disposition amounts to a sacrifice by the debtor. Examples for such dispositions are: donations, acknowledgement of a debt, security for liabilities, and payment of someone else's debt. Among others things, if the debtor receives an adequate consideration in return (*angemessenes Entgelt*) the disposition may not be challenged pursuant to Section 29 of the Austrian Insolvency Code. Any economic benefit or interest may be qualified as a consideration. Section 29 of the Austrian Insolvency Code applies to dispositions concluded within two years prior to the opening of insolvency proceedings.
- Avoidance due to preferential treatment (*Anfechtung wegen Begünstigung*): The payment of or granting of security to a creditor (*Befriedigung oder Sicherstellung*) carried out by the insolvent debtor after its material insolvency or after filing an application for the opening of insolvency proceedings or within 60 days prior to such insolvency application may be avoided

if (i) the creditor obtained security or satisfaction which it was not or not in that way or at that time entitled to, unless he was not favored by this transaction (objective preferential treatment) or (ii) the transaction took place for the benefit of a close relative unless such relative did not know and should not have known the debtor's intention of the preferential treatment or (iii) the transaction took place for the benefit of any other creditor who knew or should have known about the debtor's intention of the preferential treatment (subjective preferential treatment). Material insolvency means illiquidity (*Zahlungsunfähigkeit*) or over-indebtedness in terms of insolvency law (*insolvenzrechtliche Überschuldung*). "Close relative" has the same meaning as described above regarding an avoidance due to intent to discriminate (*Anfechtung wegen Benachteiligungsabsicht*). Objective preferential treatment does not require any subjective elements on part of the counterparty. In particular, the counterparty's knowledge of the financial state of the debtor is irrelevant. Subjective preferential treatment requires the debtor's intention and the creditor's knowledge of the debtor's intention to favor a creditor. Transactions carried out more than one year before the opening of the insolvency proceedings may not be contested pursuant to Section 30 of the Austrian Insolvency Code. In case of transactions to the benefit of close relatives, the insolvency administrator in particular benefits from certain reliefs regarding burden of proof.

- Avoidance due to knowledge of insolvency (*Anfechtung wegen Kenntnis der* Zahlungsunfähigkeit): Pursuant to Section 31 of the Austrian Insolvency Code, legal acts carried out by the insolvent debtor after its material insolvency or after filing for the opening of insolvency proceedings may be challenged if the legal act (i) constitutes payment of or granting of security to a creditor (*Befriedigung oder Sicherstellung*) or (ii) is considered a disadvantageous legal act (*nachteiliges Rechtsgeschäft*). The legal act by which a creditor's claim is satisfied or secured may only be challenged if the creditor knew or was negligently not knowing of the debtor's material insolvency or pending insolvency petition. A legal act is considered disadvantageous if the chances for satisfaction of other creditor's claims are worsened due to the legal act.

Disadvantageous transactions of the debtor concluded with creditors may be challenged if such agreements are directly disadvantageous to other creditors and the contracting partner knew or should have known of the debtor's material insolvency or pending insolvency petition.

Disadvantageous transactions of the debtor concluded with non-creditors may be challenged if such agreements are either directly or indirectly disadvantageous to creditors, however, only if the contracting partner (i) knew or should have known of the debtor's material insolvency or pending insolvency petition and (ii) the disadvantage for the insolvency estate was objectively predictable at the time of the transaction. Such objective predictability is in particular assumed if a restructuring plan is obviously flawed (*offensichtlich untaugliches Sanierungskonzept*).

A transaction is considered indirectly disadvantageous (*mittelbare Nachteiligkeit*) if the transaction is objectively balanced, *i.e.*, not directly disadvantageous but the transaction nonetheless lowers the recovery rate of creditors. In case of an indirectly disadvantageous transaction the contracting partner must prove that the disadvantage to the insolvency estate was objectively unpredictable. If the contracting partner and thus beneficiary of the satisfaction/securing or disadvantageous act is a close relative, he or she must in addition prove that he or she had, and was not negligent in having, no knowledge of the debtor's illiquidity or insolvency petition.

Transactions carried out more than six months before the opening of the insolvency proceedings may not be contested pursuant to Section 31 of the Austrian Insolvency Code.

In addition to a receiver avoiding transactions according to the Austrian Insolvency Code, a creditor who has obtained an enforcement order (*Vollstreckungstitel*) could possibly also avoid any transactions according to the Austrian Avoidance Act (*Anfechtungsordnung*) outside of formal insolvency proceedings. The conditions for such action vary to a certain extent from the rules described above, and the avoidance periods are calculated from the date when such other creditor exercises its rights of avoidance in the courts.

Parallel debt

Under Austrian law, certain accessory security interests such as pledges 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 Note Holders will not be party to the security documents relating to the Collateral. In order for the Note Holders to benefit from security interests under accessory Collateral, the 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 Guarantees. The pledges governed by Austrian law will directly secure the parallel debt. The parallel debt concept as such is not known under Austrian law and a parallel debt governed by a foreign law (such as UK law) has not been tested under Austrian law, and there is no certainty that it will be held enforceable under Austrian law.

Enforcement of judgments rendered in the United States

According to the Austrian Enforcement Code (*Exekutionsordnung*), foreign judgments are only enforceable if reciprocity is warranted by a bilateral or multilateral treaty between the countries involved or by an ordinance (*Verordnung*) of the Austrian government (in which ordinance the Austrian government confirms reciprocity). The Republic of Austria and the United States have not entered into a treaty regarding the reciprocal recognition and enforcement of judgments rendered in either court, other than arbitration awards in civil and commercial matters. There is also no applicable ordinance of the Austrian government in place. As such, the courts of Austria will not recognize and/or enforce a judgment obtained in the courts of the United States, be it a judgment rendered by a United States federal or state court. Accordingly, the subject matter upon which a judgment has been obtained in a United States federal or state court would have to be re-litigated before Austrian courts in accordance with applicable Austrian Civil Procedure Laws (*Zivilprozessverfahren*). Only after having obtained a final judgment in the Austrian courts can enforcement procedures be initiated under the Austrian Enforcement Code.

Brazil

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral that is organized under the laws of Brazil and has its headquarters in Brazil, or that is a Brazilian branch of a foreign company (each a "**Brazilian Provider**"), any main insolvency proceedings shall be initiated before Brazilian courts based on agreements governed by the laws of a foreign jurisdiction, such as the Notes, provided such law does not contravene Brazilian public policy, national sovereignty and good morals, that the choice of law is admissible under Brazilian Law and that Brazilian courts can assert jurisdiction over the particular subject matters. The law that will govern such proceedings will always be Brazilian law, which imposes the fulfillment of particular requirements, as described below. Any foreign documents to be admitted before a Brazilian court must be consularized, notarized and registered before a Brazilian registry of titles and deeds and, to the extent such foreign document is not written in Portuguese, translated by a sworn translator.

Foreign judgments by non-Brazilian courts ruling upon the laws of jurisdictions other than Brazil may be enforced in Brazil without reconsideration of the merits, by ratification of those judgments by the Brazilian Superior Court of Justice ("**STJ**"). That confirmation will generally be available if the foreign judgment: (i) fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted; (ii) is issued by a competent court after proper service of process (or declaration that the defendant was *in absentia* despite the proper efforts to locate it mandated by applicable law); (iii) is final and therefore not subject to appeals; (iv) provides for the payment of a certain sum; (v) is authenticated by a Brazilian consular office in the country where the foreign judgment has been issued and accompanied by a sworn translation into Portuguese; and (vi) is not contrary to Brazilian national sovereignty, public policy and good morals. The ratification process may take on average two years to complete.

As a rule, a plaintiff (whether Brazilian or non-Brazilian) who resides or is incorporated outside Brazil, during the course of judicial litigation in Brazil (generally at the outset), must provide a bond or such other form of security accepted by local courts to secure the future payment of court costs and court-mandated legal fees whenever such plaintiff owns no property in Brazil that may ensure such payment. The acceptability of any assets provided by such a plaintiff as security is subject to the decision of the court that has jurisdiction over the matter and is based on applicable law and case law. Nevertheless, if the enforcement proceeding is launched on the basis of a debt instrument, counterclaim or on foreign judgments that have been duly confirmed by the STJ, such plaintiff will not be required to present the security, in the first two cases, because the law specifically so stipulates, and in the latter case because the situation will encompass the enforcement of a final and non-appealable decision, which may not cause the imposition of court costs and court-mandated legal fees on the plaintiff/enforcer.

Under Brazilian regulations, Brazilian companies are not required to obtain authorization from the Brazilian Central Bank in order to make payments under guarantees in favor of foreign persons, such as the holders of the Notes and the Issuer. There is no assurance that such regulations will continue to be in force at the time the Brazilian Provider is required to perform their payment obligations under the guarantees. If these regulations are modified and an authorization from the Brazilian Central Bank is required, the Brazilian Provider would need to seek an authorization from the Brazilian Central Bank to transfer the amounts under the guarantees out of Brazil or, alternatively, make such payments with funds held by the Brazilian Provider outside Brazil. There is no assurance that such an authorization will be obtained or that such funds will be available.

Guarantees and security interests

Under Brazilian law, guarantees may be either personal guarantees pursuant to which all of the assets of a guarantor (except for the place of abode of an individual who is a guarantor and for as long as he/she resides in such place, with one exception to such rule) secure the relevant obligations or, *in rem* guarantees ('security' under common law) pursuant to which only certain specific assets are indicated or segregated to secure an obligation (such as mortgages, pledges, fiduciary liens and others). The validity and enforceability of guarantees and security interests granted by a Brazilian subsidiary to its parent company abroad, such as the Brazilian Provider vis-à-vis the Issuer hereunder are subject to the effect of bankruptcy, insolvency, moratorium (*recuperação judicial e extrajudicial*), *falência*, fraudulent transfer or any other law of general application limiting or affecting the enforcement of contractual or legal rights, and by the effect of general principles of Brazilian civil law, such as probity and good faith and the social function of contracts and property.

Guarantees

A guarantee may be granted by a Brazilian company to guarantee obligations under the Notes, and its enforcement, to the extent such guarantee is governed by a foreign law, will be subject to limitations and requirements applicable to foreign agreements as mentioned above. Furthermore, under Brazilian law, certain rights of the guarantor such as, for instance, the right to be released from a guarantee if the guaranteed obligation is deemed null or void, cannot be waived. Also, a guarantor has the right to ask that an enforcement procedure be implemented against the primary obligor, rendering its obligation subsidiary to the latter's. Those rights, however, may be waived if waived expressly by the guarantor.

Security interest

Brazilian law must govern security agreements in certain cases, for example, if the asset given as security is a real estate located in Brazil; a share in a company established in Brazil; a receivable governed by Brazilian law; or a movable asset under the possession of a Brazilian resident, in the case of a pledge. The formal requirements of a security interest governed by Brazilian law depend on the nature of the relevant security and on the nature of the assets being granted as security, but will generally include written form, a detailed description of the secured obligations on the security instrument and registration before a competent public registry, failing which the security interest will not produce effects before third parties and will not afford the secured obligation preference in the event of insolvency.

Insolvency issues

Under Brazilian Law, one Subsidiary Guarantor will be considered bankrupt whenever: (i) it fails, without legal reason, to pay a debt which is represented by a protested enforceable instrument and which exceeds the equivalent of 40 minimum wages, the total of which equates to BRL 31,520 in February 2015; or (ii) foreclosure proceedings are pending and it does not pay, deposit or appoint sufficient assets within the requisite legal term. A debtor may also be considered bankrupt if it: (i) sells its assets in advance or resorts to ruinous or fraudulent means to make payments; (ii) performs (or tries to perform by unequivocal actions) a sham transaction or the disposal of part or all of its assets to a third party, with the objective of delaying payments or of defrauding creditors; (iii) transfers its place of business without the consent of all creditors and does not maintain sufficient assets to settle its liabilities; (iv) performs a fraudulent (sham) transaction to transfer its main place of business to evade the law or to prejudice a creditor; (v) gives or increases security for an existing debt and does not maintain sufficient free and clear assets to settle its liabilities; (vi) becomes absent without leaving any competent representative with enough resources to pay the creditors; (vii) abandons its place of business or tries to hide from its domicile, head office or main place of business; and/or (viii) fails to perform an obligation due under a court reorganization plan in a corporate restructuring procedure (akin to Chapter 11 in the U.S.).

Brazilian bankruptcy laws may be less favorable to creditors than those of certain other jurisdictions. Note Holders may have limited voting rights at creditors' meetings in the context of a court reorganization proceeding, as explained below. In addition, any judgment obtained in Brazilian courts in respect of any payment obligations under the guarantee would normally be expressed in the real equivalent of the foreign currency amount of such sum at the exchange rate in effect: (i) on the date of actual payment; (ii) on the date on which such judgment is rendered; or (iii) on the date on which collection or enforcement proceedings are started against a Brazilian company. In the event of bankruptcy, the Subsidiary Guarantor's obligations, including the guarantee and security interest under the Notes, which are denominated in foreign currency, will be converted into reais at the prevailing exchange rate on the date of declaration of the bankruptcy by the court.

Fraud against creditors and legal terms of debts (termo legal) period

Under the allegation of fraud against creditors (*fraude contra credores*), a creditor, the judicial administrator and/or the public prosecutor may challenge transactions entered into by the Brazilian Provider if there is evidence that: (i) the insolvency of the Brazilian Provider was known at the time the transaction was carried out, or should be known; and/or (ii) if the transaction was carried out with the intention of defrauding creditors, there was a fraudulent collusion between the Brazilian Provider and the third party involved in the transaction; and the transaction caused effective damage to the insolvent estate of the Brazilian Provider. In such a situation, the transaction may be declared null and void, according to the provisions of Brazilian law.

In addition to the above, the court can set aside transactions which take place up to 90 days before (as determined by the court) the bankruptcy request, the judicial recovery request or the first protest against the debtor due to failure of payment. These transactions include: (i) payments of debts that were not due and payable; (ii) payments made in a way which differed from those set out in the relevant contractual agreement; and (iii) the granting of new security to existing debts. The court can also set aside, regardless of whether the debtor intended to defraud creditors or whether the third party to the transaction knew of the debtor's financial difficulties: (i) transactions for no consideration carried out within two years of the declaration of bankruptcy; (ii) the waiver of inheritance rights in general by the debtor within two years of the declaration of bankruptcy; and (iii) the sale of the debtor's business if the value of the debtor's assets is insufficient to pay its debts and the consent of unpaid creditors has not been obtained, unless they have been (judicially or extra judicially, through a public notary) notified of the sale and have not opposed it within 30 days. Certain transactions may also be rendered null and void if it is proven that, even though no particular debt existed at the moment when the transaction was rendered null and void, a transaction by a party virtually insolvent going forward took place and the need to have funds to cover future obligations should have been foreseen by the parties to the transaction that was rendered null and void.

Procedural fraud

Under the allegation of procedural fraud (*fraude à execução*), a creditor may challenge transactions entered into by the Brazilian Provider if there is evidence that, by the time the transaction took place: (i) there was a pending claim filed against the Brazilian Provider; and (ii) the transaction led the Brazilian Provider to insolvency, *i.e.*, the payment of the credit held by the creditor was put at risk due to the Brazilian Provider's lack of sufficient assets to cover the payment claimed in the claim. In such case, it is not necessary for the creditor to produce evidentiary support of the fraud (neither guilt, nor evidence of intention), which may be presumed under special circumstances. It is also not necessary for the creditor to file a separate claim against the debtor as well: the transaction will simply be disregarded by the judge in charge of the case, according to the provisions of the Brazilian Civil Procedure Code.

Formal procedures for insolvency

The main types of formal procedures available for companies in financial difficulties are: (i) out-of-court recovery (*recuperação extra-judicial*); (ii) judicial recovery (*recuperação judicial*); and (iii) bankruptcy (*falência*). Brazilian Bankruptcy Law provides that some creditors are excluded from judicial recovery proceedings (such as State claims, especially taxes, and some fiduciary creditors) and the measures (before courts or not) taken by the respective holders are not subject to staying effects.

Out-of-court recovery

The out-of-court recovery is a private settlement between debtors and its creditors through which they agree to new conditions for the payment of existing debts. A debt repayment plan must be drawn and proposed by the debtor and if approved by creditors representing, at least 3/5 of each class of credit, the debtor may seek the plan's homologation (ratification) in court, once so homologated, the plan shall bind all creditors from all classes contemplated in such out-of-court recovery plan (even those who did not agree with the plan and who voted against it in a meeting of creditors), except for those creditors not subject to such out-of-court recovery plan or those arising from labor and tax claims, foreign exchange agreements, creditors arising from financial leases and fiduciary ownership ("**Exempted Creditors**").

Any creditor may file challenges to the plan, but no credit claims (*habilitação de crédito*).

The debtor's request for homologation of the plan will not entail the suspension of the rights, actions or enforcement proceedings of the Exempted Creditors, which will continue running against the debtor. Moreover, the ratification of such a plan does not prevent the Exempted Creditors from requesting the debtor's liquidation.

If the plan in a non-judicial corporate reorganization proceeding is rejected by creditors or not confirmed by the court, the debtor can submit a new out-of-court reorganization plan or can file for judicial recovery proceedings.

Under out-of-court proceedings, shareholders and directors keep the control and management of the company.

Judicial recovery

Upon the filing of a request for judicial recovery and the consequent acceptance of it by the court, certain creditors are restrained from enforcing their rights. The judicial reorganization is requested by the debtor and binds all creditors existing up to the date when the court grants the request to process a judicial recovery, even those claims not yet due, except for (i) tax and social security creditors; (ii) creditors relating to forward foreign exchange agreements; and (iii) creditors arising from financial leases, fiduciary ownership or transfer of property, owner or committed seller of real estate, which agreement includes a provision rendering it irrevocable and the transaction non-cancellable, and purchase agreements with provisions relating to retention of title. Brazilian Bankruptcy Law provides for a stay period of 180 days, from the court order granting the processing of the judicial recovery procedure, during which the creditors cannot bring or continue any legal or foreclosure proceedings against the debtor, except for those which relate to tax claims, employment claims, claims that have a fiduciary claim to the underlying asset, and lessors, owners or committed sellers of real estate where the relevant agreement includes an irrevocability or irreversibility clause; and claims that have retention of title clauses or are beneficiaries of forward exchange agreements (however, these creditors cannot sell or remove assets which are deemed essential for the debtor's activities during the stay period). Within 60 days of such court order, the debtor should present its reorganization plan, which should set forth in detail: (i) the reorganization measures to be undertaken; (ii) a showing of the economic viability of the plan; and (iii) an economic financial report and an assessment of the assets and liabilities of the company undergoing restructuring, prepared by a qualified professional or by a specialized company.

If the reorganization plan is accepted by creditors, the court will confirm its applicability to the company and declare that the company has the right to implement it. Nevertheless, if any creditors oppose the plan, the court will convene a creditors' assembly to deliberate and vote on the plan. After such period (180 days) without the approval of a reorganization plan, those creditors are entitled to resume their legal proceedings against the debtor (or to initiate them).

Shareholders and directors also keep the control and management of the company, but may be removed if certain requirements are met. A creditor's committee (if any) and a court-appointed administrator (*administrador judicial*) will supervise the administrators' acts in order to guarantee that they comply with the legal requirements. The commencement of judicial and out-of-court recoveries does not have the effect of terminating the company's contracts. Nevertheless, the reorganization plan can provide for the termination and/or amendment of the conditions of those contracts.

For judicial recovery and bankruptcy proceedings, the debtor must present a list of creditors, classified according to the legal standards, including (i) labor creditors; (ii) secured creditors; (iii) unsecured creditors and (iv) creditors from micro or small companies (a new class created by complementary law no. 147, dated August 7, 2014), as each of those classes of creditor votes separately on the approval of a reorganization plan (cram-down procedures are admissible under Brazilian Bankruptcy Law: if the reorganization plan is approved by creditors representing more than half of the amount of all claims represented at the meeting, regardless of class; by two classes of creditor or one class if there are only two classes of creditor; and by more than one third of the creditors belonging to the class which rejected the plan). Creditors that were not listed by the debtor are entitled to claim for inclusion (credit qualification). Creditors that disagree with the amount or classification in the list are entitled to claim for correction (correction request). On judicial recovery, all creditors should be paid as established in the approved reorganization plan. It is worth mentioning that the abovementioned complementary law no. 147 did not change the article which refers to the cram down alternative, therefore it is still unclear how this will work, since it will depend on the judicial interpretation. Due to the recency of the law, there is not yet any case law on this subject.

If the plan is approved, the debtor will remain subject to the judicial reorganization arrangement for no longer than two years. During this period, the failure on the part of the debtor to comply with any obligation established under the plan will entail the transformation of the judicial reorganization into a bankruptcy proceeding. After these two years, in the event of non-performance of any obligation established under the judicial recovery plan, any creditor may file for an enforcement proceeding or for bankruptcy.

Bankruptcy

Once the bankruptcy claim (*pedido de falência*) is accepted and the bankruptcy decree is issued, judicial measures filed by creditors must be stayed, and any claims will be submitted to the bankruptcy judge, who has jurisdiction over the debtor assets (*juízo universal*); an exception to this is made in the case of labor and tax suits and to those in which the bankrupt entity figures as plaintiff or co-plaintiff. When a company is bankrupt, the unmatured debts become due and payable (including those of shareholders with unlimited and joint liability), with a pro-rata deduction of interest up to the date of the bankruptcy decree, all foreign currency claims are converted into Brazilian Real (at the exchange rate prevailing on the date of the bankruptcy decree), the debtor is automatically prevented from any business activity and from managing or disposing of its assets, the court appoints a judicial administrator to administer the bankruptcy, the judicial administrator collects the debtor's property and assets and values them, and shareholders cannot sell their shareholdings or otherwise withdraw from the company. If the value of the debtor's assets is insufficient to pay creditors no interest accrues on claims (except interest on debentures and secured claims, which can be paid from the proceeds of sale of the underlying security) and agreements which the debtor has entered into with third parties do not terminate automatically. The judicial administrator may perform these agreements if certain requirements are met.

In addition, and among other duties, the judicial administrator will proceed to the collection and assessment of all assets of the debtor, including any assets in the possession of a third party by reason of a pledge or deposit, for instance. Then, the assets sale will begin, so that the amounts due by the debtor can be repaid to creditors pursuant to a mandatory priority (described below) schedule with the proceeds obtained from such sales.

For bankruptcy proceedings, there is a statutory order of preferences/privileges to be observed by the judge on the payment of the creditors. Brazilian law establishes the following order: (i) claims relating to employee contracts and labor accidents, limited to 150 times the minimum wage per employee; (ii) claims of creditors that hold *in rem* security (up to the value of the assets given as security); (iii) federal, state and municipal tax claims, excluding fines; (iv) special privileged creditors; (v) general privileged creditors (including creditors from micro or small companies, in accordance with the complementary law no. 147 abovementioned); (vi) all other unsecured claims; (vii) contractual and public fines and penalties, including tax penalties; and (viii) claims by the debtor's shareholders and managers which do not have an employment relationship with the debtor.

Nevertheless, prior to the payment of the creditors mentioned in the paragraph above, the following extrajudicial creditors shall be liquidated: (i) fees payable to the judicial administrator and his assistants and labor-related claims or occupational accident claims referring to services rendered after the decree of bankruptcy; (ii) extensions of credit provided by the creditors to the bankrupt estate; (iii) expenses with schedules, management, asset realization and distribution of the proceeds, as well as court costs of the bankruptcy proceedings; (iv) court costs with respect to actions and enforcement proceedings in which the bankrupt estate is defeated; (v) obligations resulting from legal acts performed during the judicial reorganization, such as *debtor-in-possession* loans, or after the decree of bankruptcy, and taxes which become due after the decree of bankruptcy.

Under Brazilian Law, creditors secured by fiduciary liens are not subject to the ordinary bankruptcy or judicial recovery proceedings. Due to the nature of the security interest created by a fiduciary security structure (the ownership of the asset is conditionally transferred to the creditor), they are deemed as exempted creditors. Therefore, they are subject to a different recovery treatment, which includes a superpriority position vis-à-vis the other creditors. As such, fiduciary creditors are not subject to judicial reorganization and bankruptcy proceedings.

Due to the special treatment given to such fiduciary creditors, the prevalence of this kind of security has substantially increased in Brazil. It is worth mentioning that, notwithstanding the above description of the special treatment given to such security, there are court decisions stating that if the asset offered as a fiduciary security is considered essential for a debtor's commercial activities, then the fiduciary lien may be disregarded in order to protect the entity's businesses. In this case, the creditor would be classified as an *in rem* security creditor, and so would be subject to the above mentioned sequence for credit recovery.

Participation of noteholders in insolvency legal procedures

Courts in Brazil have taken different approaches regarding the representation of creditors of a bond or note issuance in insolvency procedures. Some courts, especially in the state of São Paulo, have admitted the representation of the holders of notes or bonds by an agent while other have required the direct participation of the beneficial owner of the notes, sometimes even considering the relevant note as independent creditor.

Cross-border reorganization

Brazilian law has no specific provisions on cross-border reorganization or bankruptcy proceedings. Generally foreign court decisions must be submitted to ratification before a Brazilian court (*Superior Tribunal de Justiça*) in order to become enforceable in Brazil (*homologação de sentença estrangeira*), as explained above. Court decisions taken on foreign judicial reorganization or bankruptcy proceedings may be subject to the same proceeding, observing the proper formal and material requirements. On the other hand, it must be highlighted that as Brazilian courts have exclusive jurisdiction over the reorganization and bankruptcy of Brazilian companies, only partial decisions (for instance, recognition of creditors) may be taken by foreign courts and enforced in Brazil, once duly homologated.

France

Insolvency

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of France and/or having its center of main interests in France (each a "**French Provider**"), any main insolvency proceedings would be initiated in France. French insolvency law, which generally favors the continuation of business and employment over the payment of creditors, would then govern those proceedings.

French insolvency law provides for three preventive proceedings and two insolvency proceedings.

Preventive proceedings

Among the preventive proceedings are special mediation and conciliation proceedings. The main characteristics of these proceedings are that (i) they are confidential, (ii) they do not necessarily involve all of the debtor's creditors, (iii) they are informal and flexible, and (iv) no rescheduling or waiver of debt may be imposed on the creditors without their consent. A debtor may however request the court to reschedule a portion of its debts for up to two years pursuant to Article 1244-1 *et seq.* of the French Civil Code. With respect to grace periods under Articles 1244-1 and subsequent of the French Civil Code, pursuant to article L. 611-7 of the French Commercial Code, the judge having commenced conciliation proceedings may, during the execution period of a conciliation agreement, impose grace periods on creditors having participated in the conciliation proceedings (other than the tax and social security administrations) for their claims that were not dealt with in the conciliation agreement.

The purpose of special mediation (*mandat ad hoc*) is to enable a company that is not already insolvent to overcome its financial difficulties by entering into an amicable arrangement with its main creditors. A company is insolvent according to the French test of illiquidity (*cessation des* *paiements*) when it cannot pay its liabilities as they fall due with its immediately available assets (*i.e.*, cash and other liquid assets). The special mediation procedure is conducted by a special mediator (*mandataire ad hoc*) appointed by the competent commercial court at the request of the company. The special mediator is appointed for a (renewable) fixed period with no coercive power to constrain the parties into entering into an amicable arrangement. The court decision appointing the special mediator must be communicated to the statutory auditors of the company (if any).

Conciliation proceedings also form part of preventive proceedings. A French debtor that faces existing or foreseeable legal, economic or financial difficulties and has not been insolvent for more than 45 calendar days may apply for conciliation proceedings (*procédure de conciliation*) with the competent French court to overcome its difficulties by entering into an amicable conciliation agreement (*accord amiable*) with its main creditors. Under the conciliation proceedings, the court will appoint a conciliator (*conciliateur*) for a period of up to four months (renewable for one month) with the duty of facilitating, through confidential negotiations, the conclusion between the debtor and one or more of its willing creditors of a conciliation agreement resolving the debtor's difficulties (*e.g.*, through debt forgiveness, debt rescheduling and/or new loans). The management of the company remains in the hands of its chairman or board. The conciliation agreement reached between the parties during the conciliation proceedings may be either (i) recorded by the President of the commercial court at the request of all parties to the conciliation agreement (*constatation*) or (ii) formally approved by the commercial court at the request of the debtor company (*homologation*). In case of acknowledgement (*constat*) or approval (*homologation*), the court can, at the request of the debtor, appoint the conciliator to monitor the implementation of the agreement (*mandataire à l'exécution de l'accord*) during its execution. The court approval of such a conciliation agreement will provide protection to creditors in respect of certain lender liability issues. In the absence of fraud, the conciliation agreement will not, in the event of subsequent insolvency proceedings, be void or voidable on the grounds of suspect period (see below). In addition, funds made available to the debtor company for the purposes of ensuring the continuation of the company's activities pursuant to the approved conciliation agreement (otherwise than through subscribing to a share capital increase) will benefit from a lien taking priority over most other claims in the event of subsequent safeguard proceedings, accelerated safeguard proceedings, accelerated financial safeguard proceedings, judicial reorganization or liquidation proceedings (so-called "new money priority"). In such events, the payment date of claims benefiting from the new money priority may not be rescheduled without their holders' consent, and the date of cash flow insolvency (*cessation de paiements*), which is the date commencing the "suspect period" (see below) cannot be set by the courts at a date earlier than the date of the sanction of the agreement in case of fraud. As a consequence, notably, events of default based on the opening of conciliation proceedings are not enforceable. While the agreement (whether acknowledged or sanctioned) is in force the debtor retains the right to petition the Court that opened conciliation proceedings for debt rescheduling (pursuant to Article 1244-1 of the French Civil Code mentioned above) in relation to claims of non-consenting creditors (other than public creditors) party to the conciliation, in which case the decision would be taken after having heard the conciliator in the event that he has been appointed to monitor the implementation of the agreement.

At the request of the debtor and after the participating creditors have been consulted on the matter, the conciliator may be appointed with a mission to organize the partial or total sale of the debtor which would be implemented, as applicable, in the context of subsequent safeguard, judicial reorganization or liquidation proceedings; any offers received in this context by the conciliator may be directly submitted to the court in the context of reorganization or liquidation proceedings after consultation of the public prosecutor.

Any contractual provision that modifies the conditions for the continuation of an ongoing contract by reducing the debtors' rights or increasing its obligations simply by reason of the designation of a *mandataire ad hoc* or of the commencement of conciliation proceedings or of a request submitted to this end, and any contractual provision requiring the debtor to bear, by reason only of the appointment of a *mandataire ad hoc* or of the commencement of conciliation proceedings, more than three-quarters of the fees of the professional advisers retained by creditors in connection with these proceedings, are deemed null and void.

Finally, safeguard proceedings (*procédure de sauvegarde*) belong to the preventive proceedings. Safeguard proceedings can only be commenced at the request of companies that are not insolvent according to the French test of illiquidity (*i.e.*, unable to pay their debts as they fall due) and can demonstrate difficulties it cannot overcome; however, the debtor company does not have to demonstrate that these difficulties would lead to it becoming insolvent. The judgment opening the proceedings (the "**Opening Judgment**") triggers an observation period (*période d'observation*) of up to six months (renewable for another six months if needed and for a further six months in exceptional circumstances). The court will also appoint key officials: (i) one or several judicial administrators (*administrateur judiciaire*) with a duty to supervise or assist the debtor's management which remains in place, (ii) a creditors' representative (*mandataire judiciaire*), who has authority to act on behalf of and in the collective interest of creditors, and (iii) a supervisory judge (*juge commissaire*) supervising the proceedings.

Important features of the safeguard proceedings are as follows:

(a) With effect from the Opening Judgment:

- the debtor is prevented from making payments in respect of debts that arose before the Opening Judgment and debts which arise after the Opening Judgment but which are not useful to the safeguard proceedings or the observation period or in return for services provided to the debtor during this period;
- secured creditors of the debtor are not entitled to enforce their security interests during the observation period, and no further security may be granted over the company's assets without the prior consent of the supervisory judge;
- actions and proceedings against the debtor relating to the payment of any sum or involving the termination of any contract for a payment default, as well as actions relating to the enforcement of previously obtained judgments (*voies d'exécution*), are prohibited or suspended; and
- the accrual of interest is suspended, unless such interest relates to a loan agreement entered into for one year or more or to an agreement providing for a differed payment of one year or more.

(b) Notwithstanding any contractual provision to the contrary, existing agreements of the company may not be cancelled, rescinded, terminated or accelerated solely as a result of the opening of safeguard proceedings. Accordingly, events of default based on the opening of safeguard proceedings are not enforceable. The judicial administrator has the power to terminate the contract after receiving a formal notice from the other party to the contract requesting him to indicate whether he intends to continue the contract. The contract terminates upon notification of the administrator's decision to the other party or, failing any response, within one month after receipt of the formal notice. The judicial administrator also has the option of requesting the supervisory judge to terminate the agreement if the termination is necessary to the continuation of the debtor's business and does not excessively prejudice the other party's rights. The judicial administrator may only continue ongoing contracts if he believes that the company is in a position to perform its obligations thereunder. Any agreement not terminated by the administrator, and not terminated prior to the Opening Judgment, is continued in accordance with its terms. Failing to do so, the parties may terminate the agreement in accordance with the terms and conditions thereof.

(c) During the observation period, the debtor draws up a safeguard plan with the help of the judicial administrator. Such plan provides for waivers (partial or total) of debts and/or rescheduling of debts, a change of control (*i.e.*, a total sale of the debtor company's business) and/or a sale of certain business units. For companies having more than 150 employees and an annual turnover in excess of €20 million, the judicial administrator is required to organize two creditors' committees (being the credit institutions' committee (*comité des établissements de crédits*) and the main suppliers' committee (*comité des principaux fournisseurs*)) for the purposes of negotiating on the safeguard plan. The debtor's management, together with the judicial administrator, is in charge of drafting the plan which will be voted by the committee(s) and the general meeting of noteholders as the case may be. Additionally, each member of the credit institution's committee and each member of the main suppliers' committee may also propose an alternative safeguard or reorganization plan, while the noteholders may not. Each such plan will have to obtain the support of all committees and meeting of noteholders. The approval of the safeguard plan requires, with respect to each committee and to the general meeting of noteholders (if any), a positive vote by their members representing at least two thirds of the aggregate claims of those who vote. In respect of voting rights in both committees and general meeting of noteholders, each creditor member of a creditors' committee and each noteholder must, if applicable, inform the judicial administrator of the existence of any agreement relating to the exercise of its vote or to the full or total payment of its claim by a third party as well as of any subordination arrangement. The judicial administrator shall then submit to the creditor/noteholder a proposal for the computation of its voting rights in the creditors' committee/general meeting of noteholders. In the event of a disagreement, the creditor/noteholder or the judicial administrator may request that the matter be decided by the President of the Commercial Court in summary proceedings. If both committees and the general meeting of noteholders approve the company's proposals, the court then officially approves the safeguard plan if it is found compatible with the interests of all the company's creditors. Such court decision makes the plan binding on the dissenting members of the committees and noteholders. Creditors which are not members of the creditors' committees are consulted individually. If one or more creditors' committees do not approve the proposed plan, a new plan is drafted and submitted to all of the creditors' approval on an individual basis. The court may impose delays of repayment for up to ten years for creditors refusing the plan or who have not been consulted on such plan. In the event that the debtor's proposed plan is not approved by both committees and the general meeting of noteholders within the first six months of the observation period, either because they do not vote on the plan or because they reject it, this six month period may be extended by the Court at the request of the judicial administrator, to the extent it does not exceed the duration of the observation period, in order for the plan to be approved by the committee-based consultation process.

In the event that the court does not approve a plan by the end of the observation period, and if the court refuses to extend it (or the maximum possible period, following extensions, has elapsed), the court may convert the safeguard proceedings into judicial reorganization or liquidation proceedings if the company is in cessation of payments *(cessation des paiements)* or no recovery of the business is possible. This conversion may be requested by the debtor, as well as by the administrator, the creditors' representative or the public prosecutor if the committees have not adopted any safeguard plan and it appears that the adoption of a safeguard plan is impossible and if the end of the safeguard proceedings would certainly within a short timeframe lead to the company being insolvent.

In addition, a French debtor which:

- either (i) has established consolidated financial statements in accordance with article L. 223-16 of the French Commercial Code or (ii) has its accounts certified by a statutory auditor or a certified public accountant and meets certain threshold (more than 20 employees, or an annual turnover in excess of €3 million excluding VAT, or total assets on its balance sheet exceeding €1.5 million),

- is already involved in current conciliation proceedings,
- has not been insolvent for more than 45 days when it initially requested the opening of conciliation proceedings,
- is facing legal, economic or financial difficulties which it will not be able to overcome, and
- has drafted a plan to ensure the sustainability of the company and has obtained from the creditors affected by the plan enough support for the proposed restructuring so as to make the adoption of the plan likely,

may apply for accelerated safeguard procedure (*procédure de sauvegarde accélérée*) or accelerated financial safeguard proceedings (*procédure de sauvegarde financière accélérée*) with the competent French court. The court will appoint a judicial administrator (*administrateur judiciaire*) (most of the time the conciliator appointed during the conciliation proceedings) who will facilitate the drawing-up and negotiations with the relevant creditors of the company of a safeguard plan within a period of (i) one month (renewable for one month) in the case of accelerated financial safeguard proceedings, or (ii) three months in the case of accelerated safeguard proceedings, from the opening of the proceedings. The relevant creditors dealt with by these proceedings are (i) the company's main financial creditors (financial institutions and noteholders, as the case may be) (the "**Financial Creditors**") in the case of accelerated financial safeguard proceedings, or (ii) the creditors' committees in the case of accelerated safeguard proceedings, The approval of such a safeguard plan requires a positive vote by the creditors (only the Financial Creditors in the case of accelerated financial safeguard proceedings), within a minimum period of fifteen days of its being sent to the creditors in the case of accelerated safeguard proceedings or within 8 days thereof in accelerated financial safeguard proceedings, following the same majority rules as in regular safeguard proceedings. The court then officially approves the safeguard plan and such court decision makes the plan binding on the dissenting creditors. Some of the other safeguard proceedings rules will be applicable during accelerated safeguard proceedings and accelerated financial safeguard proceedings, but it has to be noted that, in the case of accelerated financial safeguard proceedings, trade creditors are excluded from the proceedings and consequently they will continue to obtain payment of their debts in accordance with the terms of the existing contracts.

Insolvency proceedings

Unless conciliation proceedings are pending, the management of an insolvent debtor must file a request for the commencement of either judicial reorganization or liquidation proceedings (if there are no prospects of recovery) with the relevant court within 45 days from the date on which the company became insolvent. A petition for the commencement of either judicial reorganization or liquidation proceedings may also be filed by any unpaid creditor, or the public prosecutor or decided by the court on its own motion. The court will order either the commencement of:

- reorganization proceedings (*redressement judiciaire*), if there are prospects that the debtor's business may be reorganized; or
- judicial liquidation (*liquidation judiciaire*), if there are no such prospects.

Reorganization proceedings are available to businesses which are insolvent, but appear viable. Most of the organizational provisions of the safeguard proceedings apply to the reorganization procedure. When opening reorganization proceedings, the court will open a two-month observation period which can be renewed for up to 18 months. During the observation period, the company carries on with its existing management and with the assistance of the court-appointed judicial administrator (except in rarer cases where the management has been grossly negligent).

The Opening Judgment has substantially the same effects as in safeguard proceedings. As in safeguard proceedings, the administrator has the power to determine whether ongoing contracts should be terminated or continued if put on notice by the debtor's co-contracting party. At the end of the observation period (or any time during such period if the reorganization of the company's business appears impossible), the court may (a) approve a continuation plan (*plan de redressement*), (b) approve a sale of the debtor's business to a third party, either in full or in part through a sale plan (*plan de cession*), or (c) order the commencement of judicial liquidation proceedings. In reorganization proceedings, in case a shareholders' meeting needs to vote to bring the shareholders' equity to a level equal to at least one half of the share capital as required by article L.626-3 of the French Commercial Code, the administrator may appoint a trustee (mandataire en justice) to convene a shareholders' meeting and to vote on behalf of the shareholders which refuse to vote in favor of such a resolution if the draft restructuring plan provides for a modification of the equity to the benefit of a third party(ies) undertaking to comply with the recovery plan.

Where there are no prospects of recovery, the court orders the commencement of judicial liquidation proceedings (*liquidation judiciaire*), and appoints a liquidator to take over the administration of the debtor's estate and dispose of its assets to pay off its creditors (if the court has ordered the commencement of reorganization proceedings first, in which case the creditors' representative (*mandataire judiciaire*) becomes a liquidator). On the date of the Opening Judgment, the company immediately ceases trading. However, where the assets of the company may be sold as a going concern the court may authorize the temporary continuation of the company's operations for up to three months (renewable once). As in safeguard and reorganization proceedings, the Opening Judgment imposes a stay of certain payments and proceedings. In addition, all debts of the insolvent company become immediately due on the date of the Opening Judgment (or at the end of the temporary continuation of the business, if any). Assets are sold either (i) separately, by auction or private sale, as deemed appropriate by the court, or (ii) as part of a sale of the debtor's business in the framework of a sale plan, in each case with a view to maximizing proceeds. The court may terminate the proceedings when the interest of the continuation of the liquidation process is disproportionate compared to the difficulty of selling the assets. The court may also appoint a *mandataire* in charge of continuing ongoing lawsuits and allocating the amounts received from these lawsuits between the remaining creditors.

As soon as insolvency proceedings are commenced, the immediate payment of any unpaid amount of share capital of the debtor will be required. The *mandataire judiciaire* may demand that a shareholder pay-up its portion of the unpaid share capital.

Suspect period

Where a debtor company is placed in judicial reorganization or liquidation proceedings, the court has the power to set aside certain acts and payments made by the debtor during the suspect period (*période suspecte*), such period being defined as the period (up to eighteen months or twenty-four months for gratuitous acts) between the date on which the debtor is deemed to have become in a state of cessation of payments *(cessation des paiements)* and the Opening Judgment. Some acts are automatically set aside when they were made during the suspect period. These acts include, among others, unbalanced contracts, granting of new securities to secure previously incurred debts, gratuitous acts transferring the debtor's movable assets or immovable property, payment of a debt before its due date, stock options, a declaration of non-seizability (*déclaration d'insasissabilité*) and payment of overdue debts made otherwise than in cash, bills of exchange, securities, wire transfer, Daily assignment, or any other usual means of payment in business relationships. In addition, the court has discretion to set aside any transaction entered into, or any payment of a due debt made by, the debtor if (i) such act or payment was done or made during the suspect period and (ii) the other party knew that the debtor was already insolvent when it made the payment or entered into the transaction.

Contractual provisions pursuant to which the commencement of the safeguard or insolvency proceedings constitutes an event of default are not enforceable against the debtor. Neither, in accordance with a decision of the French Supreme Court dated January 14, 2014, no. 12-22.909, are "contractual provisions modifying the conditions of continuation of an ongoing contract, diminishing the rights or increasing the obligations of the debtor solely upon the opening of reorganization proceedings" (case law which is likely to be extended to safeguard, accelerated safeguard or accelerated financial safeguard proceedings). However, the court-appointed officer can unilaterally decide to terminate ongoing contracts (*contrats en cours*) which it believes the debtor will not be able to continue to perform.

There is no suspect period prior to the opening of safeguard proceedings or accelerated safeguard proceedings or accelerated financial safeguard proceedings to the extent that the debtor was not insolvent when such proceedings were opened.

Statement of claims

Creditors (other than employees) are required to submit, within two months of the publication of the Opening Judgment in the official gazette for civil and commercial matters (*BODACC*) (four months for non-French-resident creditors), a declaration of their claims to the court-appointed creditors' representative regarding debts that arose before the commencement of safeguard, accelerated safeguard, accelerated financial safeguard, judicial reorganization or liquidation proceedings and debts which arise after the commencement of safeguard, accelerated safeguard, accelerated financial safeguard, judicial reorganization or liquidation proceedings but which are not linked to the debtor's business or useful to the proceedings. Failure to submit the declaration of claim within the allotted time will deprive the creditors of the benefit of payments made by the debtor in accordance with the relevant plan.

Ranking of creditors on insolvency proceedings

Where, in the context of reorganization proceedings, the assets of the debtor are sold under a sale plan, creditors are paid out of the proceeds of such sale in accordance with the following ranking:

- the "super privileged" claims of employees;
- certain legal fees and expenses of the proceedings;
- claims secured by the so-called "new money priority" granted under a prior conciliation agreement approved (homologué) by the court;
- claims that arose after the Opening Judgment and which are useful to the proceedings or the observation period or in return for services provided to the debtor during this period;
- claims secured by security interests over real estate properties and special security interests over movable properties; and
- other claims, according to existing priorities.

In the context of judicial liquidation proceedings, creditors are paid out of the proceeds of the sales of assets according to the following ranking:

- the "super privileged" claims of employees (covering the unpaid sums for the last 60 days of work, subject to certain caps);
- the legal fees and expenses of the proceedings; and
- claims secured by the so-called "new money priority" granted under a prior conciliation agreement approved (homologué) by the court;
- claims secured by security interests over real estate properties and special security interests over movable properties;

- claims that arose after the Opening Judgment and which are useful to the proceedings, the temporary continuation of the activity, or the observation period (in case of safeguard or reorganization proceedings previously opened) or in return for services provided to the debtor during this period or continuation of the activity; and
- other claims, according to existing priorities.

Extension of insolvency

A Court may extend the insolvency proceedings of one company to another, even when the second company is not in a situation of cessation of payment (*cessation des paiements*), in the case of (a) commingling of assets and liabilities between the companies (*confusion des patrimoines*) and (b) the fictitious nature of the companies (*fictivité*).

The commingling of assets and liabilities between companies may result from a mixing (*imbrication*) of assets and liabilities arising out of a general disorder in their respective accounts, which renders the determination of the companies' respective assets and liabilities impossible, or out of financial or business relationships between the relevant companies not being at arm's length, such as transfers of assets by one company to another without proper or any consideration. In practice, there are no precise criteria by which a court may characterize the merging of assets and liabilities of two companies. Certain decisions have emphasized that insolvency proceedings of a company may only be extended to another company when the degree of inter-relationship of the aggregate assets and liabilities of the relevant companies results in their being so inextricably linked that only a professional advisor could ascertain the actual respective asset/liability situation of the relevant companies. In this respect, it should be noted that French courts usually take into account both the accounting and the legal aspects of the interrelationship between the companies. The insolvency proceedings of a company may also be extended where there are unusual transfers of assets from one company in favor of another, if it can be argued that the two companies in reality form a single entity. This would be the case, for example, where a company is set up using the assets of another company in order for the company to shield, for example, its real estate assets from its creditors or where a company pays, without receiving an apparent corporate benefit, the debts of another company.

There is no precise legal definition of the concept of what amounts to the fictitious nature of a company. It has been held to apply where a separate legal entity exists in form only. The company does not have autonomy and does not in practice exist as an independent legal entity despite the existence of an independent legal structure and its creation results from a fraudulent intent. Thus, a French court would be entitled to extend the insolvency of a company to another company on the basis of the fictitious nature of the company if, for example, the business executives were the same, the companies' names were nearly identical, the companies' registered offices were located in the same place, the companies had the same activities or interests and/or the letter-heads of the companies were identical. As far as concerns real estate transactions, the merging of assets and liabilities between companies (*confusion des patrimoines*) and the fictitious nature of a company (*fictivité*) may be interconnected issues. However, the existence of one or more of these elements does not suffice to establish systematically the fictitious nature of a company, the establishment of which depends mainly on the facts, and is considered on a case-by-case basis.

Limitation on enforcement

The granting of guarantees or security interests by companies that are incorporated in France to secure payment obligations under the high-yield bonds is subject to the provisions of the French Commercial Code and the French Civil Code and the limitations set forth therein.

In case of safeguard proceedings (*procédure de sauvegarde*), accelerated safeguard proceedings (*procédure de sauvegarde accélérée*), accelerated financial safeguard proceedings (*procédure de sauvegarde financière accélérée*), judicial reorganization (*redressement judiciaire*) or judicial liquidation (*liquidation judiciaire*), guarantees, security interests and any other credit support whatsoever granted by a French company to secure the amounts made available to it could be null and void or reduced if found to be disproportionate to the said amounts. As these provisions have come into force relatively recently and in the absence of case law decision, it is difficult to predict what a court would consider as being disproportionate credit support; however, it will presumably take into account whether the terms and conditions are customary for the type of transaction considered in light of market practices, and whether they are consistent with the financial capacities of the company.

The assets of a French company shall not be used in a manner detrimental to its corporate interest; consequently, the granting of upstream or lateral guarantees or security may constitute misuse of corporate assets of the relevant company (either stock companies or civil companies). In such context, there is a significant risk that the guarantees and relevant security interests will be held invalid on the grounds that they were granted for an illicit consideration.

Accordingly, the guarantee or security interest granted by any French company to secure payment obligations under the Notes will be limited as follows under the limitation guarantee provisions relating thereto:

- the guarantee or security interest shall be in the overall interest of the group to which the French Provider belongs and shall not constitute prohibited financial assistance within the meaning of article L. 225-216 of the French Commercial Code or cover any obligations which if incurred would constitute a misuse of corporate assets within the meaning of article L. 242-6 and L. 244-1 of the French Commercial Code; and
- the guarantee or security interest of any French Provider covering the payment obligations of any company which is not a direct or indirect subsidiary (within the meaning of article L. 233-3 of the French Commercial Code) of such French Provider shall be limited to an amount not exceeding, at the time of the demand of payment under the guarantee or enforcement of the security interest, the aggregate outstanding amount of any inter-company loans (or other financial support in any form) made available from time to time to the relevant French Provider by such company under the Notes, it being specified that any payment made by the relevant French Provider in respect of the obligations of such company shall reduce, pro tanto, the outstanding amount in the inter-company loans due by the relevant French Provider under the inter-company loan referred to above; and
- the guarantee of a security interest shall be limited to the extent required by applicable law to the amount that the relevant French Provider can pay without exceeding its financial capacity or otherwise resulting in insolvency of the relevant French Provider as of the date the guarantee or security interest is granted or, if later further amended, restated, or reaffirmed, as of such later date.

Limitation on enforceability of a foreign judgment, choice of law

Under French private international law, the choice of the laws of New York to govern the Notes and the Guarantees will not be upheld before a competent French court as a valid choice of law in the event that the relevant content of the laws of New York is not duly proved or that the provisions of such laws invoked are considered by the French court to be contrary to the French conception of *ordre public international* (French public policy doctrine as applied in private international matters) (the "**French International Public Policy**") and French *lois de police* (overriding mandatory rules of territorial application). In addition, the submission of any French Provider to the jurisdiction of the courts of New York is subject to the rules governing international *lis alibi pendens* under French private international law and the exclusive jurisdiction attributed to certain courts in relation to certain actions.

The French International Public Policy is clearly recognized as being narrower in scope and content than public policy as applied in domestic matters; its scope and content are not precisely or exhaustively defined under French law and are determined by French courts on a case-by-case basis taking into account the specific circumstances of each case. In addition, French International Public Policy may vary with time and the rules of French International Public Policy applied by a French court will be those determined by such court to be applicable at the time of its decision.

It should be further specified that:

- in the event that a French Provider is the subject of conciliation or appointment of a *mandataire ad hoc*, or under *sauvegarde* (safeguard proceedings), *sauvegarde accélérée* (accelerated safeguard proceedings), *sauvegarde financière accélérée* (accelerated financial safeguard proceedings), *redressement judiciaire* (reorganization proceedings) or *liquidation judiciaire* (judicial liquidation) proceedings or any other French insolvency-related proceedings, French law will (except in very limited circumstances) govern such proceedings and the rights and duties arising therefrom, in particular the limitations imposed on the rights of creditors as a result of such proceedings, and the competent French court will not recognize the jurisdiction of any foreign court in respect of such proceedings;
- when required to apply or analyze a foreign law in respect of any legal or contractual relationship, concept or mechanism, a French court will:
  - I. treat the relevant aspects of such foreign law as a factual matter the substance of which the relevant party or parties will be required to prove, in practice through written evidence (*e.g.*, through the submission of affidavits (*certificats de coutume*) of reputable jurists qualified in the foreign law concerned); and
  - II. apply the foreign law only to the extent that it does not conflict with French International Public Policy and French *lois de police*; and
- notwithstanding the choice of a foreign law to govern the Notes and the submission to the jurisdiction of any foreign courts, any enforcement against any of the French Providers or its assets in France will be subject to substantive and procedural French law and to the jurisdiction of French courts.

A final judgment for the award (of a civil or commercial nature) of a fixed and definite sum of money obtained after service of process in the required form and rendered against any of the French Providers by a court of competent jurisdiction in Germany (an "**EU Foreign Judgment**"), should be capable of direct recognition and enforcement in France, without a review of the substantive matters thereby adjudicated, and without *exequatur* proceedings, according to European Regulation No. 1215/2012 of December 12, 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. Recognition and enforcement of an EU Foreign Judgment can however be resisted before French courts in the following circumstances:

- if such recognition or enforcement is manifestly contrary to French Public Policy;
- where the EU Foreign Judgment was given in default of appearance (i.e. if the defendant was not served with the document which instituted the proceedings in sufficient time and in such a way as to enable the defendant to arrange for her/his defense);
- if the EU Foreign Judgment is irreconcilable with a judgment given between the same parties in France, or with an earlier EU Foreign Judgment or an earlier judgment given in a third State involving the same cause of action and the same parties, providing that the earlier judgment fulfills the conditions necessary for recognition and enforcement in France.

The decision on the application for refusal of enforcement of the EU Foreign Judgment can be appealed against by either party. As regards EU Foreign Judgments rendered in proceedings instituted before January 10, 2015, an application for recognition and enforcement of an EU Foreign Judgment has to be brought before French courts via exequatur proceedings on an ex-parte basis, pursuant to European Regulation No. 44/2001 of 22 December 2000. Recognition and enforcement can be only be refused on the basis of the same grounds as those listed above (and without a review of the merits of the EU Foreign Judgment) and the decision may be appealed against by either party.

Different rules would apply to the enforcement in France of a judgment rendered in the United States since the United States and France are not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters.

Accordingly, a judgment rendered by any U.S. federal or state court based on civil liability, whether or not predicated solely upon U.S. federal or state securities laws, enforceable in the United States, would not directly be recognized or enforceable in France. A party in whose favor such judgment was rendered could initiate *exequatur* proceedings in France before the relevant civil court (*Tribunal de Grande Instance*).

Enforcement in France of such U.S. judgment could be obtained following proper (*i.e.*, *non-ex parte*) proceedings if the civil court is satisfied that the following conditions have been met (which conditions, under prevailing French case law, do not include a review by the French court of the merits of the foreign judgment):

- such U.S. judgment is enforceable in the jurisdiction of the court which rendered it;
- the dispute is clearly connected to the country in which the judgment was rendered (the U.S.) and the French courts did not have exclusive jurisdiction over the matter;
- such U.S. judgment does not contravene French International Public Policy rules, both pertaining to the merits and to the procedure of the case;
- such U.S. judgment is not tainted with fraud; and
- such U.S. judgment does not conflict with a French judgment or a foreign judgment which has become effective in France.

Please note that where proceedings are pending before French courts at the time enforcement of the U.S. judgment is sought and where these proceedings have the same or similar subject matter as such U.S. judgment, the courts may stay the *exequatur* proceedings (although there is no clear position in French case law).

If the French civil court is satisfied that such conditions are met, the U.S. judgment will benefit from the *res judicata* effect as of the date of the decision of the French civil court and will thus be declared enforceable in France. However, the decision granting the exequatur is subject to appeal.

Furthermore, if an original action is brought in France, French courts may refuse to apply the provision of foreign law or part of foreign law as designated by the applicable French rules of conflict or as chosen by the parties to govern their contract if the application of such law is deemed to contravene French International Public Policy and French *lois de police*. Further, in an action brought in France on the basis of U.S. federal or state securities laws, French courts may not have the requisite power to grant all the remedies sought.

In addition, the discovery process under actions filed in the United States could be adversely affected under certain circumstances by French criminal law No. 68-678 of July 26, 1968, as modified by French law No. 80-538 of July 16, 1980 (relating to communication of documents and information of an economic, commercial, industrial, financial, or technical nature to foreign authorities or persons) and French ordinance No. 2000-916 of September 19, 2000, which could prohibit or restrict obtaining evidence in France or from French persons in connection with a judicial or administrative U.S. action.

Pursuant to the regulations above, the U.S. authorities would have to comply with international (the 1970 Hague Convention on the Taking of Evidence Abroad) and French procedural rules to obtain evidence in France or from French persons.

Similarly, French data protection, rules (law No. 78-17 of January 6, 1978 on data processing, data files and individual liberties, as most recently modified by French ordinance No. 2014-334 of March 17, 2014) can limit under certain circumstances the possibility of obtaining information in France or from French persons in connection with a judicial or administrative U.S. action in a discovery context.

Pursuant to Article 14 of the French Civil Code, a French national (either a company or an individual) can sue a foreign defendant before French courts in connection with the performance of obligations contracted by the foreign defendant in France with a French person or in a foreign country with French persons. Pursuant to Article 15 of the French Civil Code, a French national can be sued by a foreign claimant before French courts in connection with the performance of obligations contracted by the French national in a foreign country with the foreign claimant. These provisions also apply in the context of non-contractual obligations. For a long time, case law has interpreted these provisions as meaning that a French national, either claimant or defendant, could not be forced against its will to appear before a jurisdiction other than French courts. However, according to recent case law, the French courts' jurisdiction over French nationals is no longer mandatory to the extent that an action has been commenced before a court in a jurisdiction that has sufficient contacts with the dispute and the choice of jurisdiction is not fraudulent. More specifically, according to this recent case law, a French defendant can no longer challenge the jurisdiction of a foreign court on the basis of Article 15 of the French Civil Code in circumstances where the foreign court has otherwise jurisdiction. In addition, French and foreign claimants may waive his or her rights respectively to benefit from the provisions of Articles 14 and 15 of the French Civil Code, including by way of conduct by voluntarily appearing before the foreign court.

In addition, please note that the French Supreme Court (*Cour de cassation*) has recently held that a contractual provision submitting one party to the exclusive jurisdiction of a court and giving another party the discretionary option to choose any competent jurisdiction was invalid on the ground that it was discretionary (*potestative*). Accordingly any provisions to the same effect in any relevant documents would not be binding on the party submitted to the exclusive jurisdiction of the court or prevent a French party from bringing an action before the French courts.

Germany

Insolvency

In the event of insolvency of a Subsidiary Guarantor, 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 and Schaeffler AG) (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 (*überwiegend wahrscheinlich)* 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* or *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 the Note 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 Note Holders against the Parent Guarantor under the Parent Guarantee or a German Subsidiary Guarantor under its Subsidiary 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 and 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 group insolvency concept, which generally means that, despite the economic ties between various entities within one group of companies, there will be one separate insolvency proceeding for each of the entities if and to the extent there exists an insolvency reason on the part of the relevant entity. Each of these insolvency proceedings will be legally independent from all other insolvency proceedings (if any) within the group. In particular, there is no consolidation of assets and liabilities of a group of companies in the event of insolvency and no pooling of claims among the respective entities of a group. The German Government (*Bundesregierung*) has released a Draft Bill to Facilitate the Handling of Group Insolvencies (*Entwurf eines Gesetzes zur Erleichterung der Bewältigung von Konzerninsolvenzen*). While the draft bill does not propose to abolish the principle of separate insolvency proceedings in relation to each group entity, it stipulates four key amendments of the German Insolvency Code in order to facilitate an efficient administration of group insolvencies: (i) a single court may be competent for each group entity insolvency proceedings; (ii) the appointment of a single person as insolvency administrator for all group companies is facilitated; (iii) certain coordination obligations are imposed on insolvency courts, insolvency administrators and creditors' committees; and (iv) certain parties may apply for "coordination proceedings" (*Koordinationsverfahren*) and the appointment of a "coordination insolvency administrator" (*Koordinationsverwalter*) with the ability to propose a "coordination plan" (*Koordinationsplan*). It is currently unclear if and when, and whether in its current or modified form, this bill might be adopted by the German parliament.

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

Most of the German Subsidiary Providers are incorporated in the form of a GmbH (Limited Liability Company). Consequently, the grant of collateral (including a guarantee) by these companies 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 guarantees, share pledges and other security by a GmbH in order to guarantee or 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 issue guarantees or 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 guarantees or the security interests agree, subject to certain exemptions, to enforce the guarantees or 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 Subsidiary

Guarantees or Collateral provided by German Subsidiary Providers will contain such limitation language and the relevant Subsidiary Guarantees and 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 subsidiaries to make payments on the Subsidiary Guarantees, of the secured parties to enforce the Collateral or of the beneficiaries of the Subsidiary Guarantees to enforce the Subsidiary Guarantees.

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 Guarantee or 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 Note Holders as well as granting them any security interest (including guarantees). 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 Note Holders would be under an obligation to repay the amounts received or to waive the guarantee or the benefit of the security interest.

In particular, a transaction (which term includes the provision of security (including guarantees) 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 (including a guarantee) 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 (including a guarantee) 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 guarantee or 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 guarantee or 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 Subsidiary Guarantees or Collateral by 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 guarantee or security was close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

Parallel debt

Under German law, certain "accessory" (*akzessorisch*) 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 Note Holders will not be party to the security documents relating to the Collateral. In order for the Note Holders to benefit from security under "accessory" Collateral, the 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 Guarantees. 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.

Hong Kong

Insolvency

Insolvency proceedings with respect to the Subsidiary Guarantor incorporated under the laws of Hong Kong (the "**Hong Kong Guarantor**") may be commenced in Hong Kong and, if so, will, as a general rule, be based on Hong Kong insolvency laws.

Hong Kong insolvency laws are more favorable to secured creditors than to debtors and unsecured creditors who are afforded only limited protection from enforcement by secured creditors. The Hong Kong Guarantor is not a provider of any Collateral. As such, the Note Holders will be unsecured creditors with claims ranking *pari passu* with claims of other unsecured creditors of the Hong Kong Guarantor. The sole shareholder of the Hong Kong Guarantor will create a charge over the shares of the Hong Kong Guarantor in favor of the Trustee.

Priority of claims in a Hong Kong liquidation

In the event of a liquidation under Hong Kong law of the Hong Kong Guarantor, assets securing indebtedness may only be used to satisfy the liabilities of the Hong Kong Guarantor to its unsecured creditors after payment of all relevant secured indebtedness and after payment of all claims entitled to priority under Hong Kong insolvency law. Currently, these debts entitled to priority may include (a) certain amounts owed to the Government (including any applicable taxes), and (b) certain amounts owed to employees (which also have priority ahead of a floating charge). Further, all expenses (including the liquidator's remuneration) properly incurred in a winding up are also payable out of the company's assets in priority to all other claims.

Any interest accruing under or with respect to amounts due under the guarantee to which the Hong Kong Guarantor is a party with respect to any period after the commencement of liquidation proceedings would only be recoverable by the Note Holders from any surplus remaining after payment of all other debts proved in the proceedings and accrued and unpaid interest up to the date of the commencement of the proceedings.

Under Hong Kong insolvency law, any payment or other act relating to property made or done by a company within six months or two years in the event of transactions entered into with an "associate" (as defined in the Bankruptcy Ordinance (Cap. 6 of the laws of Hong Kong)) before the commencement of its winding up is invalid if the insolvent company in making that payment or doing that act did so with a view to giving a creditor an unfair preference. An unfair preference is given by a company to a person if it has the effect of putting a creditor, guarantor or surety of the company in a better position (in the event of the company going into insolvent liquidation) than if the action had not been taken. In order for an unfair preference claim to be successful, it must be shown that the company was influenced by a desire to produce that result and provided that, at the time or as a result of the preference, the company was unable to pay its debts. There is a presumption of such influence if the parties are "associates."

A floating charge on the undertaking or property of a company may be invalid if created in the period of twelve months ending with the presentation of a winding up petition of the company, unless it is proved that immediately after the creation of the charge, the company was solvent, except to the extent of any cash paid to the company at the time of or subsequently to the creation of, and in consideration for, the charge (together with interest on such amount at the rate specified in the charge or at the rate of 12% per annum, whichever is less).

Service of process and enforcement of judgments

As there is no agreement for the reciprocal enforcement of judgments between Hong Kong and the United States, a judgment of the courts of the United States rendered in an action brought in such courts can only be enforced in Hong Kong by commencing a new action in the Hong Kong courts. However, provided the judgment of the courts of the United States is final and conclusive (even if it can still be appealed) and is for a definite monetary sum, the judgment would form the basis of a claim in respect of which an application for summary judgment could be made on the grounds that there was no defense to the claim. Accordingly, a final and conclusive judgment for a definite sum of money entered by a United States court in any suit, action or proceeding would be enforced by the Hong Kong courts, without re-examination or re-litigation of the matters adjudicated upon, provided that:

- the judgment was not obtained by fraud;
- the enforcement of the judgment would not be contrary to Hong Kong public policy;
- the judgment was not obtained in proceedings contrary to natural justice (in particular in circumstances where the defendant did not have adequate opportunity to defend the claim);
- the judgment is not inconsistent with a Hong Kong judgment in respect of the same matter;
- the judgment is not for multiple or penalty damages (as defined by the Protection of Trading Interests Ordinance (Cap. 471 of the laws of Hong Kong);
- enforcement proceedings are instituted within six years after the date of the judgment;
- the United States court had jurisdiction; and
- the original judgment was between the same parties as those before the Hong Kong court.

A judgment of a Hong Kong court will generally be given in the currency in which the claim is made but may be given in Hong Kong dollars in some cases. Subject to the foregoing, holders of the notes may be able to enforce judgments in Hong Kong, in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that those judgments will be enforceable. In particular, a Hong Kong court may decline to enforce those judgments if the Hong Kong court believed there was an insufficient connection between Hong Kong and the original dispute or if it considered that it would be contrary to Hong Kong public policy to do so.

Hungary

Insolvency

In the event of insolvency (*fizetésképtelenség*) of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Hungary and/or having its center of main interests in Hungary (each a "**Hungarian Provider**"), any main insolvency proceedings shall be initiated in Hungary before the county court (*törvényszék*) of competence based on the registered seat of the Hungarian debtor as of the date of submission of the insolvency petition. Hungarian law would then govern those proceedings. The insolvency proceedings cover two main proceedings: the bankruptcy proceeding (*csödeljárás*) and the liquidation proceeding (*felszámolási eljárás*). The bankruptcy proceeding has the aim of reorganizing business associations facing insolvency by way of composition with the creditors, and if it is not possible or not wanted, the liquidation proceeding aims to provide possible satisfaction (payment) to the creditors upon the dissolution and termination of the insolvent debtor. The insolvency laws of Hungary are mainly covered by the provisions of Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings ("**Hungarian Bankruptcy Act**").

The following is a brief description of certain aspects of the insolvency laws of Hungary.

Under Hungarian insolvency law, a bankruptcy proceeding may be initiated by the debtor company at the competent court. Legal representation of the debtor company is mandatory during the procedure. The prior consent of the members' (shareholders') meeting of the debtor company to the initiation of bankruptcy proceedings is required.

In the framework of the bankruptcy proceeding, the debtor receives a payment moratorium the objective of which is to preserve the assets under bankruptcy protection with a view to reaching a composition with creditors, during which period the debtor, the administrator (*vagyonfelügyelö*), the financial institutions maintaining the accounts of the debtor and creditors must refrain from taking any measure contradictory to the objective of the payment moratorium. During the payment moratorium (i) no claims may be set off against the debtor company (save for a claim submitted for the purpose of set-off until the commencement date of the bankruptcy proceeding in a lawsuit initiated by the debtor), (ii) no payment order can be processed on the accounts of the debtor company (save for certain exceptions, *e.g.*, salaries, social security taxes, utility charges, costs of the administrator), (iii) no enforcement of payment obligations can be made, (iv) no satisfaction may be provided in connection with any pledge existing on the debtor's asset and no security that existed before the time of the opening of bankruptcy proceedings can be enforced, (v) the debtor company may undertake new obligations and make payments only with the approval of the administrator, and (vi) the agreement entered into with the debtor may not be rescinded or cancelled with reference to a payment default during the moratorium or because of the commencement of bankruptcy proceeding by the debtor company. As an exception to the freeze on security interests, the satisfaction from security deposit provided before the opening of bankruptcy proceedings and the application of close-out netting is permitted if either party is (a) a public sector body (within the meaning of EC Directive 2002/47), (b) the central bank of an EEA state, the European Central Bank or the Bank for International Settlements, (c) a credit institution, (d) an investment enterprise, (e) a financial enterprise, (f) an insurance company, (g) an undertaking for collective investment in transferable securities (within the meaning of EC Directive 85/611) or a company that manages the undertaking, or (h) a central counterparty, settlement agent or clearing house (within the meaning of EC Directive 2002/47), provided that entities listed in points (c)-(h) have their registered seat in an EEA state.

Under Hungarian insolvency law, a liquidation proceeding may be initiated (i) upon request by the debtor, the creditor or the receiver (*végelszámoló*), or (ii) *ex officio* (a) on the basis of a notification by the competent court of registration (*e.g.*, if the court of registration initiated the liquidation of the company), or (b) on the basis of a notification by the criminal court (if the enforcement procedure for the collection of a fine imposed upon a legal person has failed), or (c) if the parties did not manage to reach a composition during the bankruptcy proceedings or the composition is not in line with the laws of Hungary. The debtor may only request the opening of liquidation proceedings if it is (i) unable (*e.g.*, creditors' claims existed at the opening of, or arose during, a former bankruptcy proceeding have not been fully satisfied yet), or (ii) unwilling, to enter into bankruptcy proceedings.

The liquidation proceedings are controlled by the competent county court having jurisdiction based on the registered seat of the Hungarian debtor which monitors the due performance of the proceedings. The creditor may, simultaneously with the submission of the liquidation petition or any time before the commencement of the liquidation, request the court to appoint a temporary administrator (*ideiglenes vagyonfelügyelö*) as a preliminary protective measure to secure the property of the debtor. The court must appoint the temporary administrator without delay if the creditor (i) is able to provide plausible grounds that the satisfaction of its claims at a later date is in jeopardy, (ii) can evidence the existence, the amount and the expiry of its claim in the form of a public deed (*közokirat*) or a private deed with full probative force (*teljes bizonyító erejü magánokirat*), and (iii) has advanced the fee of the temporary administrator. The duty of the temporary administrator is, in particular, to safeguard and to preserve the debtor's property and assets. Following the temporary administrator taking office, the managing director (management) of the debtor is restricted from entering into any contract considered to be in excess of the scope of normal business operations, where the company's assets are concerned, without the prior consent of the temporary administrator, or from entering into any other commitment, including where the debtor is compelled to performance under an existing contract.

The court will, within 60 days of receipt of the petition for the liquidation proceedings, order the liquidation of the debtor by decree if it finds that the debtor is insolvent. The court declares that the debtor is insolvent (i) if the debtor fails to settle or contest its previously uncontested and acknowledged contractual debts within twenty days of the due date and thereafter fails to satisfy such debt upon receipt of the creditor's written payment notice, or (ii) the debtor fails to settle its debt within the deadline specified in a final court decision and in an order for payment, or (iii) if the enforcement procedure (to collect the debt) against the debtor was unsuccessful, or (iv) if the debtor did not fulfill its payment obligation as set forth in the composition agreement concluded either in the bankruptcy or in the liquidation proceeding, or (v) if the preceding bankruptcy proceedings were terminated because no composition agreement was reached, or (vi) if in an insolvency proceeding initiated by the debtor or by the receiver the debtor's liabilities exceeded the debtor's assets, or the debtor was unable or presumably will not be able to settle its debt (debts) on the due date, and the members (shareholders) of the debtor fail to provide a statement of commitment—following due notice—to guarantee the funds necessary to cover such debts when due. A petition for liquidation may only be submitted based on grounds mentioned in points (i) and (ii) above if the principal amount of the debt is more than HUF200,000 (approximately €670).

The court appoints a liquidator (*felszámoló*) in its order on the opening of liquidation proceedings. Upon the opening of the liquidation proceedings, the right to manage and dispose over the business and assets of the debtor passes to the liquidator, who has full administrative and disposal authority over the debtor's assets, and who is only authorized to make any legal statements in connection with the assets of the company.

Following the entry into force of the order on liquidation, the court will order without delay the publication thereof in the Company Gazette. All debts of the debtor company are deemed payable (due) at the time of the opening of liquidation proceedings.

All creditors wishing to assert claims against the debtor need to participate in the liquidation proceedings. Hungarian liquidation proceedings are collective proceedings and creditors may generally no longer pursue their individual claims in proceedings, other than the liquidation proceedings, separately, but can instead only enforce them in compliance with the restrictions of the Hungarian Bankruptcy Act.

Accordingly, creditors may report their claims in the liquidation proceedings to the liquidator for purposes of registration within 40 days from the publication of the opening of liquidation proceedings (privileged creditors). The liquidator also registers the claims against the debtor which are reported after the 40 day deadline, but within 180 days of the publication of the opening of liquidation proceedings (unprivileged creditors). These claims of unprivileged creditors will only be satisfied if there are sufficient funds remaining following the settlement of the privileged debts.

Pursuant to the provisions of the Hungarian Bankruptcy Act, the liquidator disposes of the debtor's assets through public sales at the highest market price. The liquidator effects the sale by way of tender or auction within 100 days from the publication of the opening of the liquidation proceedings. The liquidator, the administrator, the temporary administrator, the owner (member, shareholder, founder), the executive officer (*vezetõ tisztségviselõ*), director (*cégvezetõ*), supervisory board member, auditor, any employee of the liquidator, the administrator, the temporary administrator, their close relatives and companies in which any of the aforementioned have a majority influence (as set forth in Act V of 2013 on the Hungarian Civil Code) may not acquire any ownership or any other rights of value (*vagyoni értékü jog*) in the above-specified sale procedure. Furthermore, the acquirer may not set off its claim against the debtor with the purchase price in the public sale procedure (subject to some exceptions).

Under special circumstances set forth in the Hungarian Bankruptcy Act, the Hungarian government may qualify a debtor as a company of strategic importance. In this case, special bankruptcy and liquidation rules will apply.

Limitation on enforcement

If there are liquidation proceedings in progress against the Hungarian Providers, the guarantee or any security interest provided by that entity could be subject to potential challenges by the liquidator and/or any creditor of that entity in accordance with the below rules of the Hungarian Bankruptcy Act.

The creditor, and on behalf of the debtor, the liquidator may file for legal action before the court within 90 days from the time of gaining knowledge but within a one year deadline from the date of publication of the notice of liquidation to challenge:

- contracts or the debtor's other commitments concluded by the debtor within five years preceding the date when the court received the petition for opening liquidation proceedings (or concluded thereafter) with the intent to conceal the debtor's assets or to defraud any one creditor or the creditors, and the other party had or should have had knowledge of such intent; or
- contracts or the debtor's other commitments concluded by the debtor within two years preceding the date when the court received the petition for opening liquidation proceedings (or concluded thereafter) with the intent to transfer the debtor's assets without any compensation (including any security interest over the debtor's assets without any compensation), or if the stipulated consideration constituted unreasonable and extensive benefits to a third party; or
- contracts or the debtor's other commitments concluded by the debtor within 90 days preceding the date when the court received the petition for opening liquidation proceedings (or concluded thereafter) with the intent to give preference and privileges to any one creditor, such as the amendment of an existing contract to the benefit of a creditor, or to provide financial security to a creditor that did not have any previously.

Furthermore, the liquidator, on behalf of the debtor, is entitled to reclaim within 90 days from the time of gaining knowledge but within a one year deadline from the date of publication of the court order ruling liquidation, any service the debtor has provided within a 60 day period preceding the date when the court received the petition for opening liquidation proceedings (or provided thereafter) if it was provided to give preference to any one creditor and if such service is not usually provided in the normal course of business. Prepayment of a debt is, in particular, considered as giving preference or privileges to a creditor.

If any of the Subsidiary Guarantees or Collateral provided by the Hungarian Providers were to be successfully challenged or ordered unenforceable for any reason, a Note Holder would cease to have any claim or benefit in respect thereof. Any amounts received from a transaction that was successfully challenged or ordered unenforceable would have to be repaid to the insolvent entity.

Romania

Insolvency

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Romania and/or having its center of main interests organized in Romania (each a "**Romanian Provider**"), any insolvency would most likely be initiated in Romania and be governed by Romanian law. The Romanian insolvency law would thus affect the ability of creditors to enforce the Subsidiary Guarantees and the Collateral.

In general, the Romanian legal framework regarding insolvency proceedings and, in particular the Romanian Insolvency Law 85/2014 (the "**Romanian Insolvency Law**"), may not be as favorable to creditors and thus 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 law in Romania.

By way of background, the Romanian Insolvency Law regulates the pre-insolvency proceedings applicable to ordinary corporates (certain pre-insolvency proceedings applicable to credit institutions and insurance/reinsurance companies continue to be governed by the current legislation) and insolvency proceedings applicable to ordinary corporates, credit institutions and insurance/reinsurance companies. The Romanian Insolvency Law replaced, among others, the former insolvency law No. 85/2006 applicable to ordinary corporates and introduced special provisions regarding the insolvency of group companies in both national and cross-border proceedings.

Similar to other jurisdictions, insolvency proceedings in Romania are not initiated by the competent insolvency court *ex officio*, but require that the debtor, a creditor or any other person/institution expressly referred to by the Romanian Insolvency Law files a petition for the opening of insolvency proceedings, under certain circumstances. The insolvency procedure may be opened by the insolvency judge, *inter alia*, upon request of: (i) the debtor which is in an insolvency or imminent insolvency (please see below), for debts exceeding RON 40,000 (approximately €9,000), or (ii) any creditor who has a certain, liquid and due claim (*datorie certă, lichidă şi exigibilă*) exceeding RON 40,000 (approximately €9,000) or, respectively, the sum of six national average gross wages per employee (in case of the creditors who are employees of the insolvent company), and was not paid within 60 days of its maturity.

Insolvency is presumed by law when the debtor has not paid its debts towards one or more creditors within 60 days of maturity. This is a legal presumption (*juris tantum*) which can be challenged by providing evidence to the contrary, such as the existence of sufficient funds to pay the outstanding debts. Although insolvency is presumed by law with the passing of time, this does not mean that insolvency proceedings are automatically commenced at the end of the 60-day period.

Insolvency is deemed imminent when there is evidence that the debtor will not be able to pay the outstanding debt at maturity date, due to lack of available monies.

The law provides three main stages for an insolvency proceeding, although depending on its particular situation an insolvent debtor may not pass through all such stages.

Once the judicial insolvency proceedings are commenced, usually the first phase consists of a period of observation of the debtor's business. There will be no observation period if the debtor opted directly for the commencement of the bankruptcy proceedings (*procedura falimentului*) and the judge approved such option. During the observation period (which period according to the Romanian Insolvency Law cannot exceed 12 months as of commencement but in practice may exceed such period as all challenges against the preliminary creditors' table have to be settled by the insolvency judge during such period), the activity, prospects and financial resources of the debtor are evaluated in order to establish whether reorganization (*procedura reorganizării*) is possible or if the procedure should convert into bankruptcy whereby the debtor's activity will be stopped and all its assets will be liquidated. In case of real prospects of rehabilitation of the debtor, carefully analyzed by the involved entities, a reorganization plan is proposed, based on which the debtor should direct its activity until recovery. In case the debtor is not entitled to reorganization under the Romanian Insolvency Law, a simplified insolvency procedure shall be commenced consisting of (i) the observation period (which is optional and should not extend for more than 20 days) and (ii) the bankruptcy phase.

The implementation of the reorganization plan is the second stage in the insolvency proceedings and is of utmost importance for creditors. In case of a successful plan, the creditors may recover an amount of their claims against the debtor as set out in the reorganization plan.

However, in the worst-case scenario, when the reorganization plan appears not to be successfully implemented (*e.g.*, the payment plan of the reorganization plan is not observed and/or the continuation of the debtor's business causes losses to its estate), or when no plan is proposed and/or confirmed, the bankruptcy procedure is commenced and the level of recovery of the creditors' claims will depend on the amount obtained following the liquidation of the debtor's assets. Nevertheless, any amounts recovered by the creditors during the reorganization (*procedura reorganizării*) shall not be subject to claw-back if the bankruptcy procedure is subsequently commenced with respect to the respective debtor.

The insolvency proceedings are controlled by the competent insolvency court, which monitors the due performance of the proceedings. In order to limit "forum shopping," the insolvency proceedings are run by the court, or as the case may be, the special court, in whose jurisdiction the debtor had its headquarters/place of business at least 6 months before the insolvency petition.

Upon receipt of the insolvency petition, the court will decide upon opening the insolvency proceedings (the general procedure or the simplified procedure, as the case may be). The law provides very short delays for the issuance of court decisions and for the submission of appeals, but in practice it is likely that such delays will not be strictly observed.

Upon an order by the court opening insolvency proceedings, the following will result:

- if the debtor has not declared its intention to be reorganized, the right to manage and dispose of the debtor's business and assets will be transferred to the judicial administrator (*administrator judiciar*) or the liquidator (*lichidator*) (depending on whether the general or the simplified procedure is initiated) who is appointed by the insolvency court; on the contrary, if the debtor declared its intention for reorganization, its right of administration will not be lifted;
- if the debtor's right of administration is lifted, the judicial administrator or the liquidator will become the legal representatives of the debtor;
- the stay of all judicial and extrajudicial procedures against the debtor or debtor's assets for the recovery of claims; however, certain claims are not affected by the automatic stay: (i) the appeals introduced by the debtor against the court actions initiated by the creditors before the commencement of the insolvency proceedings; (ii) the civil actions introduced within the criminal proceedings initiated against the debtor; (iii) the judicial proceedings initiated against co-debtors and/ or third party security providers; and (iv) the judicial proceedings for determining the existence and/ or amount of claims against the debtor appeared after the opening of the insolvency proceedings; furthermore, the stay may also be lifted by the insolvency court for the benefit of the secured creditors, upon their request, only with respect to the assets on which a security has been created and only subject to fulfillment of certain requirements; moreover, certain enforcement proceedings are expressly exempted from the automatic stay rule and thus can be initiated within insolvency proceedings (e.g. the distribution to the beneficiary creditor of the monies standing to the credit of a mortgaged bank account or representing cash collateral);
- the freezing of claims, in the sense that no interest, default interest, penalty or any other amount whatsoever can be added to the debts which have arisen before the commencement of insolvency procedure, subject to certain exemptions;

- "cherry picking" in the sense that, with a view to maximizing the debtor's estate, the judicial administrator or the liquidator (as the case may be) may terminate any contract, any unexpired lease agreement or any other long-term agreement that were not either fully or substantially performed by all parties thereto; and
- the debtor's right to perform only the acts, operations and payments that may be characterized as falling within the usual course of its business; the acts, operations and payments that may not be characterized as falling within the scope of the debtor's current business activities must be authorized either by the insolvency judge or by the judicial administrator (in the latter case only on the basis of the creditors' committee approval).

The creditor submitting an insolvency petition can request the insolvency judge, in urgent situations, to suspend by way of injunction (*ordonanta presedintiala*) any transfer of the debtor's main assets or patrimonial rights (*bunuri sau drepturi patrimoniale importante*), under the sanction of nullity, as well as to set forth preservation measures with respect to such assets or rights, until the date when the insolvency judge rules upon the insolvency petition.

As the Romanian insolvency proceedings are collective proceedings, the creditors may not individually pursue their claims against the insolvent debtor, but only within and according to the rules governing the insolvency proceedings.

All ongoing agreements are considered to be maintained by operation of law at the date when the proceedings are opened (subject to the "cherry picking" that the judicial administrator or the liquidator is entitled to after the opening of the proceedings, as mentioned above). Contractual clauses included in ongoing contracts providing for the termination of the agreement, lapse of the payment term benefit or the acceleration of the debt for the reason of the commencement of an insolvency procedure against a Romanian company are null and void.

The Romanian Insolvency Law sets forth a mandatory order of distribution for the repayment of creditors' claims in case of bankruptcy. Such legal distribution order is applicable to unsecured creditors, as well as to secured creditors which are considered unsecured for the part of their claim not satisfied from the amount obtained from the sale of the asset subject to security interest. The legal waterfall established by the law is the following:

- any fees and expenses related to the insolvency procedure;
- claims resulting from financings granted to the debtor during the observation period for carrying out their current activities;
- employees' claims;
- claims resulting from the continuation of the debtor's activity after the commencement of the insolvency procedure or claims owed to certain counterparties, under specific circumstances;
- budgetary (mainly tax) claims;
- claims representing amounts owed to third parties, based on alimony obligation, or any obligations of regular payment intended to insure basic means of survival;
- (in case of debtors which are natural persons engaged in trade activities) amounts established by the judge for supporting the debtor and its family;
- claims resulting from: (i) bank loans (including ancillary expenses and interest), (ii) supply of products, services or works, (iii) rents and (iv) termination of financial leasing contracts, including bonds;
- other unsecured claims (*creante chirografare*); and
- subordinated claims, in the following order:
  (1) claims related to the fraudulent transactions entered into by third parties acting in bad faith during the hardening periods, as well as shareholder loans, in case the shareholder owns at least 10% of the debtor's share capital or of the voting rights within the debtor's

general meeting of shareholders or the loans granted by a member of the group of economic interest; and

(2) claims resulting from acts which were concluded without consideration.

Holders of personal guarantees (envisaged to be granted in favor of the Note Holders) would be considered unsecured creditors (*creditori chirografari*) under Romanian law and thus have an unfavorable position in the distribution waterfall.

In case of reorganization, a different order of distribution can be established under the payment schedule included in the reorganization plan. The reorganization plan may be proposed under certain specific terms either by the debtor, the judicial administrator or by one or more creditors.

Throughout the reorganization phase, any creditor having a 'current' claim (*i.e.*, arising during the insolvency proceedings and enjoying priority as per its supporting documents), liquid and overdue for more than 60 days and in an amount exceeding RON 40,000 (approximately €9,000) may request the opening of the bankruptcy proceedings against the debtor. The provision seems to allow the Romanian state authorities to trigger bankruptcy if the debtor does not pay taxes accrued during the judicial reorganization.

The reorganization plan can alter the rights of the creditors against the debtor. However, in case of entering bankruptcy, the rights of the creditors provided under the final table of claims (*i.e.*, established before the confirmation of the reorganization plan) are reinstated.

The Romanian Insolvency Law also contains special provisions regarding the insolvency of group companies in both national and cross-border proceedings. In short, among such provisions, the Romanian Insolvency Law provides that a solvent group member can join the joint insolvency petition of other group members in order to prevent the subsequent commencement of the insolvency proceedings against it. The Romanian Insolvency Law also grants priority to intra-group loans entered into after the commencement of the insolvency proceedings.

Hardening periods and fraudulent transfer

Any guarantee, indemnity, security interest and other obligation of any of the Romanian Providers is subject to the limitations arising from the laws relating to bankruptcy, insolvency and all other laws affecting the rights of creditors generally.

In particular, limitations are provided by the Romanian Insolvency Law with regards to certain acts or operations performed prior to the opening of the insolvency procedure, which may be subject to judicial scrutiny. Such acts or operations detrimental to the insolvent debtor's creditors may be annulled at the request of the insolvency practitioner (*i.e.*, the judicial administrator or the liquidator) or of the creditors' committee (if the insolvency practitioner fails to make such a request). These categories of acts include:

(a) Fraudulent acts detrimental to the creditors entered into during the two years prior to the opening of insolvency proceedings;

(b) Creating or transferring rights to third parties through:

  (1) free transfers (without any consideration) during the two years prior to the opening of insolvency proceedings, except for humanitarian sponsorships;

  (2) commercial operations during the six months prior to the opening of insolvency proceedings, whereby the debtor's obligations obviously exceed the corresponding obligations of its counterparty;

  (3) acts entered into during the two years prior to the opening of insolvency proceedings with the intention of all involved parties to remove assets from the debtor's estate and thus protect them from enforcement by the debtor's creditors or to otherwise affect the creditors' rights;

(4) transfer of ownership to a creditor for repayment of a previous debt or otherwise in the creditor's benefit, during the six months prior to the opening of insolvency proceedings, if the amount that the respective creditor would have been entitled to receive in case of bankruptcy is lower than the value of the transfer;

(5) early repayments of debts in the six months before the commencement of the insolvency procedure, if the original due date was a date after the commencement of the procedure;

(6) creating or perfecting security interests during the six months prior to the opening of the insolvency procedures, for a claim which otherwise would have been unsecured; or

(7) acts of transfer or undertaking of obligations by the debtor during the two years prior to the opening of the insolvency procedure, with the intention to hinder or delay the insolvency or to defraud the creditor.

(c) Acts concluded within the debtor's group or with related persons within the previous two years, as follows:

(1) operations concluded by the debtor with a shareholder holding more than 20% of the share capital or of the voting rights;

(2) acts concluded with a director, manager or member of the supervisory board of the debtor;

(3) acts concluded with any person having a control position over the debtor or its activity;

(4) acts concluded with a co-owner regarding shared property; or

(5) acts concluded with the spouse, relatives or in-laws up to fourth rank inclusively, of the debtor's related parties, as further described under the Romanian Insolvency Law.

As of the opening of an insolvency procedure (in accordance with Romanian Insolvency Law) against a Romanian debtor, the provisions of credit agreements involving such debtor may be amended by the judicial administrator, but only with the consent of all counterparties, so as to ensure future performance based on the arm's length principle. However, if a reorganization plan is approved, the amendment of the provisions of credit agreements may be made according to special procedural rules of the Romanian Insolvency Law and may include changes not consented to by all counterparties (*i.e.*, the creditors).

If any of the guarantees or security interests created by the Romanian Providers were avoided or held unenforceable for any reason, a Note Holder would cease to have any claim or benefit in respect thereof. Any amounts received by a creditor in respect of a transaction that has been avoided would have to be repaid to the insolvent estate.

Limitation on enforcement

Enforcement of any claim may be limited and thus challenged to the extent that it was not properly approved by the competent corporate body in accordance with the legal provisions and/or limitations, procedures or mechanisms included in the constitutive documents of the respective Romanian Provider or other agreements entered into by it.

Under Romanian law, any agreement or document entered into by a company (*societate*) must have the ultimate purpose of obtaining benefits for the respective company, as per its scope of activity. In this respect, since the prohibition to conclude agreements with gratuitous title (*e.g.*, donations) is not expressly provided by Romanian law, such agreements are in theory permitted (*e.g.*, to the extent they are not aimed at harming third parties' interests (*e.g.*, creditors) by reducing the company's profit). Considering the rules on corporate benefit, the Romanian Providers may exercise only such rights and perform such obligations corresponding to their authorized scope of business. Further, each activity performed or agreement entered into by a Romanian Provider must be in the company's commercial interest. For the purpose of mitigating (however not eliminating) the risk that a guarantee or security given by a Romanian Provider is considered as not being beneficial to the company's activity (*i.e.*, an *ultra vires* act), specific limitation language should be included in the agreements creating the respective guarantee/security and specific confirmation of corporate benefit should be included in the corresponding Romanian Provider's corporate decisions approving the entering into of such agreements. However, whether sufficient corporate benefit exists is a factual matter and it is possible that an insolvency judge or other judge would determine that the corporate benefit received by a Romanian Provider by creating such guarantee or security was insufficient.

The creation of guarantees or security interests by the Romanian Providers is subject to certain provisions of the Romanian Company Law No. 31/1990 (the "**Romanian Company Law**").

Under the Romanian Company Law, it is forbidden for certain restricted persons (such as a founder, administrator, manager, director, member of the supervisory board or the directorate or legal representative, each a "**Restricted Person**") to cause a Romanian entity to grant to the Restricted Person guarantees or security interests for securing the Restricted Person's own liabilities, if granted by:

- the Romanian entity managed by that Restricted Person;
- an entity which is controlled by the entity managed by the Restricted Person; or
- an entity which controls the entity managed by the Restricted Person.

These acts are considered criminal offences of the Restricted Persons and may be sanctioned with imprisonment of up to three years or a fine. Generally, the purpose of this legal restriction is to ensure that there is no misappropriation of corporate funds by a Restricted Person. No limitation language may cure the breach of the above mentioned provision.

Security interests over shares, guarantees

The security granted in connection with a Romanian Provider is expected to consist in Romanian law security granted over the shares in the Romanian Providers. Romanian law security interests used to be governed by Title VI of Law 99/1999, as amended (the "**Romanian Security Law**"). The new Romanian Civil Code, as amended and restated by Law No. 71/2011 (the "**Romanian Civil Code**") has entered into force on October 1, 2011 and has abolished the Romanian Security Law.

Pursuant to the Romanian Civil Code, security interests in the form of mortgage may be created over shares. However, the specific rules governing the creation of Romanian law mortgages over shares are those set out under separate legislation. Except for a few provisions set out by the Romanian Company Law in relation to shares in joint stock companies (which arguably only apply to shares in joint stock companies), such separate legislation has not been enacted to date. This leads to uncertainty as to the set of rules that need to be observed upon creation of a mortgage over shares in a Romanian limited liability company prior to the enactment of such separate specific legislation (*e.g.*, only the Romanian Civil Code's general rules governing contract law or a mix of rules governing contract law and rules applicable to mortgages over movable assets under the Romanian Civil Code).

It is arguable that the perfection of mortgages over shares in Romanian limited liability companies is governed by the general rules on these matters set out by the Romanian Civil Code for all mortgages over movable assets. The priority ranking of a mortgage over movable assets is obtained as at the moment when the publicity formalities are completed, the secured obligation occurs (*ia nastere*) and the mortgagor acquires title to the mortgaged assets. Publicity formalities consist in registration of the mortgage with the Electronic Archive (*Arhiva Electronică de Garantii Reale Mobiliare*). The mortgage over shares in a Romanian limited liability company must also be registered in the shareholders' register (*registrul asociatilor*) held by the issuer of the mortgaged shares.

The enforcement regime applicable to mortgages over shares is not clear, in particular whether, in addition to the general enforcement procedure for movable assets under the Romanian Code of Civil Procedure, the enforcement regime for mortgages over movable assets set out by the Romanian Civil Code is also available to the mortgagee under a mortgage over shares.

The enforcement regime set out by the Romanian Civil Code consists of: (i) sale; (ii) appropriation; and (iii) takeover of the mortgaged assets for administration purposes for a given period of time. It is designed to provide the parties with a certain degree of flexibility in setting up in the mortgage agreement the specifics of the enforcement procedure. However, the scope of parties' freedom to tailor the enforcement procedure is significantly narrowed by the Romanian Civil Code as compared to the Romanian Security Law.

The sale of the mortgaged assets may not be performed by the mortgagee unless the competent court of law approves it. The sale itself takes place out of court (unless challenges are made to the enforcement, which are settled by the competent court) and is conducted by the creditor subject to certain requirements of commercial reasonability. The selling methods may range from direct sale to a third party to sale through a public auction and from sale of standalone items to block sales.

The proceeds obtained from the sale of the mortgaged asset must be distributed in the following order:

- the payment of the reasonable expenses for the conservation, taking into possession and sale of the mortgaged asset; and
- the payment of secured obligations in their order of priority, even if such obligations are subject to a term (*termen suspensiv*) or condition (*conditie rezolutorie*).

Any remaining surpluses will be returned to the mortgagor.

The appropriation of the mortgaged asset may only occur if the mortgagor agrees in writing to the appropriation of the mortgaged asset by the mortgagee after occurrence of a breach of secured obligations. Upon appropriation the secured obligation is extinguished in its entirety, although the value of the mortgaged assets may be lower than the amount of the secured obligations.

Takeover of the mortgaged assets for administration purposes entails the management of the mortgaged assets to the benefit of both mortgagor and mortgagee and exposes the mortgagee to potential liability towards the mortgagor for the management activities. In addition to that, it is not entirely clear whether the takeover of the mortgaged assets for administration purposes is a method of enforcement or rather a temporary measure for managing the assets before effectively performing the enforcement against the mortgagor.

The enactment of the Romanian Civil Code and the changes it brings about for the enforcement of mortgages over movable assets as compared to the Romanian Security Law can affect the predictability of the foreclosure process. In addition to that, local variations may also result from the inexperience and lack of sophistication of some judges.

A part of the Romanian doctrine is of the view that a mortgage over shares in limited liability companies would be difficult to enforce in the absence of consent from all shareholders given at the time of enforcement. This is based on the provisions in the Romanian Company Law pursuant to which the transfer by a shareholder of a limited liability company of its shares to a non-shareholder is conditional upon the approval of the shareholders holding 3/4 of the share capital of that limited liability company. In the absence of a legal provision to the contrary, it follows that such approval is required not only for a voluntary transfer of shares, but also for the share transfers occurring as a result of the enforcement of a mortgage over shares.

Moreover, recent amendments to the Romanian Company Law provide that the validity of the transfer of shares in limited liability companies is conditional upon the following cumulative formalities being fulfilled:

- registration with the Commercial Registry of the resolution of the shareholders' general meeting approving the share transfer within 15 days as of the date of such resolution (the approval of the shareholders representing at least 75% of the share capital being required);
- the publication of the resolution in the Official Gazette of Romania; and
- the expiry of a 30 calendar day opposition term calculated as of the publication of the resolution in the Official Gazette of Romania (if no opposition is filed) or the communication of the court decision on the rejection of the opposition (if an opposition is filed); during the opposition period any creditor of the limited liability company or any other entity (including the Romanian fiscal authorities) that could be damaged by the resolution approving the share transfer can challenge the resolution and ask the court to oblige the limited liability company and/or the shareholders to repair the damage.

Nevertheless, the Romanian Company Law does not expressly provide how these formalities should be performed in case of a transfer that occurs as a result of the enforcement of a mortgage over shares. Thus, there is a risk that the above mentioned formalities would have to be observed even upon the enforcement of a mortgage over shares (*e.g.*, issuance of a resolution approving the transfer of shares, registration and publication thereof).

'Negative pledge' covenants are generally regarded as unenforceable under Romanian law. In situations where such a covenant is included in an agreement and it is breached, the beneficiary of the covenant and creditor of obligations secured with a mortgage over the relevant assets would be precluded from accelerating and demanding immediate repayment of the secured obligations or of other obligations. However, in case the mortgagor is seeking to create a second mortgage over the same assets and if the ranking of the existing mortgage is affected by the new mortgage, the prospective mortgagee must obtain the consent of the existing mortgagee for creation of such mortgage.

'No disposal' covenants inserted in mortgage agreements arguably are only valid if they are limited to a 49-year term and are justified by a serious and legitimate interest of the beneficiary. Unless otherwise expressly agreed, 'no disposal' covenants are deemed essential for the conclusion of the agreement they are a part of and, if invalid, they render the entire agreement null and void. Disposals performed in breach of 'no disposal' covenants are valid even if the acquirer of the mortgaged assets is aware of the covenant or of a stipulation that deems the disposal to constitute a breach of the obligation secured over such asset. However, the disposal acts by the mortgagor with respect to the mortgaged assets in a manner that makes it impossible for the mortgagee to enforce the mortgaged assets, are voidable upon the mortgagee's request, unless the mortgagee approved such acts.

Pursuant to Romanian law, independent guarantees/independent payment obligations are not writs of execution *per se*. Thus they cannot be directly enforced against the guarantor. The beneficiary of such a guarantee is not entitled to commence the enforcement proceedings based solely on the agreement setting out the guarantee obligation. The beneficiary of the guarantee must first lodge a court action for obtaining a court decision ascertaining that the main obligation was not performed and, as a consequence, the guarantee can be called upon. The enforcement against the guarantor shall be limited by the existence of any *in rem* security over the guarantor's assets, which would have priority in the distribution process.

The Romanian Civil Procedure Code, which entered into force on February 15, 2013, sets forth a mandatory order for the repayment of creditors in the event of enforcement. In addition, certain limitations could arise in accordance with the enforcement provisions of the Romanian Civil Procedure Code, including:

- the character of the assets to be subject to enforcement (*i.e.*, there are certain types of assets exempted by law from the enforcement procedure);

- the actual existence in the debtor's estate of assets to be enforced or the actual possibility to sell the existent assets;
- advancing of certain procedural fees for certain enforcement measures or acts under certain conditions;
- the necessity of properly sending a formal notice (*somatie*) to the debtor before starting the enforcement, the notice must provide a grace term within which the debtor is expected to perform its obligation and at the expiry of which the enforcement procedure can be initiated;
- the possibility to challenge the enforcement itself or any enforcement act within a prescribed time frame;
- the possibility to request the suspension of enforcement or even to request the intermediary suspension until the main suspension claim (*i.e.*, the claim for the suspension of the enforcement procedure) is resolved (subject to the payment of a bail);
- sanctions for not addressing certain procedural matters within the timeframe provided by law, statutory limitation period (*prescriptie extinctivă*) or termination of right by passage of time (*perimare*);
- limitations on the acquisition price in case the enforcing creditor acquires the enforced assets, for immovable assets the acquisition price must represent at least 75% of the initial proposed sale price, while for movable assets the acquisition price must represent at least 75% of the valuation price of the respective asset; in case the creditor acquires a movable asset during the enforcement procedure, its title over the respective asset can be challenged only on grounds of fraud or nullity;
- in case the creditor acquires a non-registered immovable asset during the enforcement procedure, the restitution claim will be signed off only after the expiry of a three-year term as of the date of the registration of the enforcement deed (*act de adjudecare*) in the land registry; if the creditor acquires a registered immovable asset during the enforcement procedure, it is unclear whether all restitutions claims will be rejected or whether an additional condition applies, namely that the relevant immovable asset was registered in the land registry and at least three years elapsed from the date of the registration in the land registry of the previous owner.

Enforcement of Judgments rendered in the United States

In the event that a final judgment of a competent U.S. Federal or New York State court in the Borough of Manhattan in the City of New York, New York is rendered with respect to a payment claim under the Subsidiary Guarantees, its recognition is subject to the conditions set out in the Romanian Civil Procedure Code, which include the following:

(i) (a) compliance with Romanian private international public policy, (b) compliance with Romanian provisions on the exclusive jurisdiction of Romanian courts, (c) the judgment was not obtained in a matter under which the parties cannot dispose of their rights freely with the sole purpose of circumventing the rules provided by the applicable law according to the Romanian international private law and (d) compliance with the rule pursuant to which the same dispute should not have been settled or be in the process of being settled between the same parties in Romania;

(ii) the judgment whose recognition in Romania is sought is final (*este definitivă*) according to New York law, cannot be subject to any further means of claim against it within the country where it was issued and it is not irreconcilable with another foreign judgment which was rendered abroad prior to it and might be recognized in Romania;

(iii) the court rendering the respective judgment was competent (but unless such competence is based exclusively on the location of the defendant or of its assets without direct connection with the litigation) and the Romanian courts did not have exclusive jurisdiction for settling the matter;

(iv) there is reciprocity between Romania and the U.S./New York State with respect to the recognition of judgments;

(v) the right of defense was observed; and

(vi) when the judgment was given in default of appearance, there is evidence that the defendant was served with the document which instituted the court proceedings or with an equivalent document in sufficient time and in such a way to enable him to arrange for his defense and to challenge the judgment.

The enforcement of a U.S./New York State judgment will be subject to the rules of civil procedure and enforcement proceedings of Romania, *i.e.*, in addition to the afore-mentioned conditions (lit (i) through (vi) applied accordingly), and requires that the following two conditions are met:

(i) the judgment whose enforcement in Romania is sought can be enforced (*executoriu*) pursuant to U.S./New York State law; and

(ii) the enforcement of such judgment is not time barred by the Romanian statute of limitations.

Parallel debt

Under Romanian law, it is questionable whether security interests can be held on behalf of third parties, such as the beneficial owners of the Notes, who will not be parties to the security agreements entered into under Romanian law. The parallel debt structure used to mitigate this problem has not been tested under Romanian law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by Romanian law.

Slovakia

Insolvency—general

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of the Slovak Republic and/or having its center of main interests in the Slovak Republic (each a "**Slovak Provider**"), any main insolvency proceedings regarding the Slovak Providers could be initiated in the Slovak Republic. Slovak law would then govern those proceedings. The insolvency laws of the Slovak Republic, as laid out mostly in the Slovak Act on Bankruptcy and Restructuring (the "**Slovak Insolvency Act**").

The following is a brief description of certain aspects of the insolvency laws of the Slovak Republic. Slovak insolvency law differentiates between bankruptcy (*konkurz*) and restructuring proceedings (*reštrukturalizácia*).

The purpose of bankruptcy is to resolve the debtor's insolvency by liquidating and realizing its assets and by collectively proportionate satisfaction of creditors. Either the debtor itself or its creditors have the right to file a petition for bankruptcy.

Rather than file for bankruptcy, a petition for restructuring may be filed by the debtor or by a creditor (with debtor's consent). In legal terms, the purpose of restructuring is to resolve the debtor's insolvency by gradual satisfying the debtor's creditors in the manner agreed in the restructuring plan. The main idea is to rescue financially troubled businesses whenever there is a real chance that this is "economically" achievable and not at the expense of creditors (*i.e.*, the degree of satisfaction of the creditors must be higher than if the debtor would be liquidated in bankruptcy). The key features of the restructuring proceedings (which is, in some respects, similar to U.S. Chapter 11) are that: (1) the feasibility of the restructuring must be supported by an expert opinion prepared by an independent restructuring trustee (*reštrukturalizacný správca*) before the petition for restructuring is filed (the restructuring trustee may be appointed either by a debtor or a creditor with the consent of the debtor); (2) there will be a moratorium on enforcement of creditors' claims against the debtor; (3) the debtor remains in the possession of its business (DIP concept) under the supervision of a restructuring trustee, the court and the creditors; (4) the outcome of the restructuring proceedings is the preparation of the restructuring plan that must be approved by relevant majorities of the creditors (and in some circumstances, also by the shareholders) and subsequently endorsed by the court, (5) there is the option of binding dissenting creditors by the plan ("cram-down"); and (6) "new money" provided in the course of the restructuring proceedings enjoys a super-priority ranking (but not at the expense of the existing secured creditors).

In the case of the concurrency of the petition for the bankruptcy and the petition for the restructuring, the law prefers the latter (*i.e.*, restructuring proceedings may be opened after bankruptcy proceedings have been commenced but only before the bankruptcy has been declared, see below).

The Slovak Insolvency Act does not provide for a consolidation of insolvency proceedings over a group of companies, neither substantive (*i.e.*, treatment of assets and liabilities of multiple companies as one insolvency estate) nor administrative (*i.e.*, joint administration).

Initiation of insolvency proceedings will lead to, *inter alia,* partial or full (depending on the type and phase of the insolvency proceedings) restrictions on (1) the debtor's ability to enter into legal transactions, (2) creditors' right of set-off, (3) creditors' right to terminate contracts with the debtor, and (4) individual enforcement actions by creditors.

Under Slovak law, the debtor is insolvent (*v úpadku*) if it meets the balance-sheet insolvency test (*i.e.*, over-indebtedness, *predlženie*) or the cash flow insolvency test (inability to pay the debts as they fall due, *platobná neschopnosť*).

The balance sheet insolvency test is met if the debtor keeps accounting books, has more than one creditor and the value of its liabilities (including also liabilities which are not due and payable, but in each case excluding subordinated debt, liabilities towards related parties and liabilities under contractual penalties) exceeds the value of its assets. In determining the value of debtor's assets potential revenues generated by the debtor's future business conduct shall be taken into consideration.

The cash flow insolvency test is met if a debtor has more than one creditor and, 30 days after the maturity date, it is not able to satisfy at least two of its payables towards two different creditors. The debtor is not able to satisfy such payables if its 30 days overdue payables exceed its short-term liquid financial assets (such as cash, short-term deposits, debt securities maturing within next 30 days). When determining whether a debtor meets the cash flow test, all receivables originally owed to a single creditor during the 90-day period of time before the submission of a petition for declaration of bankruptcy shall be deemed to constitute one receivable.

The debtor is obliged under law to file for bankruptcy within 30 days of the day when it became aware of, or (if acted with professional care) could become aware of the fact that it meets the balance sheet insolvency test. The same duty applies to the persons authorized to act for and on behalf of the debtor (directors, members of the board of directors, etc.), and it is sanctioned by (a) personal liability of the directors to the creditors for damage caused by late filing or failure to file and (b) the obligation of each director to pay a penalty to the bankruptcy estate corresponding to the amount of debtor's registered capital (capped to double of minimum registered capital defined by the Act No. 513/1991 Coll. the Commercial Code, as amended (the "**Slovak Commercial Code**"), *i.e.*, €10,000 for limited liability companies (equivalent to a German GmbH, *spoločnosť s ručením obmedzeným*) and €50,000 for joint stock companies (equivalent to a German AG, *akciová spoločnosť*).

Bankruptcy proceedings and bankruptcy

Bankruptcy proceedings are initiated by the competent court upon filing an application by the debtor (if its meets at least one of the insolvency tests, which is presumed and not further examined by the court in case of a debtor's petition) or a creditor (if the debtor meets the cash flow insolvency test).

A creditor will be successful in filing for bankruptcy only if it is able to declare its 30-day overdue payable and a 30-day overdue payable of one additional creditor and has in its possession at least one of the following documents proving its claim: (a) any document which may serve as a title for forced execution of claim against the debtor (*i.e.*, enforceable judgment or decision of a relevant public authority for payment obligation against the debtor, acknowledgement of debt by the debtor in an official notarial deed, etc.), (b) acknowledgement of debt by the debtor with a notarized signature, (c) confirmation of an auditor, insolvency trustee or court sworn valuer, that the creditor accounts for its claim against the debtor in its books.

There is a two-step procedure for the declaration of bankruptcy. When the court ascertains that the debtor's or creditor's petition for declaration of bankruptcy "formally" complies with the statutory requirements, the court must decide to commence the bankruptcy proceedings within 15 days from the receipt of the petition. Otherwise the court shall reject the petition within the same period of time. In other words, in the first phase the court merely decides whether or not to commence the proceedings, which simply requires the receipt of a complete petition.

The court resolution on the commencement of the bankruptcy proceedings must be published in the Commercial Gazette (*Obchodný vestník*) without delay after it has been issued. The bankruptcy proceedings "effectively" commences at 12:00 a.m. of the day following the publication. The major effects of the commencement of bankruptcy proceedings are as follows (1) the debtor must restrict its activities to the ordinary legal acts only, (2) automatic stay of individual court or administrative enforcement proceedings in respect of the assets owned by the debtor; and (3) automatic stay of enforcement actions by an individual secured creditor (save for enforcement of a security interest over bank accounts, government bonds, transferable securities or continued enforcement of a security right by a public auction). The insolvency court is entitled to order protective measures to secure the property of the debtor during the preliminary proceedings. As part of such protective measures, in bankruptcy, the court can appoint a preliminary insolvency trustee. The duties of such preliminary trustee are set out by the court but usually include the duty to safeguard and 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.

Only after the commencement decision will the court go on to consider the evidence in order to decide whether or not to declare bankruptcy. In case of the debtor's petition, it takes five days. In the case of the creditor's petition, the period between commencement decision and the declaration decision is not strictly determined and depends on the length of the proceedings in which the debtor has a chance to prove its solvency and avoid bankruptcy (which may last from not less than 32 days to 80 days or even longer). The effects of the commencement of the proceedings remain in place after the declaration of the bankruptcy, supplemented by a number of additional restrictions. In the court resolution by which the bankruptcy is declared, a bankruptcy trustee (*správca konkurznej podstaty*) is appointed for the purpose of administering and realizing the debtor's estate. The trustee appointed by the court is selected randomly, for this purpose the court must use technical equipment specially designed for this task, to ensure that the selection of trustee is impartial. However, the creditors can later replace the trustee through voting on the creditors' meeting.

After the declaration of the bankruptcy, the trustee then takes full possession and the control over the debtor's assets.

A debtor may file for conversion of bankruptcy proceedings (but only until the bankruptcy is declared) into restructuring.

The law prescribes strict criteria which a trustee must consider when deciding whether or not to continue the debtor's business after the bankruptcy has been declared. In particular, the business should be kept going only if (a) the trustee can reasonably assume that the proceeds obtained by the sale of the debtor's assets will be materially higher than the proceeds from a sale if the business has been terminated, (b) the trustee is able to pay all taxes, custom duties and social security and health care premiums originating during the business conduct, and (c) the value of the assets subject to security interests will not substantially diminish during the business conduct. The aim of the law is to distinguish between the "liquidation" nature of bankruptcy proceedings and the "rescue" nature of restructuring proceedings. As the continuation of the debtor's business is conceptually a rescue measure, it should, due to the risks related to the operation of any business, be used in bankruptcy proceedings only where it is "economically" justifiable.

All creditors, whether secured or unsecured need to participate in the insolvency proceedings by registering their claims (and filing evidence). Creditors shall register their claims (using a standard registration form prescribed by law) (a) within 45 days from the declaration of bankruptcy or (b) after the lapse of the initial 45-day period but only as unsecured claims with no voting rights attached (in which case the creditor will receive a share in proceeds distributed after its claim has been filed). All security interests if not filed within initial 45-day period shall cease to exist. Each secured claim must be registered on a separate form. The registration forms and all exhibits to them must be delivered to both the trustee and the insolvency court within the said deadline (however the filing takes effect also if only made with the trustee). A holder of security interest over the debtor's assets securing the creditor's claim against a third party (third party security interest) may also file its claim against a third party to the debtor's bankruptcy, but can only be satisfied from the proceeds of the sale of the assets which are subject to its security interest. Such claim may also be filed after the initial 45-day period, in such case the holder of a security will not have voting rights and its claim will be discharged as "claim against the estate" with lowest priority (please see below).

Claims in a currency other than euro shall be converted into euro at the official exchange rate issued by the European Central Bank as at the date of declaration of bankruptcy (or, if no exchange rate is quoted for the relevant currency by the European Central Bank, the trustee shall convert the claim into euro with professional care). The trustee will examine the registration documents and supporting evidence in relation to the claim, and is obliged to contest (within 30 days from expiration of the deadline for registration of claims or, in case of claim registered after the lapse of deadline for registration of claims, within 30 days from registration of such claim being published in the Commercial Gazette (*Obchodný vestník*)) the filed claim if (according to the trustee's findings after having evaluated the claim with professional care) there are doubts as to the title, enforceability, amount, security, or the ranking of security. All creditors which have filed their claims have the right to contest all filed claims of other creditors (but in order to do so they must pay a deposit of €350 to the estate for each contested claim filed in a separate registration form. If that happens, the creditor loses its voting rights in respect of the contested claims to the extent of the contestation. Such creditor may then decide to defend its contested claim, within a period of 30 days from its claim being contested, by filing a petition with the insolvency court against the trustee / the relevant creditor asking the court to ascertain the claim. If the claim has been contested by a creditor, both the contested and the contesting creditors must pay an advance payment to the court for court costs (currently being €309 (revised on yearly basis)). If the claim has been contested by a creditor, the court may, upon request of the trustee (which the trustee must file with the court if requested by the contested creditor), grant voting rights to the contested creditor without undue delay after being requested to do that. The creditor then can exercise its voting rights until the court decides whether the creditor has a valid claim or not and afterwards only to the extent of the claim ascertained by the court.

If the bankruptcy is declared by the court, the law draws distinction between the "separated bankruptcy estate" and the "general bankruptcy estate." The former consists of assets which have been encumbered for the benefit of a secured creditor, whilst the latter consists of all other unencumbered assets. Rights of creditors secured by third party assets (*i.e.*, not belonging to a bankrupt debtor) are included in the separated bankruptcy estate of the relevant secured creditor. Except for financial collateral arrangements, secured creditors are not entitled to enforce the security interest outside the bankruptcy proceedings. In case of liquidation, secured creditors are entitled to instruct the trustee how to administer and/or dispose of the encumbered assets and the trustee can recover from the proceeds of sale of such assets any administrative expenses, which can be allocated to such assets or (proportionally to the total value of the bankruptcy estate) cannot be allocated to any particular assets.

The proceeds of sale of assets constituting "separated bankruptcy estate" may only be used to satisfy the secured claim (after the trustee's fees, the administrative costs and the costs of maintenance, preservation and sale related to the secured assets have been discharged). The unsecured creditors may be satisfied out of these proceeds only when the secured claim has been paid in full and there are still some proceeds left. This surplus then becomes a part of the "general bankruptcy estate," which is used for the benefit of all unsecured creditors. However, in cases when the debtor's business is operated as a going concern notwithstanding the bankruptcy declaration (see above which parameters the trustee must consider when deciding on the point of continuation of business operations), the ranking of the secured claim and post-insolvency claims may be more complex (as post-insolvency claims of creditors originating from the continued operation need to be discharged before the secured creditors' claims).

Any material actions in relation to secured assets must be discussed with all the stakeholders in such assets (including not just first-ranking secured creditors, but also any other secured, and possibly unsecured, creditors having an "economic" stake in the residual value of the same assets). Moreover, in some cases (for example, in connection with the realization of the assets in the bankruptcy estate), the trustee has the obligation to seek "binding" instructions from the affected stakeholders in relation to the realization of collateral.

The trustee must realize the debtor's estate in a way that ensures that the highest possible proceeds will be obtained within the shortest possible period incurring the lowest possible costs. When realizing the bankruptcy estate, save for certain exemptions, the trustee is free to use any available method of realization, however, the trustee must always act with professional care and ensure that the objective of realization mentioned above (*i.e.*, in respect of proceeds, time and costs) is fulfilled. Priorities among the administrative expenses are granted only to expenses of operation of the debtor's business after the bankruptcy order and are called "claims against the estate" (*pohl'adávky proti podstate*). Such claims need to be satisfied before any creditors are paid. Subordinated claims may be satisfied in bankruptcy if there are proceeds left over after all other creditors are paid in full. Subordination of claims is recognized in Slovak bankruptcy proceedings only if documented by a specific Slovak law subordination instrument, which is not very useful because it is very inflexible and therefore is not being used very frequently. All related party claims and contractual penalties shall, for the purposes of their satisfaction, be treated as subordinated. A creditor of a related party claim or a claim under a contractual penalty is not granted any voting rights and any security securing the related party claim or the claim under a contractual penalty shall be disregarded for the purposes of the bankruptcy proceedings. A claim is considered a related party claim if it belongs or belonged to a person who is or was a debtor's related party. The Slovak Insolvency Act provides for legal definition of a related party, which includes, in the case of legal entities, (a) a debtor's statutory representatives, procurists, managers, members of supervisory board, (b) persons having a "relevant stake" in the debtor (owning directly or indirectly at least a 5% share interest in registered capital and voting rights or having the right to influence the management of the debtor similar to the 5% share interest in registered capital and voting rights), (c) statutory representatives, procurists, managers, members of supervisory board in the entities under letter (b) above, (d) close persons (relatives) to individuals mentioned in letters (a) to (c) and (e) any other person in which any person mentioned in letters (a) to (d) above has a "relevant stake." As described above, the pool of related party claims can be quite broad. The Slovak Insolvency Act applies to related party claims generally and does not provide for any exemptions.

When all assets from the relevant estate have been liquidated, the trustee is under a duty to prepare a distribution order and distribute the proceeds of sale to the relevant creditors (if from the "separated bankruptcy estate," to the relevant secured creditor; if from the "general bankruptcy estate," *pro rata* to the unsecured creditors). The trustee may decide to distribute the sale proceeds also after completion of a partial sale of the debtor's assets. The court is also entitled, on the request of the relevant creditors, to order the trustee to make a partial distribution of proceeds.

Clawback in bankruptcy proceedings in relation to guarantees and security

If a guarantee or security is provided by a company for obligations of another party without consideration, such guarantee or security may be challenged by the trustee or another creditor in bankruptcy proceedings of the guarantor in the Slovak Republic as a voidable legal transaction (*odporovateľný právny úkon*) due to being (1) undervalue/without adequate consideration (*bez primeraného protiplnenia*); (2) an act curtailing other creditors (*ukracujúci úkon*); or (3) an act preferring certain creditor(s) against other creditors (*zvýhodňujúci úkon*). In the event that the guarantee is for obligations of a related party, this risk is comparatively higher than if the guarantor and the principal debtor would be unrelated.

- A guarantee or security may be challenged as undervalue if there was no consideration received by the provider for providing the guarantee or security, or if the consideration received was substantially lower than is customary, provided that the guarantee or security was granted during the time when the provider was already meeting an insolvency test or if granting of the guarantee or security itself has caused insolvency of the provider. It is assumed that the provider was insolvent at the time of granting the guarantee or security if the guarantee or security is for obligations of a provider's related party, unless it is proven to the contrary. The guarantee or security can be challenged as undervalue if it was granted within one year before the commencement of bankruptcy proceedings (or if the bankruptcy has been declared during restructuring proceedings (see below), if it was granted within one year before the commencement of restructuring proceedings), or three years before the commencement of bankruptcy proceedings (restructuring proceedings) if it secures obligations of a provider's related party.
- A guarantee or security may be challenged as curtailing another creditor if it is established that by granting the guarantee or security or by performing under the guarantee the provider has curtailed its creditors (other than the direct beneficiary of the guarantee or security) with an intention to do so, which intention was or must have been known to the beneficiary. Again, in case of a guarantee or security for obligations of a provider's related party, the intention of the provider to curtail its other creditors and the awareness of the beneficiary of this intention will be assumed, unless it is proven to the contrary. The guarantee or security can be challenged as curtailing other creditors if it was granted within five years before the commencement of bankruptcy proceedings.
- A guarantee or security may be challenged as preferential if it would be established that by granting the guarantee or security or by performing under the guarantee (1) one or more creditors of the provider have been given unreasonable advantage before its other creditors, or (2) the provider has unreasonably put itself into disadvantageous position to the detriment of its creditors; provided that the guarantee or security was granted during the time when the guarantor was already meeting an insolvency test or if granting of the guarantee or security itself has caused insolvency of the provider. It is assumed that the provider was insolvent at the time of granting the guarantee or security if the guarantee or security is for obligations of a party related to the provider, unless it is proven to the contrary. The guarantee or security can be challenged as preferential if it was granted within one year before the commencement of bankruptcy proceedings (or if the bankruptcy has been declared during restructuring proceedings (see below), if it was granted within one year before the commencement of restructuring proceedings), or three years before the commencement of bankruptcy proceedings (restructuring proceedings) if it secures obligations of a provider's related party.

A petition to challenge and set aside the guarantee or security on the above grounds may be filed by the trustee or by a creditor of the bankrupt guarantor or security provider (the latter only if the trustee has not filed the petition after it has been requested to do so by the creditor) within one year after declaration of bankruptcy by filing a petition with the insolvency court against all parties having benefit from the guarantee or security (being primarily the beneficiary and the principal debtor whose obligations have been secured), and only if as a result of the granting of or performance under the guarantee satisfaction of a claim duly registered in the bankruptcy proceedings is curtailed. A claim against the bankrupt guarantor or security provider under a voidable guarantee or security may also be challenged by contesting the creditor's filed claim under the guarantee or security.

If the guarantee or security is successfully challenged, it shall be set aside and declared ineffective. As a result, the parties benefiting from it would have to return the benefit (or its equivalent in money terms) into the general bankruptcy estate of the debtor to be available to its general creditors. If the beneficiary of the guarantee or security would have to return any payment received under the guarantee or security into the bankruptcy estate, its claim secured by the guarantee or security would be automatically reinstated in the amount so returned, and would be subject to satisfaction from the general bankruptcy estate together with the other creditors of the debtor (*i.e.*, *pro rata*).

Restructuring proceedings and restructuring

A debtor may file the petition for its restructuring order only if it has appointed the restructuring trustee to prepare the restructuring opinion and in the prepared opinion not older than 30 days, the trustee recommended the restructuring as feasible. The debtor may appoint the trustee to prepare the opinion not only if it is already insolvent, but also in the cases where the insolvency is just imminent. The purpose of the opinion is to see whether the economic preconditions for the feasibility of debtor's restructuring are satisfied (comparing always against a bankruptcy scenario). The opinion must be prepared by a trustee who is listed in the list of qualified insolvency practitioners. The trustee must prepare the opinion in an impartial manner exercising professional care. The persons who instructed the trustee to prepare the opinion must provide the trustee with the required cooperation, especially with all documents, information and explanations required for a proper preparation of the opinion. The creditors are allowed to appoint the trustee and to make a petition for restructuring themselves, but only with prior consent of the debtor.

In the opinion, the trustee recommends restructuring of the debtor only if the following conditions are met: (1) the debtor has not ceased to perform business activities, (2) the debtor is insolvent (*i.e.*, meets at least one of the insolvency tests) or its insolvency is imminent, (3) it is reasonable to expect that at least the material part of operation of the debtor's business can be preserved, and (4) it is reasonable to expect that if restructuring is permitted, the degree of satisfaction of creditors of the debtor will be higher than if bankruptcy was declared.

In its schedule, the opinion may contain a draft restructuring plan and binding declarations of the debtor and of one or several creditors of the debtor regarding the draft restructuring plan (concept of a "pre-packed" plan).

After the court ascertains that the petition for restructuring "formally" complies with the statutory requirements and that it is supported by the expert opinion, the court must decide to commence the restructuring proceedings within 15 days from its receipt. Otherwise it shall reject the petition within the same period of time. The court resolution on the commencement of the restructuring proceedings must be published in the Commercial Gazette without delay after is has been issued. The restructuring proceedings "effectively" commences at 12 a.m. of the day following such publication. At that time also the moratorium on creditors' actions becomes effective, the debtor must restrict its activities to the ordinary legal acts only and some additional effects associated with the commencement of the proceedings enter into force.

After the restructuring proceedings have been commenced, the next step for a court is to ascertain whether all preconditions to permitting restructuring have been satisfied. However, the court does not analyze the economic feasibility of the restructuring, as it is bound by the recommendation of the trustee expressed in its opinion. In other words, unless the opinion has formal deficiencies, if the trustee has recommended the restructuring, the court has the obligation to issue a resolution by which the restructuring is permitted. The court must decide whether or not to permit restructuring and appoint the trustee who prepared the opinion within 30 days from the commencement of the restructuring proceedings.

Once the restructuring has been permitted, the trustee's main duty is to supervise the business of the debtor. The trustee must carry out the supervision with professional care so that the debtor does not diminish the value of its assets or does not frustrate successful completion of the restructuring. If the debtor seriously or repeatedly breaches its obligations established by law, the trustee must without delay petition the court to declare a bankruptcy (*i.e.*, to convert the restructuring into bankruptcy proceedings). Moreover, in the course of the restructuring, the trustee must continuously monitor developments in the financial and business situation of the debtor and, if the financial situation or the business situation changes to the extent that the successful completion of restructuring can no longer be reasonably expected, the trustee must without delay petition the court to declare bankruptcy of the debtor (*i.e.*, to convert the restructuring into bankruptcy).

The creditors may, on their meeting, decide on the conversion of the restructuring into bankruptcy proceedings by a majority vote of the present creditors (counted by the value of their claims) also. Any creditor whose claims represent at least 10% of all votes may propose such voting.

During the restructuring the debtor remains in the possession of its business, however, it is under the supervision of the restructuring trustee, the court and the creditors. In addition, in the resolution permitting the restructuring, the court may determine the scope of those legal acts of the debtor that will be subject to prior approval by the trustee during the restructuring. The scope of these legal acts may be extended by the creditors' committee any time during the restructuring proceedings.

Creditors shall register their claims (using a standard registration form prescribed by law) within 30 days from the restructuring being permitted by court. Each secured claim must be registered on a separate form. The registration forms and all exhibits to them must be delivered to the trustee within the said deadline. Claims in a currency other than euro shall be converted into euro at the official exchange rate issued by the European Central Bank as at the date of ordering of restructuring (or, if no exchange rate is quoted for the relevant currency by the European Central Bank, the trustee shall convert the claim into euro with professional care). Failure to register claims within the stipulated time limit shall lead to rejection of the late application and, as a result thereof, the respective creditor shall lose its right to satisfaction of its claim in the restructuring. The trustee will examine the registration documents in relation to the claim, and is obliged to contest (within 30 days from expiration of the deadline for registration of claims) the filed claim if (according to the trustee's findings after having evaluated the claim with professional care) there are doubts as to the title, enforceability, amount, security, or the ranking of security. Unlike in bankruptcy, the creditors do not have the right to contest the claims of other creditors, but instead only have the right to suggest the trustee contesting other creditors' claims; the trustee, however, is not obliged to follow such suggestions. If that happens, the creditor of the contested claim may, within a period of 30 days from the contestation, file a petition with the insolvency court against the trustee asking the court to ascertain the claim. A creditor of a related party claim or a claim under a contractual penalty cannot exercise its voting rights, except on the creditors' meeting which votes on the restructuring plan.

The key idea and the desired outcome of the restructuring proceedings is the preparation of a restructuring plan which needs to be approved by the relevant majorities of the creditors (and in some circumstances, also by the shareholders) and subsequently endorsed by a court. In legal terms, the restructuring plan is a document providing for the creation, variation or termination of rights and obligations of persons identified in it as well as the scope and method of satisfaction of those parties to the plan who are either creditors with filed claims or the debtor's shareholders. A related party claim or claim under a contractual penalty cannot be, in the plan, granted an equal or higher rate of satisfaction than any other claim included in the plan. Before all the creditors (and in certain cases, the shareholders) vote on the approval of the plan, it must first be submitted to the creditors' committee for its preliminary approval (within 90 days from the restructuring being permitted with possible extension by a further 60 days).

Once the creditors approve and the court confirms the plan, the plan is binding on all parties to the plan. The plan consists of a descriptive part and a binding part. The measures to be adopted by the plan are very flexible. For example, they may include typical "plain vanilla" restructuring of the debtor's financial indebtedness, the conversion of the debt to equity, the transfer of the debtor's assets or business to a newly established entity, merger, amalgamation or division of the debtor or a change of its legal form. The plan is prepared by the debtor, if the debtor has initiated the restructuring (on most occasions) or by the trustee, if any of the creditors has initiated the restructuring.

The court may confirm a plan modifying the capital structure of the debtor and restructuring its liabilities, if it is first approved by the creditors committee and then by each class of creditors. The classification of creditors is proposed by the proponent of the plan, subject to some statutory constrains (*e.g.*, secured and unsecured creditors need to be in separate classes, each secured creditor in a separate class (unless agreed otherwise), and, a separate class is created for all subordinated claims, related party claims and claims under contractual penalties). Each class must vote for the plan by the relevant majority prescribed by law. The court may decide that the consent of a particular creditor class is not required subject to a best interest of creditors tests, *i.e.* to verification that no creditor will be worse off under the plan than it would be in a bankruptcy scenario, and to the requirement that a majority in amount of all creditors and a majority of all classes vote for the plan. Several other conditions apply to the approval of a restructuring plan (the "cram-down").

Limitations on intra-group guarantees and security

Certain limitations under Slovak law apply in relation to guarantees or security in favor of parties related to the guarantor. Please note that these limitations apply only to a guarantor or security provider that is a joint stock company (*akciová spoločnosť*), and further, only in the cases where there is a "personal link" between such guarantor/security provider and the debtor of the obligation secured by the guarantee. The personal link will be established if one or more persons is a member of the statutory or supervisory body of both the guarantor/security provider and the debtor or if it is a general proxy or otherwise authorized to act on behalf both of these companies. The personal link will also be established if the individuals involved in the two companies are relatives or have another form of close relationship as defined by law. If a guarantor/security provider that is a Slovak joint stock company provides a guarantee or security for obligations of a debtor with whom it has such a personal link, such guarantee or security must be: (a) granted on arms' length terms (which is usually a matter of fact); and (b) approved in advance by the guarantor's/provider's supervisory board (unless the guarantor/provider is a parent company controlling the debtor whose obligations are guaranteed/secured).

The law fails to specify the consequences of the guarantee or security being granted in the breach of the above rule. Also, as this provision was introduced relatively recently, so far there exists no case law or standard interpretation, which would clarify these issues in more detail. Nonetheless, we assume that there will always exist a certain risk that a guarantee or security provided by a Slovak joint stock company to an entity with whom it has a personal link, may be declared null and void once being in breach of the above requirements.

The requirement of arm's length basis as envisaged in Section 196a of the Slovak Commercial Code should be viewed in the context of the transaction as a whole and in the context of the factual matters pertaining to the agreed arrangement (see below which factual issues to consider).

The concept of arm’s length basis can be interpreted at least in two ways under Slovak law. Firstly, from the perspective of whether the performance is made for “adequate consideration” and secondly, within the specific meaning given to this term under Section 196a of the Slovak Commercial Code. These two perspectives differ in the consequences should the law be breached. If the transaction is not for “adequate consideration,” it would be still valid, but could be challenged by a bankruptcy receiver on the relevant company’s insolvency as an “undervalue transaction.” Conversely, if the transaction is in breach of Section 196a of the Slovak Commercial Code, it would be invalid by operation of law.

Regarding the first mentioned perspective, though establishing what constitutes the adequate consideration is matter of fact rather than legal issue, it is our view that if all obligors under the Notes documentation benefit from the mutual “cross-guarantee” structure (*i.e.*, any involved entity guarantees and secures the liabilities of all other involved entities), this may be reasonably sufficient to establish the adequate consideration. In other words, it may be argued that each obligor is giving its promise of guarantee in exchange for obtaining guarantees of its debts from its affiliated obligors.

Regarding the second mentioned perspective, if the concept of arms’ length basis as used in section 196a of the Slovak Commercial Code is literally translated into English, this English translation reads that “*the performance must be on terms that are commonly used in the course of the ordinary commercial activity*.” Though there is practically no interpretation what is exactly meant by this wording, it may be reasonably argued that the transaction must be on terms that are not manifestly “one-sided” or manifestly “disadvantaging” one party at the expense of the other.

Corporate benefit

Even though there is no explicit mention of corporate benefit concept under Slovak law, this concept can possibly be derived from the directors’ obligation to act with professional care in line with the best interests of the company and all its shareholders. A transaction in breach of such director’s duty still remains valid, though the director may be personally liable for damages caused to the company by entering into such transaction.

Restrictions on financial assistance

Under Section 161e of the Slovak Commercial Code, a Slovak joint stock company (*akciová spoločnosť*) must not provide financing for acquisition of its shares by third parties or provide any guarantees or security over its assets to secure liabilities relating to acquisition of its shares by third parties. There are no applicable exceptions from this rule and no whitewash procedures are available. Transactions entered into in breach of this rule shall be null and void by operation of law. This restriction on financial assistance does not apply to any other form of companies than joint stock companies.

Parallel debt

Under Slovak law, certain “accessory” security interests such as pledges (*záložné práva*) 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 Note Holders will not be party to the security documents relating to the Collateral. In order for the Note Holders to benefit from security under “accessory” Collateral, the 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. The pledges governed by Slovak law will directly secure the parallel debt. The parallel debt procedure has not been tested in court under Slovak law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by Slovak law.

Limitations on guarantee and security outside insolvency

Under Slovak law it is possible to set aside transactions (such as a creation of security interest) which have been entered into with the intention to harm another creditor holding an enforceable claim (confirmed by a court judgment or other official document allowing to conduct enforcement proceedings) at the time of the transaction, or which have actually curtailed satisfaction of such creditor and which have been entered into between the debtor and a related party (the exact scope of related parties is established by law). The creditor whose enforceable claim has been curtailed can claim against the beneficiary setting aside such transactions, which have been entered into during the last 3 years prior to making the claim. The beneficiary can make a defense that it did not know about the bad intentions of the security provider. These instruments are not used very often since it is very difficult to prove an intention to curtail the creditor (unlike in bankruptcy, the intention is not presumed here).

General limitations with regard to security

Security under Slovak law and its enforcement is subject to the following limitations:

- The ranking of security is established at the moment when publicity formalities have been accomplished. In general, the ranking of a pledge is based on the "first-in-time, first-in-right" principle, and the order of registration of the pledge in the relevant pledge registry will establish its ranking. Subsequently, creditors can agree to change the order of priority of their security interests and such agreement must be registered in the relevant pledge registry to take effect.
- Negative pledge undertakings are binding only as between the security provider and the secured creditor, and are not binding on third parties. As a result, the security provider can validly create a junior-ranking security over the same asset, over which it has granted Collateral. This does not apply to shares in joint stock companies, in relation to which only one security interest may exist at any one time.
- The pledge can be enforced only once there is a default with a payment obligation secured by the pledge.
- During enforcement of security, certain rules aimed at protection of the security provider will apply. These include (among others):
  - appropriation of the collateral by the pledgee as a method of enforcement is not possible unless agreed between the pledgor and pledgee specifically and only after the pledge has become enforceable (*i.e.*, after the payment default has occurred in case of the secured claim and not at the time of entry into the pledge agreement);
  - a mandatory waiting period of minimum 30 days which must lapse between the announcement of commencement of enforcement and the actual sale of the collateral within the enforcement process;
  - duty of fair realization obliging the pledgee to sell the collateral for a fair market price, for which comparable assets are usually sold at the given time and place (in case of securities this is even strengthened to a maximum price that can be achieved after exercise of professional care);
  - duty to inform the pledgor about the process of the enforcement (can be excluded in case of securities);
  - duty to stop the enforcement at any time when the creditor has received an amount in discharge of its secured claim.
- If more than one pledge is established in relation to a certain asset (*e.g.*, in breach of a negative pledge undertaking), the senior creditor may be found to owe certain duties to the junior ranking creditors when enforcing its senior ranking pledge.

- As of October 1, 2012 the transfer of a majority participation interest (*väčšinový obchodný podiel*) in a Slovak limited liability company (the "**transfer**") will become effective only after the transfer has been registered with the relevant commercial registry. For the purposes of the registration of the transfer with the relevant commercial registry, the Slovak limited liability company is required under the Slovak Commercial Code to present to the court operating the commercial registry:
  - an up-to-date consent with the transfer issued by a relevant Slovak tax administrator (*správca dane*) (i.e. the relevant tax authority (*daňový úrad*) or the relevant customs authority (*colný úrad*)) that will be issued by the tax administrator only if both the transferor and the transferee of the majority participation interest: (i) has no due but unpaid tax liabilities (*daňový nedoplatok*) or custom liabilities (*nedoplatok na cle*) owed to the Slovak Republic; or (ii) has due but unpaid tax liabilities (*daňový nedoplatok*) or custom liabilities (*nedoplatok na cle*) owed to the Slovak Republic in the aggregate amount not exceeding €170 (the "**tax consent**"); or
  - if the transferor or the transferee is (i) a natural person domiciled in any other country than the Slovak Republic or (ii) an entity having its registered seat in any other country than the Slovak Republic (the foreign person), a written declaration signed by the foreign person stating that the above obligation to present the tax consent does not apply to it.
- Failure of the Slovak limited liability company to comply with its above obligations will result in the Slovak court which operates the relevant commercial registry refusing the registration of the transfer and thus the transferee not acquiring the ownership title to the majority participation interest.
- In relation to the pledge over majority participation interest which pledge is registered in the commercial registry after December 1, 2013, the above obligations of a Slovak limited liability company shall apply also to the transfer effected by a pledgee in the course of enforcement of the pledge created over the majority participation interest. Consequently, failure by a Slovak limited liability company to comply with its above obligations may lead to the Slovak court which operates the relevant commercial registry refusing the registration in the commercial registry of the transfer effected by a pledgee in the course of enforcement of the pledge created over the majority participation interest (provided that such pledge is registered in the commercial registry after December 1, 2013) and the transferee not acquiring the majority participation interest.

Enforceability of a U.S. judgment in the Slovak Republic

A judgment duly obtained in the New York State courts or United States federal courts shall be recognized and enforced in the Slovak Republic unless:

- the matter is one within the exclusive competence of the courts of the Slovak Republic pursuant to its laws, or is one beyond the competence of any judicial proceedings of a foreign authority, as determined by the laws of the Slovak Republic; or
- the decision is not final or enforceable in the state where it has been issued; or
- the decision is not a decision on the merits of the matter; or
- the party against whom such judgment is sought to be enforced has been deprived of an opportunity to participate in the foreign proceedings, especially if the summons or notice of the commencement of the foreign proceedings has not been duly served on the party; this exception does not apply if the party has not filed an appeal against the foreign judgment which has been duly served on it or if the party has waived the applicability of this exception; or
- a final decision in the same matter has previously been reached by a court of the Slovak Republic or by a foreign authority if that foreign authority's decision has been, or would be, enforced in the Slovak Republic; or

- recognition of the foreign judgment would be contrary to public policy (*ordre public*) of the Slovak Republic.

The term "enforced" as used herein means that the obligations assumed by the relevant party under the relevant document are of a type which the Slovak courts normally enforce or may enforce. It does not mean that those obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular:

- enforcement may be limited by bankruptcy, insolvency, liquidation, debt restructuring and other laws of general application relating to or affecting the rights of creditors;
- a court fee for any action filed in a Slovak court may be applicable; court fees may also be payable in connection with an appeal from an adverse judgment or in connection with other request to the court;
- certified translation of the judgment into the Slovak language will be required and the enforcement in the Slovak Republic will be based on such translation;
- enforcement may be limited by remedies available before Slovak courts. the acceptance by such courts of jurisdiction, the power of such courts to stay proceedings, the provisions of other principles of law of general application (*e.g.*, the concept of fair business conduct) and all limitations resulting from the laws of bankruptcy, insolvency, restructuring, liquidation, forced administration, any statutes of limitation and lapse of time or other laws affecting generally the enforcement of creditors' rights;
- any subsidies or other funds obtained from the state budget or from the budget of the European Union or any assets purchased from funds originated from the state budget or from the budget of European Union are immune from attachment and from execution and would not be available to creditors in any enforcement proceedings; and

enforcement and recognition may be limited by public policy and mandatory provisions of Slovak law, as well as by such principles of Slovak law as fair business dealings, good faith, equal treatment of parties and "*non contra bonos mores*."

Enforceability of a German judgment in the Slovak Republic

A judgment of a German state or federal court in a civil or commercial matter (*e.g.*, a judgment granting a payment claim against the Slovak Providers) would be recognized and enforced in the Slovak Republic unless:

- the matter is one within the exclusive jurisdiction of the courts of an EU member state other than the Federal Republic of Germany under the Regulation (EU) no. 1215/2012 of December 12, 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast);
- the judgment is not enforceable in the Federal Republic of Germany;

and, on the application of any interested party:

- recognition is manifestly contrary to public policy (*ordre public*) in the Slovak Republic;
- where the judgment was given in default of appearance, if the defendant was not served with the document that instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for its defense, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for it to do so;
- the judgment is irreconcilable with an earlier judgment given by a Slovak court in a dispute between the same parties;
- the judgment is irreconcilable with an earlier judgment given in another EU member state or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfills the conditions necessary for its recognition in the Slovak Republic; or

- the judgment conflicts with certain provisions of Regulation (EU) no. 1215/2012 of December 12, 2012 specified in Article 45 thereof.

The term "enforced" as used herein means that the obligations assumed by the relevant party under the relevant document are of a type which the Slovak courts normally enforce or may enforce. It does not mean that those obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular:

- enforcement may be limited by bankruptcy, insolvency, liquidation, debt restructuring and other laws of general application relating to or affecting the rights of creditors;
- a court fee for any action filed in a Slovak court may be applicable; court fees may also be payable in connection with an appeal from an adverse judgment or in connection with other request to the court;
- certified translation of the judgment into the Slovak language will be required and the enforcement in the Slovak Republic will be based on such translation;
- enforcement may be limited by remedies available before Slovak courts. the acceptance by such courts of jurisdiction, the power of such courts to stay proceedings, the provisions of other principles of law of general application (*e.g.*, the concept of fair business conduct) and all limitations resulting from the laws of bankruptcy, insolvency, restructuring, liquidation, forced administration, any statutes of limitation and lapse of time or other laws affecting generally the enforcement of creditors' rights;
- any subsidies or other funds obtained from the state budget or from the budget of the European Union or any assets purchased from funds originated from the state budget or from the budget of European Union are immune from attachment and from execution and would not be available to creditors in any enforcement proceedings; and
- enforcement and recognition may be limited by public policy and mandatory provisions of Slovak law, as well as by such principles of Slovak law as fair business dealings, good faith, equal treatment of parties and "*non contra bonos mores*."

Switzerland

Bankruptcy

In the event of bankruptcy of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Switzerland (each of them a "**Swiss Provider**"), any bankruptcy proceedings would be initiated in Switzerland and be governed by Swiss law. The bankruptcy laws of Switzerland and, in particular, the provisions of the Swiss Federal Act on Debt Collection and Bankruptcy (*SchKG*), may not be as favorable to creditors as the insolvency laws of other jurisdictions, such as with respect to the priority of creditors, the ability to obtain post-petition interest as well as with respect to security interests (in particular as regards the enforcement thereof by the relevant secured creditor), and the duration of the insolvency proceedings, and hence may limit or impair 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 bankruptcy laws of Switzerland.

Under Swiss bankruptcy law, in general, only those debtors who are entered in the register of commerce (*Handelsregister*) are subject to bankruptcy proceedings. Bankruptcy proceedings are not initiated by the competent bankruptcy court (*Konkursgericht*) ex officio, but require that the debtor and/or a creditor file a petition for the opening of bankruptcy proceedings (*Konkursverfahren*). Upon a creditor's request for initiation of enforcement proceedings (*Einleitungsverfahren*) filed with the competent debt collection office (*Betreibungsamt*), the relevant debtor (being registered in the register of commerce) is notified and threatened with bankruptcy. Upon a second request of the creditor within 20 days after service of the bankruptcy warning (*Konkursandrohung*), the bankruptcy court declares adjudication of bankruptcy with respect to the debtor concerned, if no opposition is declared or if opposition has been removed. In addition, the creditor may request the court in certain cases to open bankruptcy proceedings without prior enforcement proceedings (*Einleitungsverfahren*), in particular if a debtor being registered in the register of commerce has ceased payments (*Zahlungseinstellung*).

Bankruptcy proceedings can also be initiated by a debtor which is a corporation (*Aktiengesellschaft, abbreviated: "AG"*) in the event of overindebtedness (*Überschuldung*). According to the relevant provision in art. 725 of the Swiss Code of Obligations ("**CO**"), if there is substantiated concern of overindebtedness, an interim balance sheet has to be prepared and submitted to the auditors for examination. Overindebtedness exists if, based on that interim balance sheet, the debtor's liabilities exceed the value of its assets on the basis of both (i) the liquidation value, and (ii) the going-concern value. In case of overindebtedness pursuant to art. 725 CO, the board of directors of the debtor is obligated to file for bankruptcy without delay unless creditors of the debtor subordinate their claims to those of other creditors of the debtor to the extent of that excess amount of liabilities. If the board of directors omits to file for bankruptcy, the auditors are obligated to do the filing. Upon filing for bankruptcy, the bankruptcy judge will adjudicate bankruptcy. However, at the request of the board of directors or a creditor, the judge may postpone the adjudication provided there is a prospect of a financial reorganization.

Virtually the same rules as to the duty to file a petition for bankruptcy, and the consequences thereof, apply if a Swiss Provider is a limited liability company (*Gesellschaft mit beschränkter Haftung, abbreviated: "GmbH"*) (art. 820 CO).

Bankruptcy proceedings will be in the form of ordinary or summary proceedings (the latter if the case is simple or due to the lack of funds to pay the costs of ordinary proceedings). However, bankruptcy proceedings will immediately be terminated at the request of the bankruptcy office (*Konkursamt*) if the available funds do not even suffice to pay for summary proceedings unless third parties, for instance creditors, advance the costs.

Upon the opening of bankruptcy proceedings, all sizable assets owned by the debtor at that time form one sole bankrupt estate (*Konkursmasse*), irrespective of where these assets are located. All other enforcement procedures against the debtor cease immediately. The right to manage the business and to dispose of the assets of the debtor passes to the bankruptcy office (*Konkursamt*), unless the creditors decide in the first meeting of creditors (*Gläubigerversammlung*) to appoint a private bankruptcy administrator (*ausseramtlicher Konkursverwalter*). The bankruptcy office (as bankruptcy administrator) and the private bankruptcy administrator (if appointed) respectively have full administrative and disposal authority over the debtor's assets, except for the decisions reserved to the meetings of creditors. All creditors of the debtor participate in the bankruptcy proceedings, unless they have a right to separate an asset from the bankrupt estate (*Aussonderungsrecht*). Swiss bankruptcy proceedings are collective proceedings and creditors may not separately pursue their individual claims in the bankruptcy proceedings. Creditors may file their claims with the bankruptcy administrator upon public announcement of the bankruptcy of the debtor and will be paid, according to the class of their claim (*Gläubigerklasse*). In case the available funds do not suffice to pay all claims, senior classes of claims enjoy priority over junior classes. Creditors of the same class are treated equally and their claims will be paid on a *pro rata* basis.

If a Swiss Provider which has granted a Subsidiary Guarantee goes bankrupt, the creditors secured by the relevant Subsidiary Guarantee will be ranked in the third class of claims (which includes all unsecured and non-preferred claims). Creditors secured by a pledge (*Pfandrecht*) are not entitled to enforce their respective security interest outside the bankruptcy proceedings, once bankruptcy has been adjudicated, even if it has been agreed upon in the relevant pledge agreement or security agreement that the pledge may be realized freely (*i.e.*, without following the provisions of the Federal Act on Debt Collection and Bankruptcy (*SchKG*)). Pledged assets form part of the bankrupt estate and have to be handed over to the bankruptcy administrator (subject to the pledge). It will then be up to the bankruptcy administrator to realize the pledge in the course of the bankruptcy proceedings. However, the respective secured claims will be satisfied directly out of the proceeds from the realization of the respective pledge less the costs of inventorying, administration and realization of the pledge; these costs will first be deducted from those proceeds (art. 262 *SchKG*). Hence, the secured creditor will not receive 100% of the proceeds resulting from the realization of the pledge. With the remaining assets of the debtor, the bankruptcy administrator will first satisfy the creditors of the bankrupt estate (*Massegläubiger*). Liabilities resulting from acts of the bankruptcy administrator after commencement of bankruptcy proceedings constitute liabilities of the bankrupt estate (*Masseschulden*). Claims of subordinated creditors in the bankruptcy proceedings will be satisfied only after the claims of all other creditors have been fully satisfied.

As an alternative solution to bankruptcy, the debtor (or, under certain circumstances, a creditor) may initiate a composition proceeding (*Nachlassverfahren*) by applying to the composition court (*Nachlassgerich*t) for a moratorium (*Nachlassstundung*). During such moratorium the debtor can either seek to restructure (and, if successful, ask the court to lift the moratorium) and/or seek to reach a composition agreement (*Nachlassvertrag*) with its creditors. If the court approves the moratorium, it appoints a commissioner (*Sachwalter*) who will, among others, monitor the actions of the debtor and, if necessary, draft a composition agreement (*Nachlassvertrag*). Further, the court may appoint a committee of creditors to monitor the commissioner (*Sachwalter*) and approve certain actions of the debtor. As soon as a composition agreement (*Nachlassvertrag*) has been drafted, the commissioner convokes a meeting of creditors which has to approve the draft composition agreement according to specific majority rules. The composition agreement (*Nachlassvertrag*) is subject to the approval of the composition court (*Nachlassgericht*). The Federal Act on Debt Collection and Bankruptcy (*SchKG*) provides for three different types of composition agreements: the ordinary composition agreement (*Ordentlicher Nachlassvertrag*), the composition agreement with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*) and the composition agreement in bankruptcy proceedings (*Nachlassvertrag im Konkurs*). Under an ordinary composition agreement, the unsecured creditors will normally receive a certain percentage of their claims in consideration of a waiver of the remaining part of the claim. In case of a composition agreement with assignment of assets, the debtor assigns all or parts of its assets to the creditors for the purpose of liquidation. Unsecured claims against a Swiss Provider will be treated like unsecured claims in bankruptcy; a creditor secured by a pledge is not obliged to hand in the pledged assets to the liquidators, but may basically liquidate the security by separate enforcement proceedings for the realization of collateral or, if so agreed upon, by private sale.

Under Swiss bankruptcy law, there is no consolidation of the assets and liabilities of a group of companies in the event of bankruptcy. In case of a group of companies, each entity has, from a bankruptcy laws point of view, to be dealt with separately on an entity-by-entity basis (*i.e.*, there is no group bankruptcy or substantive consolidation concept under Swiss bankruptcy law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather claims of and vis-à-vis each entity have to be dealt with separately.

Limitation on enforcement

If the Swiss Providers are incorporated in Switzerland in the form of a corporation (*Aktiengesellschaft*), the grant of a security (such as a pledge or a guarantee) by the Swiss Providers is subject to certain provisions of the CO.

Under Swiss law, there are several provisions protecting the share capital as well as the (legal or mandatory) reserves of a corporation. As a result, a corporation may not make payments to its direct or indirect parent company (shareholder) unless such payment is made (i) as a dividend, or (ii) in the course of a formal reduction of the corporation's share capital, or (iii) in connection with a transaction agreed at arm's length. Based on Swiss legal doctrine, payments to a direct or indirect sister company are subject to the same provisions as payments to a direct or indirect parent company. Furthermore, the granting of a security (such as a pledge or a guarantee) for the benefit of a direct or indirect parent company (*i.e.*, to secure obligations of that direct or indirect parent) or a direct or indirect sister company, as well as other acts having a similar effect (such as the waiving of rights), are subject to the same principles as an actual payment. If the granting of a security in favor of, or a payment to, a direct or indirect parent company or a direct or indirect sister company is not made within the scope of a permissible payment to a parent company, such payment or such security may be null and void. More specifically, art. 680 para. 2 CO prohibits a corporation from repaying its share capital to its shareholders. Guarantees, pledges and any other type of security granted by a corporation in order to secure liabilities of a direct or indirect parent company or a direct or indirect sister company are considered a hidden repayment of the share capital and/or the legal or mandatory reserves (which latter may not be paid to the shareholders either, art. 671 CO), if—pursuant to Swiss legal doctrine—they have not been granted at arms' length. Any payment in violation of this rule will be considered to be null and void.

Therefore, in order to enable Swiss security providers to grant a security to secure liabilities of a direct or indirect parent company or a direct or indirect sister company without the risk of violating art. 680 para. 2 CO, it is standard market practice for guarantees, pledges and other security documents to provide for a so-called "limitation language." Pursuant to such "limitation language," the secured parties agree to enforce the security against the Swiss security provider, or apply the proceeds from the realization of the security to the secured liabilities of a direct or indirect parent or sister company, only to the extent of the maximum amount of the free reserves available for distribution of the relevant Swiss security provider (being the positive difference between the assets of the Swiss security provider and the aggregate of all liabilities, the amount of the registered share capital and the legal or mandatory reserves (including any freely disposable equity that has to be blocked for any loans granted by the relevant Swiss security provider to a direct or indirect parent company or a direct or indirect subsidiary of any parent company), all these amounts established in accordance with Swiss law), and taking into account the deduction of the Swiss withholding tax (*Verrechnungssteuer*) at the current rate of 35% (or such other rate in force from time to time) levied on any such reserves made available for distribution. In some cases, the Swiss withholding tax liability can be discharged by mere notification, *i.e.*, without an actual deduction. To the extent Swiss withholding tax had to be deducted, the amount so deducted may in full or in part be recoverable according to the applicable double taxation treaty. In addition, the statutory purpose of a corporation needs to comprise group support and financial assistance and certain corporate formalities to be completed, including, but not limited to, obtaining an interim audit report, shareholders' resolutions and board resolutions, may be required before performing obligations under the Subsidiary Guarantees and/or the enforcement of Collateral of a Swiss Provider.

The security documents relating to the Collateral and/or Subsidiary Guarantees to be provided by the Swiss Providers would contain such "limitation language."

Notwithstanding, these rules may limit the value of the Collateral and/or Subsidiary Guarantees.

The rules described above also apply if the Swiss Providers are incorporated in the form of a limited liability company (*Gesellschaft mit beschränkter Haftung*) (art. 793 CO).

The "limitation language" referred to above and the legal doctrine and market practice based on which the "limitation language" would be included in the relevant security documents has so far never been tested by a Swiss court.

A limitation on enforcement of the Collateral of the Swiss Providers may also result from the fact that the contemplated pledge can no longer be enforced outside the bankruptcy proceedings, once bankruptcy has been adjudicated.

Hardening periods and fraudulent transfer

In the event of the opening of bankruptcy proceedings with respect to the Swiss Providers, which would be based on and governed by the insolvency laws of Switzerland, the security granted or payments made by the Swiss Providers could be challenged, by the bankruptcy administrator (*Konkursverwalter*), any creditor to whom such right to challenge the security or payment has been assigned, and any creditor holding a provisional or definitive certificate of loss (each of these persons a "**Party Entitled to Claim**," collectively the "**Parties Entitled to Claim**") by means of avoidance actions (*paulianische Anfechtungsklagen*), pursuant to art. 285 *et seqq.* of the Swiss Federal Act on Debt Collection and Bankruptcy (*SchKG*).

Based on these provisions, each Party Entitled to Claim may challenge transactions (*Rechtshandlungen*) that are deemed detrimental to bankruptcy creditors and were effected prior to the commencement of bankruptcy proceedings. Such transactions may include the payment of any amounts to the holders of the Notes under certain circumstances as well as granting them a security interest under certain circumstances.

Avoidance actions can be brought in the following cases:

- when a debtor makes donations or enters into similar transactions within one year preceding the opening of bankruptcy proceedings (in case the beneficiary of the relevant transaction with the debtor is a related party, including without limitation a group company, the burden of proof is shifted: the beneficiary must in this case prove that such transaction was at arm's length); or
- when a debtor whose liabilities exceed its assets (*i.e.*, when a debtor is over indebted (*überschuldet*)), within one year preceding the opening of bankruptcy proceeding, grants a security for existing liabilities, and the creditor is not able to prove that it was unaware, and needed not to be aware, of the debtor's overindebtedness; or
- when a debtor settles monetary claims of a creditor by other means than in cash or other customary means of payment within one year preceding the opening of bankruptcy proceeding, if the debtor was over indebted (*überschuldet*) at the time of the relevant settlement, and the creditor is not able to prove that it was unaware, and needed not to be aware, of the debtor's overindebtedness; or
- when a debtor discharges a debt of a creditor which is not yet due within one year prior to the opening of bankruptcy proceedings, if the debtor was already over indebted (*überschuldet*) at the time of the payment and the creditor is not able to prove that it was unaware, and needed not to be aware, of the debtor's overindebtedness; or
- when a debtor in a transaction intentionally disadvantages its creditors or favors certain of its creditors to the disadvantage of others, provided this intention is recognizable to the other party of the relevant transaction, and further provided that such transaction is performed within five years before the opening of bankruptcy proceedings (in case the beneficiary of the relevant transaction with the debtor is a related party, including without limitation a group company, the burden of proof is shifted: the beneficiary must in this case prove that such intention was not recognizable).

In this context, "awareness" is generally deemed to exist if the creditor is aware of the facts from which the conclusion must be drawn that the debtor was over indebted. In this respect, the due diligence standards expected by Swiss courts from a creditor in order for it (*i.e.*, the creditor) to successfully prove that it needed not to be aware of the debtors' overindebtedness are considerably high. The same holds true, *mutatis mutandis*, for the issue as to whether the debtor's "intention" to favor or disadvantage certain of his creditors at the detriment of the others was "recognizable." "Intention" does not require an actual willful act determined to disadvantage certain creditors or favor certain creditors to the disadvantage of others (*keine direkte Schädigungsabsicht*). It is sufficient that the relevant debtor accepts damage to certain creditors as a potential consequence of the relevant transaction.

Hence, once an avoidance action has been filed, there is a considerable risk that a Swiss court would answer the issue as to whether the debtor acted with "intention" and that such intention was "recognizable" in the affirmative and admit the relevant avoidance action. This is particularly true where the beneficiary (of the relevant transaction with the debtor) is a finance party (such as a creditor under a commercial loan agreement or a bond issue) which normally has full or at least a good knowledge of the economic situation of the debtor. In case the beneficiary is a related party, the risk that a Swiss court admits an avoidance claim is further increased due to the shift of the burden of proof set out above.

The same provisions apply in the event of a composition with creditors with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*), a further insolvency proceeding under Swiss law that leads to a liquidation of the assets of the debtor. In a composition with creditors, the relevant hardening period of one and five years respectively is, depending on the nature of the relevant avoidable transaction, the one-year or five-years period preceding the grant of the moratorium (that, precedes the composition agreement with the creditors).

If any of the Collateral and/or Subsidiary Guarantees by the Swiss Providers would be avoided or held unenforceable as result of a successful avoidance action, the holders of the Notes would cease to have a claim that is secured by the relevant Collateral and/or Subsidiary Guarantees, respectively. In addition, any amounts received under a transaction that has been avoided or held unenforceable as result of a successful avoidance action (if any), must be refunded to the bankrupt estate.

An avoidance action would have to be brought by a Party Entitled to Claim at the latest within two years after the adjudication of bankruptcy or, in case of a composition agreement with assignment of assets, within two years after the confirmation of the composition agreement by the composition court.

Parallel debt

Under Swiss 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 beneficial holders of the Notes from time to time will not be party to the security documents relating to the Collateral. In order to permit the holders of the Notes from time to time to have a secured claim the security documents and the 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. The pledges governed by Swiss law will directly secure the parallel debt. However, the parallel debt concept has not been tested under Swiss law, and there is no certainty that it will be held enforceable under Swiss law.

Limitation on enforcement of German judgment

A final, non-appealable, conclusive and enforceable judgment against a Swiss Provider rendered by a court in Germany having jurisdiction in connection with a Subsidiary Guarantee would be enforceable in Switzerland without re-examination or re-litigation on the case, unless the judgment could not be recognized in view of art. 34 and art. 35 of the Lugano Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters of October 30, 2007. In particular, the judgment could not be enforced if it is manifestly incompatible with Swiss public policy or the court procedures leading to the judgment did not follow the principles of due process of law. Also, any amount denominated in a foreign currency adjudicated in a final judgment which has to be enforced through Swiss debt collection authorities (*Schweizerische Zwangsvollstreckungsbehörden*) has to be converted into Swiss Francs. Finally, no statement can be made as to the time and efficiency of the recognition and enforcement in Switzerland of a final German judgment considering that also recognition and enforcement proceedings tend to be time consuming in Switzerland.

The Netherlands

The Issuer is incorporated in the Netherlands. Subject to the limitations described under "—*European Union*," 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 or has its "center of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation) or an "establishment" (as that term is used in Article 3(2) of the EU Insolvency Regulation). The following is a brief description of certain aspects of Dutch insolvency law.

There are two primary insolvency regimes under Dutch law for companies: the first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganization of a debtor and enable it 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 gateway to bankruptcy proceedings, 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*); it may (and in practice will) also appoint a delegated judge (*rechter-commissaris*). 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 dealt with before a decision about a definitive moratorium. If the composition is accepted by the creditors 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 can, at any time, be withdrawn by the court, on its own volition, the request of a creditor or the administrator or submission of the delegated judge on certain ground concerning the behavior of the debtor and the state and prospects of the estate. 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. The court may order a stay (*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 delegated judge (as the case may be) may derogate from these requirements. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Notes to effectuate a restructuring. Interest payments that fall due after the date on which a moratorium of payments is granted cannot be taken into account in a composition.

Under Dutch law, a debtor can be declared bankrupt when it has ceased to pay its debts. 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 (whose claim does not have to be due and payable). 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. With its order opening the bankruptcy, the court will appoint one or more receivers (*curator*) and a delegated judge (*rechter-commissaris*). With the exclusion of the debtor, the receiver will be authorized to administer and dispose of (*beheer en beschikking*) all assets that are part of the bankruptcy estate. 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. Litigation pending on the date of the bankruptcy order is automatically stayed.

The general principle of Dutch bankruptcy law is the so-called *paritas creditorum* (principle of equal treatment of creditors) 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 in accordance with their rank. Certain creditors (such as estate, secured and preference creditors such as tax and social security authorities) will have priority over 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 delegated judge may derogate from this procedure. The Dutch Bankruptcy Act does not in itself recognize the concept of classes of creditors for purposes of voting on a composition: all unsecured creditors will be in one class. Amounts, if any, available to the estate after recourse by the secured creditors and satisfaction of the estate and 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 were no bankruptcy. As in moratorium of payments proceedings, the court may order a stay for a maximum of four months during which enforcement actions by secured creditors are barred unless such creditors obtain leave for enforcement from the delegated 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 of any remaining proceeds. 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. Set-off of amounts owed to the debtor against claims against him is allowed also in the bankruptcy, provided that both the claim and the debt arose before the bankruptcy or directly from acts performed prior to the bankruptcy. A set-off in bankruptcy may be prohibited in case of bad faith if and when the claim or the debt used for set-off was obtained from a third party prior to bankruptcy.

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 and which then benefit from existing security and (iii) any other legal act having a similar effect) can be challenged and may be nullified (a) outside of bankruptcy, by any of its creditors and (b) in bankruptcy by its receiver, if (x) the debtor performed such acts without an obligation to do so (*onverplicht*), (y) one or more of its creditors was prejudiced as a consequence of the act, and (z) at the time the act was performed both the debtor 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 as a result. 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 consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

The proceeds resulting from the liquidation of the bankrupt estate may not be sufficient to satisfy the unsecured creditors of a bankrupt debtor, including creditors under guarantees granted by a bankrupt guarantor after the secured and the preferential creditors have been satisfied. It is not uncommon in Dutch bankruptcy proceedings that the proceeds are even insufficient to discharge the claims of preferential and secured creditors.

Foreign creditors are, in general, not treated differently in a Dutch bankruptcy from creditors that are incorporated or residing in the Netherlands.

United Kingdom

Certain of the Subsidiary Guarantors and providers of Collateral are incorporated in, maintain their respective registered offices in and conduct their business and the administration of their interests on a regular basis in and from England and Wales (each a "**UK Provider**"). On the basis of these factors, an English court may conclude that the UK Providers have their center of main interests, within the meaning of the EU Insolvency Regulation, in England and therefore insolvency proceedings in England constituting "main insolvency proceedings" under article 3(1) of the EU Insolvency Regulation may be commenced in respect of a UK Provider.

Priority of claims in a UK liquidation

Upon liquidation of any UK Provider, the order of priorities is such that debts due by it to any holders of fixed charges over UK assets are paid first out of the realization proceeds of assets subject to such fixed charges (subject to the prior payment of the costs of preservation and realization of the fixed charge assets). Where there are floating charges, liquidation expenses (discussed further below), preferential creditors, and unsecured creditors to the extent of the "ring-fenced" fund (discussed further below) may be paid out of floating charge realizations in priority to payments to creditors secured by virtue of floating charges. Thereafter, any debts owing to holders of a floating charge would be paid to the extent they are secured by that charge. The categories of preferential debts include certain amounts payable in respect of occupational pension schemes relating to contributions due but unpaid, employee remuneration up to a specified amount and levies on coal and steel production. Where a floating charge created on or after September 15, 2003 exists, a certain part of the net proceeds of the realization of the assets covered by such floating charge would be "ring-fenced" and made available *pro rata* to unsecured creditors. Unsecured debts which are not preferential debts would be paid after the secured liabilities have been met from the relevant secured assets.

As discussed further below, certain of the security over UK assets expected to be created in favor of the Security Trustee will be expressed as a fixed charge, but there is no certainty that the security will take effect as a fixed charge and it may well take effect as a floating charge. Where no security is provided by a UK Provider, the guarantee obligations of that UK Provider will be unsecured.

Liquidation expenses

The Insolvency Act 1986 (the "**UK Insolvency Act**") broadly states that in a liquidation of a company, where the assets available for payment of its general creditors (excluding any amount ring-fenced for unsecured debts as described above) are not sufficient to meet the liquidation expenses, certain specified liquidation expenses rank ahead of preferential debts and floating chargees' claims. In the case of litigation expenses, this is subject to rules restricting the application of this provision to certain litigation expenses approved by the floating chargee and any preferential creditors or the court.

Consequently, realizations by secured creditors upon the enforcement of floating charges and guarantee obligations could potentially be reduced by the amount of any liquidation expenses. If any fixed security is validly created, any claims of creditors holding such fixed security would rank ahead of any such liquidation expenses.

Administration

Administration is an insolvency procedure under the UK Insolvency Act, pursuant to which a company may be reorganized or its assets realized under the protection of a statutory moratorium. A company may be put into administration either pursuant to a court order or via an out-of-court process. Broadly speaking (and subject to specific conditions), a company can be placed into administration at the application of, among others, the company itself, its directors or one or more of its creditors (including contingent and prospective creditors). A holder of a qualifying floating charge over the assets of the company also has the right to appoint an administrator. In addition, he has the right to intervene in an administration application by nominating an alternative administrator or in certain very specific circumstances, by blocking the appointment altogether by the appointment of an administrative receiver.

Broadly speaking, an interim moratorium comes into effect when an application for an administration order (in the case of court appointment) or a notice of intention to appoint an administrator is made. At the commencement of the appointment of an administrator, a full statutory moratorium applies, pursuant to which creditors cannot take action against the company, including, among other things, commencing a legal process against the company, winding up the company or enforcing security or repossessing goods in the company's possession under a hire purchase agreement without the consent of the administrator or permission of the court. Certain creditors of a company in administration may be able to realize their security over that Company's property notwithstanding the statutory moratorium. This is by virtue of the disapplication of the moratorium in relation to a "security financial collateral arrangement" (generally, cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. If a UK Provider were to enter administration, it is possible that the security granted by it or the guarantee granted by it may not be enforced while it is in administration.

Broadly speaking, expenses that qualify as expenses of the administration (and which include, among others, expenses properly incurred by the administrator in performing his functions and necessary disbursements incurred in the course of the administration) enjoy priority status. Claims of creditors may be submitted to the administrator, although court approval generally will be required before the administrator can make a distribution to unsecured creditors. Time limits may be set for receipt and processing of claims before interim dividends are paid.

Small companies moratorium

Certain "small companies" for the purposes of putting together proposals for a company voluntary arrangement may seek court protection from their creditors by way of a "moratorium" for a period of up to 28 days, with the option for creditors to extend this protection for up to a further 2 months (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by order, extend or reduce the duration of either period).

A "small company" is defined for these purposes by reference to whether the company meets certain tests relating to a company's balance sheet, total turnover and average number of employees in a particular period (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by order, modify the moratorium eligibility qualifications and the definition of a "small company").

During the period for which a moratorium is in force in relation to a company, among other things, no winding up may be commenced or administrator or administrative receiver appointed to that company, no security created by that company over its property may be enforced (except with the leave of the Court or in the case of existing security financial collateral arrangements as defined in the Financial Collateral Arrangements (No 2) Regulations 2003 whereby the requirement to get a court order before enforcing security over small companies will not apply), no other proceedings or legal processes may be commenced or continued in relation to that company (except with the leave of the Court) and the company's ability to make payments in respect of debts and liabilities existing at the date of the filing for the moratorium is curtailed.

In addition, if the holder of security created by that company (other than financial collateral as above described) consents or if the Court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to security which was created as a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the security. Where the security is in a form other than a floating charge, it shall be a condition of the chargee's consent or the leave of the Court that the net proceeds of the disposal shall be applied towards discharging the sums secured by that security. Certain small companies may, however, be excluded from being eligible for a moratorium (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by regulations, modify such exclusions). As the law currently stands, companies that on the date of filing are party to an agreement which is or forms part of a capital market arrangement are excluded from being eligible for this small companies moratorium.

It is noted that none of the UK Providers will satisfy the eligibility criteria in order for the small companies moratorium to become applicable once the Subsidiary Guarantees and Collateral are granted.

Possible challenges

Under English insolvency law, a liquidator or administrator of a company has certain powers to apply to Court to challenge transactions entered into by a company if the company is unable to pay its debts (as defined in the UK Insolvency Act) at the time of the transaction or if the company becomes unable to pay its debts as a result of the transaction.

A transaction might be challenged in this way (as a transaction at an undervalue) if it involved the company making a gift or otherwise entering into a transaction on terms under which it received no consideration or received significantly less value than it gave in return. The Court has powers to make any order it thinks fit to restore the position to what it would have been had the company not entered into that transaction. A Court will not intervene, however, if it is satisfied that the company entered into the transaction in good faith and for the purposes of carrying on its business and if, at the time it did so, there were reasonable grounds for believing the transaction would benefit the company. The Court can set aside transactions at an undervalue entered into by the company within a period of two years ending with the onset of insolvency (as this date is more specifically defined in the UK Insolvency Act).

A transaction might also be challenged in this way (as a preference) where the company has done something or suffered in something to be done to put a creditor, surety or guarantor in a better position than the one that creditor, surety or guarantor would have been in the event of the company going into insolvent liquidation. A Court will not intervene however when the company was not influenced by a desire to put a creditor, surety or guarantor in a better position in the event of insolvent liquidation. If the preference is given to a person connected to the company (other than an employee), the Court can go back two years from the date of the onset of insolvency. If the person is not connected to the company, the Court can only go back and set aside those preferences entered into in the period of six months ending on the onset of insolvency.

Further, an administrator or a liquidator can apply to Court to set aside an extortionate credit transaction. The Court can review extortionate credit transactions entered into by the company up to three years before the day on which the company entered into administration or went into liquidation. A transaction is “extortionate” if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit or it otherwise grossly contravened ordinary principles of fair dealing.

The UK Insolvency Act provides that, in certain circumstances, a floating charge granted by a company during the “relevant time” shall be invalid in whole or in part if certain conditions are met. In the case of a floating charge which is created in favor of a person that is not connected to the company, the relevant time is deemed to be the period of 12 months ending with the onset of insolvency and at the time the charge was granted the company must have been unable to pay its debts or became unable to pay its debts as a result of the transaction in respect of which the floating charge was granted. If the floating charge is created in favor of a person connected to the company, the relevant time is a period of two years ending with the onset of insolvency.

As a result of the rights to challenge described above, in the event that a UK Provider becomes unable to pay its debts within a period of up to two years of the issuance of the Notes, an administrator or liquidator is appointed and the conditions contemplated in the relevant legal provisions are met, the provision of the relevant Subsidiary Guarantees and Collateral may be challenged by a liquidator or administrator or a Court may set aside the granting of the Subsidiary Guarantees and Collateral as invalid.

Recharacterization of fixed security interests

There is a possibility that a Court could find that the fixed security interests expressed to be created by the security documents governed by English law could take effect as floating charges, as the description given to them as fixed charges is not determinative.

Where a UK Provider is free to deal with the secured assets without the consent of the chargee, the Court would likely hold that the security interest in question constituted a floating charge, notwithstanding that it may be described as a fixed charge. Certain UK Providers are expected to grant security over shares and bank accounts. Such share security will be by way of equitable charge and any security document granting security over bank accounts will purport to grant fixed charges over such accounts upon the conversion (or "crystallization") of the relevant charges into fixed charges in accordance with the provisions of such security document. Whether the fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the Security Trustee has the requisite degree of control over the UK Provider's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Security Trustee in practice.

If the fixed security interests are recharacterized as floating security interests, the claims of (i) the unsecured creditors of the relevant UK Provider in respect of that part of the UK Provider's net property which is ring fenced (see explanation about ring fencing above); and (ii) certain statutorily defined preferential creditors of the UK Provider may have priority over the rights of the Security Trustee to the proceeds of enforcement of such security. In addition, as mentioned above, the expenses of a liquidation or administration would also rank ahead of the claims of the Security Trustee as floating charge holder.

Limitation on enforcement

The grant of a guarantee or security by any of the UK Providers in respect of the obligations of another group company must satisfy certain legal requirements. More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that the respective company's memorandum and articles of association do not allow such an action, there is the risk that the grant of a guarantee and security can be found to be void and the respective creditor's rights unenforceable. Some comfort may be obtained for third parties if they are dealing with the company in good faith, however the relevant legislation is not free of differing interpretations. Further, corporate benefit must be established for the company in question by virtue of entering into the proposed transaction. Section 172 of the Companies Act 2006 provides that a director must act in the way that he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. If the directors enter into a transaction where there is no or insufficient commercial benefit, they may be found to be abusing their powers as directors and such a transaction may be vulnerable to being set aside by a Court.

Equitable share charge

The fixed charges over shares granted by certain UK Providers are equitable charges, not legal charges. An equitable charge arises where a chargor transfers the beneficial interest in the shares to the chargee but retains legal title to the shares. Remedies in relation to equitable charges may be subject to equitable considerations or are otherwise at the discretion of the Court.

Account bank right to set-off

With respect to the charges over cash deposits (the "**Account Charge**") granted by a UK Provider over certain of its bank accounts, the bank with which those accounts are held (the "**Account Bank**") has reserved its right at any time (whether prior to or following a crystallization event under the Account Charge) to exercise the rights of netting or set-off to which it is entitled under its cash pooling arrangements with that UK Provider. As a result, the collateral will be subject to the Account Bank's netting and set-off rights with respect to the bank accounts charged under the Account Charge.

United States of America

Under U.S. federal bankruptcy laws or comparable provisions of state fraudulent transfer laws, under certain circumstances:

(i) the issuance of the Subsidiary Guarantees and the grant of security in the Collateral by entities subject to or organized under the laws of the United States or certain states thereof, including the State of Connecticut and the State of Delaware (each, a "**U.S. Provider**") could be avoided,

(ii) claims in respect of such liens or obligations could be subordinated to some or all of its other debts and other liabilities,

(iii) the right of the Security Trustee to repossess and dispose of the Collateral of a U.S. Provider upon an event of default under the Indenture governing the Notes is likely to be significantly impaired if such U.S. Provider commenced U.S. bankruptcy proceedings before such repossession or disposal occurs, and

the holders of the Notes could be required to repay any amounts received in connection with such Subsidiary Guarantee or Collateral.

Federal and state insolvency proceedings

Certain U.S. Providers may have operations that would subject them to federal bankruptcy laws under title 11 of the United States Code (the "**U.S. Bankruptcy Code**") or applicable state law insolvency proceedings. Proceedings under the U.S. Bankruptcy Code vary and provide a debtor with discretion in its pursuit of a liquidation or reorganization strategy. The U.S. Bankruptcy Code provides a detailed statutory framework that, among other things, contains terms or provisions relating to: (a) the administration of a bankruptcy case, including the provision of "adequate protection" to secured creditors, the automatic stay, terms for the use, sale or lease of property, standards for obtaining credit and the treatment of executory contracts and leases; (b) creditors and claims, including filing proofs of claim, priority and allowance of claims, rights of secured creditors and subordination of claims; (c) provisions relating to the creation of the bankruptcy estate, including the scope of property of the estate and turnover and avoidance actions; liquidation under chapter 7 of the U.S. Bankruptcy Code; reorganization under chapter 11 of the U.S. Bankruptcy Code; and ancillary and cross-border insolvency cases under chapter 15 of the U.S. Bankruptcy Code.

As a general matter, chapter 7 of the U.S. Bankruptcy Code provides for the orderly liquidation of the debtor's assets by a trustee. Chapter 11 of the U.S. Bankruptcy Code is available to debtors who seek to rehabilitate their businesses and work out their obligations to creditors. Unlike in chapter 7, the debtor in a chapter 11 case typically remains in control of its assets and continues to operate its business during the course of the bankruptcy case. In addition, "liquidating" chapter 11 cases are a frequently utilized alternative to chapter 7 liquidations, especially where the conversion of a pending chapter 11 case to a case under chapter 7 might prove prohibitively expensive or in an instance when a debtor expects to sell all or substantially all of its assets. Because bankruptcy proceedings tend to be fact specific and vary case by case and because U.S. bankruptcy courts are courts of equity with broad discretionary powers, a detailed summary of all of the provisions of the U.S. Bankruptcy Code that could impact the Notes, the Collateral or the Subsidiary Guarantees is not contained herein.

With respect to proceedings under any applicable state insolvency laws (*e.g.*, assignments for the benefit of creditors, receiverships or other state liquidation mechanisms), the effects and extent of these proceedings are fact-specific, vary from state to state and require an examination of both statutory and common law, the details of which also are not described herein. To the extent more information is required, potential investors in the Notes should consult an insolvency professional familiar with U.S. and the applicable state insolvency laws.

Delay and risks associated in a federal bankruptcy proceeding

If a bankruptcy proceeding were to be commenced under the U.S. Bankruptcy Code by or against any U.S. Provider, it is likely that delays would occur in enforcing the Subsidiary Guarantees or Collateral granted by the bankrupt U.S. Provider, because of specific provisions of such laws or by a court applying general principles of equity. Aspects of federal bankruptcy laws or general principles of equity that could result in the impairment of rights include, but are not limited to:

- the automatic stay;
- avoidance of preferential transfers by a trustee or debtor-in-possession;

- substantive consolidation of the assets and liabilities of multiple entities;
- limitations on collectability of unmatured interest or attorney fees;
- fraudulent transfer; and
- forced restructuring of the bonds issued by the bankrupt company, including reduction of principal amounts and interest rates and extension of maturity dates, over the holders' objections.

As an initial matter, the commencement of a bankruptcy case operates as a stay, applicable to all creditors, of most litigation against the debtor and efforts to collect prepetition claims, enforce existing liens or impose most new liens. The purpose of the stay is to provide the chapter 11 debtor time to reorganize and the chapter 7 trustee protection under which to liquidate in an orderly fashion the debtor's assets for the benefit of creditors. The automatic stay is also intended to shield a debtor from the pressures of creditor collection efforts. Among other things, the automatic stay prohibits (a) all collection efforts by creditors, (b) the enforcement of prepetition judgments against the debtor or property of the estate, (c) any act to create, perfect or enforce a lien against property of the estate and (d) the set-off of prepetition debts owing to the debtor against debts owing by the debtor. The automatic stay ordinarily does not bar suits against non-debtor guarantors or co-obligors, nor does it enjoin payment under a letter of credit issued by a bank in favor of a creditor of the applicable debtor. Applicable federal bankruptcy laws generally do not permit the payment or accrual of interest, costs and attorneys' fees for unsecured or "undersecured" claims.

Fraudulent transfer issues

Under the U.S. Bankruptcy Code or comparable provisions of state fraudulent transfer laws, the issuance of Subsidiary Guarantees or provisions of Collateral by any U.S. Providers could avoided if, among other things, at the time the U.S. Providers issued the Subsidiary Guarantees or provided Collateral (as the case may be), the applicable U.S. Provider (a) intended to hinder, delay or defraud any present or future creditor; or (b) received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness and, in the case of (b) either:

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the U.S. Provider's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measures of insolvency for purposes of the foregoing considerations will vary depending upon the law applied in any proceeding with respect to the foregoing. Generally, however, a U.S. Provider would be considered insolvent if:

(i) the sum of its debts, including contingent liabilities, was greater than all of its assets, at a fair valuation;

(ii) the present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its existing debts, including contingent liabilities, as they become absolute and mature; or

(iii) it could not pay its debts as they become due.

However, there can be no assurance as to what standard a court may apply in making solvency determinations, and different courts may reach different conclusions with regard to these issues. In an evidentiary ruling in the *In re W.R. Grace & Co.* bankruptcy case, the U.S. Bankruptcy Court for the District of Delaware held that under the Uniform Fraudulent Transfer Act, whether a transferor is rendered insolvent by a transfer depends on the actual liabilities of the transferor, and not what the transferor knows about such liabilities at the time of the transfer. Therefore, under that court's analysis, liabilities that are unknown, or that are known to exist but whose magnitude is not fully appreciated at the time of the transfer, may be taken into account in the context of a future determination of insolvency. If the principle articulated by that court is upheld, it would make it very difficult to know whether a transferor is solvent at the time of transfer, and would increase the risk that a transfer may in the future be found to be a fraudulent transfer.

By their terms, the Subsidiary Guarantees of each U.S. Provider will limit the liability of each such guarantor to the maximum amount it can pay without the Subsidiary Guarantee being deemed a fraudulent transfer. It is not assured, however, that this limitation will protect such guarantees from fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the guarantees would suffice, if necessary, to pay the notes in full when due. In a recent Florida bankruptcy case, this kind of provision was found to be ineffective to protect the guarantees.

In addition to the avoidance power that may be exercised in a U.S. bankruptcy, claims in respect of liens or obligations evidenced by the Subsidiary Guarantees or Collateral may, in certain circumstances, be subordinated under the equitable subordination provisions of the U.S. Bankruptcy Code.

Preference issues

Any pledge of collateral made on account of pre-existing debt in favor of only certain creditors might be avoidable by the pledgor (as debtor in possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the pledgees to receive a greater recovery than it would otherwise receive in a hypothetical Chapter 7 liquidation and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the pledge, or, in certain circumstances, a longer period.

U.S. recognition of German court judgments

The terms of the Subsidiary Guarantees will provide for the non-exclusive jurisdiction of German courts in the event of disputes or enforcement actions thereunder. Investors may experience difficulties enforcing a money judgment rendered by a German court against a U.S. Provider under its Subsidiary Guarantee.

Judgments of foreign courts are not automatically enforceable in federal or state courts of the United States. With respect to foreign money judgments, recognition and enforceability will be governed by applicable state law. A majority of U.S. states have adopted a version of the Uniform Foreign Money Judgments Recognition Act (or a later revision thereof) (the "**U.S. Uniform Act**"). Although variations exist among states, the U.S. Uniform Act generally applies to any judgment granting or denying recovery of a sum of money rendered in a foreign jurisdiction (excluding judgments for taxes, fines, penalties and matrimonial support), so long as the judgment is final, conclusive and enforceable in the jurisdiction where rendered. Pursuant to the U.S. Uniform Act, any such foreign judgment rendered by a court having proper personal and subject matter jurisdiction would, subject to considerations of public policy, be recognized and enforced by a United States state court that has adopted the U.S. Uniform Act (or a federal court sitting in such a state) and that also has appropriate personal and subject matter jurisdiction without reexamination of the merits of the case pursuant to which such foreign judgment was obtained and in the same manner as the judgment of a sister state that is entitled to full faith and credit, in an appropriate proceeding in accordance with the procedures of such court, provided that (a) the judgment debtor had received proper and sufficient notice of the subject proceedings, (b) the judgment was not obtained by fraud or by procedures that denied the judgment debtor a fair trial before an impartial tribunal or due process of law, (c) the proceedings in the foreign court were not contrary to an agreement between the parties under which the dispute in question was to be settled otherwise than by proceedings in that court,

(d) the foreign court was not a seriously inconvenient forum for the trial of the action if jurisdiction over the judgment debtor was based only on personal service, and (e) the judgment did not conflict with another final and conclusive judgment. In addition to the foregoing, a number of states adopting the U.S. Uniform Act also require that the foreign court rendering the judgment reside in a jurisdiction that will reciprocally enforce judgments of United States courts. In states that have not adopted the U.S. Uniform Act, principles of comity will apply. The Uniform Act represents an attempt to codify general principles of comity, and should therefore be generally indicative of the types of principles that non-U.S. Uniform Law states would apply in determining whether to recognize a foreign judgment against the U.S. Providers.

Book-entry, delivery and form

General

Each series of Notes sold within the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Rule 144A Global Note**"). Each series of 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 one or more global notes in registered form without interest coupons attached (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**").

Each Regulation S Global Note representing the Euro Notes (each such note, a "**Euro Regulation S Global Note**" and collectively, the "**Euro Regulation S 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 Banking, S.A. ("**Clearstream**"). The Regulation S Global Note representing the Dollar Notes (the "**Dollar Regulation S Global Note**") will be deposited upon issuance with Deutsche Bank Trust Company Americas as custodian for The Depository Trust Company ("**DTC**") and registered in the name of Cede & Co., as nominee of DTC.

Each Rule 144A Global Note representing the Euro Notes (each such note, a "**Euro 144A Global Note**" and collectively, the "**Euro 144A 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 Euro 144A Global Notes and the Euro Regulation S Global Notes are together referred to as the "**Euro Global Notes**". The Rule 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 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.

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. 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/or Clearstream, and indirect participants must rely on the procedures of DTC, Euroclear and/or 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 relevant 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 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 such 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 Global 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 in respect of the Global Notes or Book-Entry Interests after such deduction or withholding to equal the net amounts that would have otherwise been 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 their respective 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 LuxSE and admitted for trading on the Euro MTF Market. 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 and U.S. dollars. 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

Responsibility of the Issuer for the withholding of taxes at source

The Issuer does not assume any responsibility for the withholding of taxes at source.

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. 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 (*i.e.*, persons whose residence, habitual abode, statutory seat or place of management is located in Germany), interest payments on the Notes are subject to withholding tax, provided that the Notes are held in custody with or administrated by a German custodian, who is required to deduct the withholding tax from such investment income (the "**Disbursing Agent**," *auszahlende Stelle*). Disbursing Agents are German resident credit institutions, financial services institutions (including German permanent establishments of foreign institutions), securities trading companies and securities trading banks. The applicable withholding tax rate is 25% (plus 5.5% solidarity surcharge thereon, the total withholding being 26.375%).

For individuals that are subject to church tax, an electronic information system for church withholding tax purposes applies in relation to investment income, with the effect that church tax will be collected by the Disbursing Agent by way of withholding unless the investor has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) in which case the investor will be assessed to church tax.

The withholding tax regime should also apply to gains from the disposal or redemption of Notes realized by private investors holding the Notes as private (and not as business) assets in custody or administration with a Disbursing Agent. The withholding tax charge is generally levied on the difference between the proceeds received upon the disposal or redemption of the Notes (after the deduction of actual expenses directly related thereto) and the acquisition costs, if the Notes have been held with the same Disbursing Agent since the time of their acquisition. If Notes held or administered in the same custodial account were acquired at different points in time, the Notes first acquired will be deemed to have been sold first for the purposes of determining the capital gains. Where Notes are acquired and/or sold or redeemed in a currency other than Euro, the sales/redemption price and the acquisition costs have to be converted into Euro on the basis of the foreign exchange rates prevailing on the sale or redemption date and the acquisition date, respectively, with the result that any currency gains or losses are part of the capital gains. If interest claims are disposed of separately (*i.e.* without the Notes), the proceeds from the disposal are also subject to withholding tax. The same applies to proceeds from the payment of interest claims if the Notes have been disposed of separately.

To the extent the Notes have not been kept or administered in a custodial account with the same Disbursing Agent since the time of their acquisition, upon the disposal 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 Article 17 para. 2 of the 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 disposal. 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 disposal 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 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 the 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.

No withholding tax will be deducted if the total investment income of a private investor does not exceed the annual allowance (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples and for partners in accordance with the registered partnership law (*Gesetz über die Eingetragene Lebenspartnerschaft*) filing jointly), provided that such private investor has filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent. However, such non-deduction applies only to the extent that the investment income of such private investor does not exceed the respective available maximum allowance amount shown on the withholding exemption certificate.

German resident corporate and other German resident business investors should generally not be subject to withholding tax on gains from the disposal or redemption of the Notes (*i.e.*, for these investors only coupon payments, but not gains from the disposal or redemption of Notes which are kept or administered by a Disbursing Agent are subject to the withholding tax regime), irrespective of any deduction of foreign withholding tax and capital losses incurred.

Subject to further requirements, non-German tax residents should generally not be subject to the German withholding tax regime with the coupon payments on and gains from the disposal or redemption of the Notes. This should generally hold true, even if the Notes are held in custody with or are administered by a Disbursing Agent. Exceptions apply, *e.g.*, where the Notes are held as business assets of a German permanent establishment or a German permanent representative. If the investment income from the Notes is subject to German taxation, such non-resident holder is subject to a withholding 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 proceeds from the disposal or redemption of a Note are paid by a Disbursing Agent to a non-resident investor upon delivery of the 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 is not 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 holder of Notes, alone or, where such holder 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 (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) 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, 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, such holder 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 holder of Notes is not an individual and such holder (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 holder of Notes 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.

Taxation in Luxembourg

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the "**Relibi Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the meaning of the laws of 21 June 2005 implementing Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**"), as amended) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law will be subject to a withholding tax at a rate of 10 per cent.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income ("**EU Savings Directive**"), EU member states are required to provide to the tax authorities of other EU member states details of certain payments of interest or similar income paid or secured by a person established in an EU member state to or for the benefit of an individual resident in another EU member state or certain limited types of entities established in another EU member state.

On March 24, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. EU member states are required to apply these new requirements from January 1, 2017. The changes will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The directive will also expand the circumstances in which payments that indirectly benefit an individual resident in an EU member state must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is generally required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments at a rate of 35%. The changes referred to above will broaden the types of payments generally subject to withholding in Austria and in any other EU member states which operate a withholding system when they are implemented. In Austria, no withholding tax is imposed if the recipient provides the information in accordance with the EU Savings Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The proposed financial transactions tax

On February 14, 2013, the European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including

(a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

Joint statements issued by Participating Member States indicate an intention to implement the FTT by January 1, 2016.

However, the FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

U.S. Taxation

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, as amended (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, currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organizations; (vii) partnerships or other 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) U.S. Holders 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, Medicare contribution 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.

The U.S. federal income tax treatment of a partner in an entity treated as 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

Payments of interest

Except as described below with respect to original issue discount, payments of stated interest on a Note (and payments of any Additional Amounts) will be taxable to a U.S. Holder as ordinary income at the time received or accrued, in accordance with the holder's method of accounting for U.S. tax purposes. In the case of the Euro Notes, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, including any Additional Amount, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. An accrual basis U.S. Holder (or a cash basis U.S. Holder receiving interest, such as original issue discount (as discussed below), that must be accrued prior to receipt) may determine the amount of income recognized with respect to an interest payment denominated in euro in accordance with either of two methods. Under the first method, the amount of income accrued will be based on 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 applicable taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of 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 applicable taxable year. Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest 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.

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.

Interest paid by the Issuer on the Notes and original issue discount (as discussed below) accrued with respect to the Notes will 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).

Should any non-U.S. tax be withheld, the amount withheld and the gross amount of any Additional Amounts paid to a U.S. Holder (see "*Description of the Notes—Additional Amounts*") will be included in such holder's income as ordinary income at the time such amount is received or accrued in accordance with such holder's method of tax accounting. 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.

In certain circumstances, the Issuer has the option to redeem all or a portion of the Notes on certain dates or events (see "*Description of the Notes—Optional redemption*" and "*Description of the Notes—Redemption for Changes in Taxes*"). 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, we intend to take the position as of the issue date, that the Issuer will not exercise its redemption option because such exercise would not minimize the yield of the Notes. The payment schedule of the Notes, without taking into account a holder's option to require the Issuer to repurchase the Notes at a premium upon certain change of control events, should 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 any change in circumstances results in the payment of Additional Amounts, U.S. Holders will be required to recognize such amounts as income and, if the Notes remain outstanding after such change of circumstances, the yield and maturity of the Notes should be redetermined using the new payment schedule by treating the Notes as retired and reissued in an amount equal to their adjusted issue price on the date the relevant option is exercised or the date of such other change in circumstances. Such deemed reissued Notes could be subject to the Treasury regulations applicable to contingent payment debt instruments.

Original issue discount

If the issue price of a Note is less than its principal amount by more than a *de minimis* amount, U.S. Holders will be subject to special U.S. federal income tax rules with respect to this original issue discount ("**OID**"). OID will be considered to be *de minimis* if it is less than 0.25% of the principal amount multiplied by the number of complete years to maturity. Generally, the "issue price" of a Note will be the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to persons other than bondhouses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The "stated redemption price at maturity" of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." A "qualified stated interest" payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods) or at a variable rate (in certain circumstances) applied to the outstanding principal amount of the Note.

U.S. Holders of Notes must 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 equals the excess of (a) the product of the "adjusted issue price" (as defined herein) of the Note at the beginning of the accrual period and 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) over (b) the sum of the payments of qualified stated interest on the Note allocable to 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 any payments previously made on the Note that were not qualified stated interest payments. 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.

OID on a Euro Note will be determined for any accrual period in euro and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder. In such event, upon receipt of euro attributable to OID (whether in connection with a payment of interest or the sale or disposition of such Note), a U.S. Holder of such Note will recognize foreign currency exchange gain or loss in an amount determined in the same manner as interest income received by a U.S. Holder on the accrual basis, as described above.

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, 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 payments made with respect to the Note that are not qualified stated interest payments. A U.S. Holder's tax basis in a Note will be determined by reference to the U.S. dollar cost of the Notes. 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 to all debt instruments held by the U.S. Holder and cannot be revoked without the consent of the IRS.

Except to the extent attributable to accrued but unpaid interest and foreign exchange gain or loss as discussed below, such gain or loss 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. 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 or other disposition. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year to all debt instruments held by the U.S. Holder 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. If the Notes are not traded on an established securities market (or you are an accrual basis U.S. Holder and do not make the special settlement date election), you will recognize foreign exchange gain or loss to the extent that there are exchange rate fluctuations between the disposition date and the settlement date.

Gain or loss recognized by a U.S. Holder on the sale or other disposition of a Euro Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss. Gain or loss attributable to changes in exchange rates generally will equal the difference, if any, between (i) the U.S. dollar value of the U.S. Holder's foreign currency purchase price for the Euro Note, determined at the exchange rate in effect on the date the U.S. Holder disposes of the Euro Note, and (ii) the U.S. dollar value of the U.S. Holder's purchase price for the Euro Note, determined at the exchange rate in effect on the date the U.S. Holder purchased such Euro Note (or, in each case, on the settlement date, if the Notes are traded on an established securities market, as defined in the applicable U.S. Treasury regulations, and the holder is either a cash basis U.S. Holder or an electing accrual basis U.S. Holder). However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction.

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 foreign currency is received. 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, exchange or retirement 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 fails 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.

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, W-8BEN-E 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).

Reportable transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds certain specified thresholds in a single taxable year. Accordingly, if a U.S. Holder realizes a loss on any Note (or, possibly, aggregate losses from the Notes) satisfying such thresholds, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to penalties. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

Foreign financial asset reporting

Certain U.S. Holders that own "specified foreign financial assets" that meet certain U.S. dollar thresholds are generally required to file an information report with respect to such assets with their tax returns. The Notes generally will constitute specified foreign financial assets subject to these reporting requirements, unless the Notes are held in an account at certain financial institutions. U.S. Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Notes.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

Certain ERISA considerations

Unless otherwise indicated, the Notes should be eligible for purchase by Plans (as defined below) subject to certain considerations of the issues described in this section. The following is a summary of certain considerations associated with the purchase and holding of the Notes by (a) employee benefit plans that are subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), (b) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code, and (c) entities whose underlying assets are considered to include "plan assets" (within the meaning of United States Department of Labor Regulation 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA ("**Plan Assets**")) of such employee benefit plans, plan accounts or other arrangements (each of (a), (b) and (c), 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) or Section 4975(g)(3) of the Code 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 (collectively, "**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 (direct or indirect) 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 having certain relationships to such plans, who are "parties in interest," within the meaning of Section 3(14) 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/or the Code. In addition, the fiduciary of an 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 or our and their respective affiliates are considered a party in interest or a 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 are exemptions under 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 determined 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.

Regulations issued by the United States Department of Labor under 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Asset Regulation**"), generally provide that if a Plan invests in an "equity interest" of an entity that is neither a publicly offered security nor a security issued by an investment company registered under the United States Investment Company Act of 1940, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless an exception to the Plan Asset Regulation applies. Under one exception, the Plan Asset Regulation will not apply where less than 25% of the value of each class of equity interest in the entity is held by Benefit Plan Investors (as defined below) immediately after the most recent acquisition of any equity interest in the entity (disregarding the value of 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 Asset Regulation) of such persons). An "equity interest" is any interest other than one which is treated as indebtedness as determined by applicable local law and which has no substantial equity features. Under the Plan Asset Regulation, a "**Benefit Plan Investor**" means (1) any "employee benefit plan" (as defined in Section 3(3) of ERISA) whether or not subject to the provisions of Title I of ERISA, (2) any "plan" as defined in Section 4975(e)(1) of the Code, or (3) any entity whose underlying assets include Plan Assets by reason of any such employee benefit plan's investment in the entity. Although there can be no assurance that the Notes would be characterized as debt rather than equity by the United States Department of Labor, the United States Internal Revenue Service or any other relevant authority, or under applicable local law, the Issuer intends to treat the Notes as debt for tax purposes, in which case the Plan Asset Regulation would not apply.

Because of the foregoing, the Notes should not be purchased or held by any person investing Plan Assets, unless such acquisition, holding and subsequent disposition will not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or similar violation of any Similar Laws.

Representation and warranty

Accordingly, by acceptance of any Notes, 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 or hold the Notes or any interest therein constitutes Plan Assets or (ii) the acquisition, holding and disposition by such purchaser or transferee of the Notes or any 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 non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering whether to purchase the Notes (and hold 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, the Subsidiary Guarantors and the Initial Purchasers as of the date of this Offering Memorandum, the Issuer has agreed to sell the Notes to the Initial Purchasers and the Initial Purchasers have, severally and not jointly, agreed to purchase the principal amount of the Notes. The Initial Purchasers of the Euro Notes are Deutsche Bank AG, London Branch, Merrill Lynch International, Barclays Bank PLC, Bayerische Landesbank, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, HSBC Bank plc, J.P. Morgan Securities plc and UniCredit Bank AG. The Initial Purchasers of the Dollar Notes are Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Barclays Bank PLC, Bayerische Landesbank, BNP Paribas Securities Corp., Citigroup Global Markets Inc., Commerz Markets LLC, HSBC Bank plc, J.P. Morgan Securities LLC 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, the Parent Guarantor and the Subsidiary Guarantors, 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 may make offers and sales into the United States if any, only through their U.S. registered broker dealer.

Delivery of the Notes will be made against payment therefore on or about April 13, 2015.

For the Euro Notes, this will be the ninth business day following the date of pricing of the Notes (such settlement being referred to as "T+9"). For the Dollar Notes, this will be the tenth business day following the date of pricing of the Notes (such settlement being referred to as "T+10"). 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 Euro Notes on the date of pricing or the next five business days will be required, by virtue of the fact that the Euro Notes will initially settle in T+9, to specify an alternate settlement cycle at the time of such trade to prevent failed settlement. Purchasers of the Euro Notes who wish to trade the Notes on the date of pricing or the next five business days should consult their own advisors. Similarly, purchasers who wish to trade the Dollar Notes on the date of pricing or the next six business days will be required, by virtue of the fact that the Dollar Notes will initially settle in T+10, to specify an alternate settlement cycle at the time of such trade to prevent failed settlement. Purchasers of the Dollar Notes who wish to trade the Notes on the date of pricing or the next six business days 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 Market. 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 relevant Initial Purchaser. 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 their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities. 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 in the ordinary course of business for which they have received or may receive customary fees and commissions. In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantors or their respective affiliates.

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 Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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

You are hereby advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

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 and the Guarantees 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, Regulation S 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 Guarantors or any of our 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 GUARANTORS 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 (A) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE AND HOLD THIS SECURITY OR INTEREST THEREIN CONSTITUTES ASSETS OF (1) ANY "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, ("**ERISA**"), SUBJECT TO TITLE I OF ERISA, (2) ANY PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR ARRANGEMENT SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (3) AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE "PLAN ASSETS" OF SUCH EMPLOYEE BENEFIT PLANS, PLANS, ACCOUNTS OR ARRANGEMENTS OR (4) A GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN SUBJECT TO PROVISIONS UNDER ANY FEDERAL, STATE, LOCAL, NON-U.S. LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE (COLLECTIVELY, "**SIMILAR LAWS**")

OR (B) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY OR 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.

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 (a) no portion of the assets used by you to acquire and hold such Notes or interest therein constitutes assets of (1) any "employee benefit plan" as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended, ("**ERISA**"), subject to Title I of ERISA, (2) any plan, individual retirement account or other arrangement subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"), (3) an entity whose underlying assets are considered to include "plan assets" of such employee benefit plans, plans, accounts or arrangements or (4) a governmental plan, church plan or non-U.S. plan subject to provisions under any federal, state, local, non-U.S. laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**") or (b) the acquisition, holding and disposition of this security or 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.

(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 Dutch, English, German, French, Hong Kong, Hungarian, Romanian, Slovak, United States federal and New York law, by BINDER GRÖSSWANG Rechtsanwälte GmbH as to Austrian law, by Costa, Waisberg e Tavares Paes – Sociedade de Advogados as to Brazilian law, by Walder Wyss Ltd. as to Swiss law and by Robinson & Cole LLP as to Connecticut law.

Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP as to matters of United States federal and New York law and by Latham & Watkins LLP (Munich, Germany) as to German law, by Schönherr Rechtsanwälte GmbH as to Austrian, Hungarian, Romanian and Slovak law, by Souza, Cescon, Barrieu & Flesch Advogados as to Brazilian law, by De Brauw Blackstone Westbroek N.V. as to Dutch law, by Gide Loyrette Nouel A.A.R.P.I. as to French law, by Slaughter and May as to English and Hong Kong law and by Bär & Karrer AG as to Swiss 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, 2013 and 2014 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, 2013 and 2014 which were prepared on the basis of IFRS as adopted by the EU. The consolidated financial statements and the financial statements mentioned above were each issued an unqualified audit opinion.

KPMG 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. In addition, most Subsidiary Guarantors and providers of Collateral are, and future Subsidiary Guarantors and providers of Collateral may also be, organized under the laws of non-U.S. jurisdictions. Most of the members of the supervisory board (*Aufsichtsrat*) and the board of managing directors (*Vorstand*) of Schaeffler AG and many of the directors and officers of the Issuer, the Parent Guarantor and the Subsidiary Guarantors 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 any 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 Guarantors have appointed an agent for the service of process in New York, or to enforce, in original actions, liabilities against the Issuer and the Guarantors based on those laws. In addition, as many of the Issuer's and the Guarantors' assets and the assets of their directors and executive officers are located outside of the United States, Note 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 a Guarantor or a provider of Collateral, 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 that is enforceable in the United States will not be directly enforceable in the Netherlands.

In order to obtain a judgment which is enforceable in the Netherlands, the claim must be re-litigated 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 re-litigation 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; (iii) recognition and/or enforcement of such judgment does not conflict with the public policy of the Netherlands; and (iv) recognition and/or enforcement of the judgment is not irreconcilable with a decision of a Dutch court rendered between the same parties or with an earlier decision of a foreign court rendered between the same parties in a dispute that is about the same subject matter and that is based on the same cause, provided that earlier decision can be recognized in 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 electronically or 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 and Guarantors;
- the financial statements of the Issuer as of and for the year ended December 31, 2014 included in this Offering Memorandum;
- the financial statements of the Company as of and for the for the years ended December 31, 2013 and 2014 included in this Offering Memorandum;
- the Indenture (including the Guarantees);
- the Senior Facilities Agreement;
- the Security Pooling and 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.

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.

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 any notice intended for the holders of the Notes 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*).

Approval

The Issuer and each of the Guarantors 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 March 19, 2015.

Financial Information

The Company has prepared consolidated financial statements for the year ended December 31, 2013 and 2014. So long as the Company guarantees the Notes, it will continue to prepare consolidated financial statements in the future.

Clearing Information

The 2020 Euro Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance and settlement through the facilities of Euroclear and Clearstream under Common Codes 121246996 and 121247062, respectively. The international securities identification number (the "**ISIN Number**") for the 2020 Euro Notes sold pursuant to Regulation S is XS1212469966 and the ISIN Number for the 2020 Euro Notes sold pursuant to Rule 144A is XS1212470626.

The 2025 Euro Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance and settlement through the facilities of Euroclear and Clearstream under Common Codes 121247097 and 121247526, respectively. The ISIN Number for the 2025 Euro Notes sold pursuant to Regulation S is XS1212470972 and the ISIN Number for the 2025 Euro Notes sold pursuant to Rule 144A is XS1212475260.

The Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance and settlement through the facilities of DTC and the facilities of Euroclear and Clearstream. The ISIN Number of the Dollar Notes sold pursuant to Regulation S is USN77608AJ19 and the ISIN Number for the Dollar Notes sold pursuant to Rule 144A is US806261AM57. The CUSIP number for the Dollar Notes sold pursuant to Regulation S is N77608 AJ1 and the CUSIP number for the Dollar Notes pursuant to Rule 144A is 806261 AM5. The Common Code for the Dollar Notes sold pursuant to Regulation S is 121433737 and the Common Code for the Dollar Notes sold pursuant to Rule 144A is 121433249.

Significant Change

Except as disclosed in this Offering Memorandum:

- there has been no material adverse change in the financial condition of the Issuer or the Company since December 31, 2014; and
- none of our companies 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. See "*Business—Environment, insurance and legal—Litigation and administrative proceedings*."

INFORMATION ABOUT THE SUBSIDIARY GUARANTORS

The following table sets forth the Subsidiary Guarantors:

No.	Name of Subsidiary Guarantor	Jurisdiction	Main Field of Activity
1.	AS Auslandsholding GmbH	Germany	Management of its own assets and the holding, acquisition and management of participations in other companies outside Germany

No.	Name of Subsidiary Guarantor	Jurisdiction	Main Field of Activity
2.	Egon von Ruville GmbH	Germany	Wholesale dealer for spare parts for cars
3.	FAG Aerospace GmbH & Co. KG	Germany	Manufacturing and sale of rolling bearings and rolling bearing components for the aircraft and aerospace industry
4.	FAG Kugelfischer GmbH	Germany	Holding of participations in German and foreign companies having as object the manufacture and sale of rolling bearings, engine building, manufacture of vehicles, precision engineering or measurement technology and the acquisition, sale, management and lease of real estate properties
5.	IAB Holding GmbH	Germany	Acquisition, holding and management of participations in commercial companies and provision of (management) services
6.	IAB Verwaltungs GmbH	Germany	Acquisition, holding and management of participations in companies
7.	INA Beteiligungsverwaltungs GmbH	Germany	Holding and management of its own assets, including the lease of such property and the granting of financial assistance and licenses.
8.	Industrieaufbaugesellschaft Bühl mit beschränkter Haftung	Germany	The construction, financing and management of a variety of industrial facilities
9.	Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung	Germany	Management of its own assets, in particular its business property, and the acquisition and management of participations in other companies
10.	LuK Auslandsholding GmbH	Germany	Management of its own assets and the holding, acquisition and management of participations in other companies outside Germany
11.	LuK Beteiligungsgesellschaft mit beschränkter Haftung	Germany	Acquisition, management and sale of participations in other companies, real estate (including the renting of real estate) and other assets
12.	LuK GmbH & Co. KG	Germany	Development, sales and manufacturing of clutch systems, transmission parts and other components for motor vehicles, machinery and instruments
13.	LuK Vermögensverwaltungsgesellschaft mbH	Germany	Holding and management of participations in operational companies, management of such companies and provision of services to such companies
14.	Schaeffler AG	Germany	Acquisition and management of participations in companies, and partnerships, as well as the provision of (management) services

No.	Name of Subsidiary Guarantor	Jurisdiction	Main Field of Activity
15.	Schaeffler Automotive Aftermarket GmbH & Co. KG	Germany	Sales of automotive components among others at the automotive aftermarket and therewith in association with services
16.	Schaeffler Beteiligungsholding GmbH & Co. KG	Germany	Holding of participations in other companies as well as performing any other legal economical and profitable activity
17	Schaeffler Beteiligungsverwaltungs GmbH	Germany	Acquisition and the management of participations as well as the assumption of general partner liability and the management of partnerships
18.	Schaeffler Technologies AG & Co. KG	Germany	Development, manufacture and sales of rolling bearings, linear technology products, all types of vehicle and engine components and components for machines and devices
19.	Schaeffler Verwaltungsholding Drei GmbH	Germany	Acquisition and management of participations in companies as well as the provision of services within this context
20.	Schaeffler Verwaltungsholding Eins GmbH	Germany	Acquisition and management of participations in companies as well as the provision of services within this context
21.	Schaeffler Verwaltungsholding Vier GmbH	Germany	Acquisition and management of participations in companies as well as the provision of services within this context
22.	Schaeffler Verwaltungsholding Zwei GmbH	Germany	Acquisition and management of participations in companies as well as the provision of services within this context
23.	WPB Water Pump Bearing GmbH & Co. KG	Germany	Design, manufacture and sales of water pump systems as well as other components for machinery, equipment and vehicles
24.	Schaeffler Austria GmbH	Austria	Sale of products, especially of rolling bearings, units for machines, apparatus and vehicles as well as design sale, packaging and manufacturing of linear systems
25.	Schaeffler Brasil Ltda	Brazil	Manufacturing, trading and distribution, importation and exportation of parts, components and accessories in general for the automotive industry; rendering of administrative services, technical assistance, manufacturing, remodeling,

No.	Name of Subsidiary Guarantor	Jurisdiction	Main Field of Activity
			maintenance and trading of machines, equipment and tools in general; recovery of used gearings; Machining and assembling of parts and components in general; Representing other national and foreign companies; and Participation in other companies
26.	Schaeffler France SAS	France	Manufacturing and distribution of rolling bearings, linear technology products, all types of vehicle and engine components and components for machines, devices and related products
27.	Schaeffler Hong Kong Company Limited	Hong Kong	Importation, exportation and distribution of antifriction bearing products and of other components of machinery, equipment and vehicles
28.	LuK Savaria Kft.	Hungary	Manufacturing of components and equipment for vehicles
29.	Schaeffler Romania S.R.L	Romania	Manufacturing of bearings, gears, gear wheels and drive elements.
30.	INA Kysuce, spol. s r.o.	Slovakia	Manufacturing of rolling bearings and equipment
31.	INA SKALICA spol. s r.o.	Slovakia	Manufacturing of roller bearings and needle roller bearings as well as apparatus/equipment for the automotive industry
32.	Grico-Invest G.m.b.H.	Switzerland	Financings, investment and administration of a variety of assets, participation in companies, acquisition, evaluation and intermediation of inventions and patents
33.	Hydrel GmbH	Switzerland	Manufacturing and distribution of mechanical and electrical engineering products; participations in similar companies
34.	INA Invest GmbH	Switzerland	Acquisition, management and sale of participations in financial and industrial undertakings in Switzerland and abroad
35.	Octon G.m.b.H.	Switzerland	Financings, investment and administration of assets of all kind, participation in companies, acquisition, evaluation and intermediation of inventions and patents
36.	LuK (UK) Limited	England and Wales, UK	Engineering and manufacturing of clutches, drive plates and dampers for passenger car and agricultural tractor industries
37.	Schaeffler (UK) Limited	England and Wales, UK	Sales, marketing, engineering and logistics in the UK for both INA and FAG product brands as well as manufacturing INA automotive engine components

No.	Name of Subsidiary Guarantor	Jurisdiction	Main Field of Activity
38.	Schaeffler Automotive Aftermarket (UK) Ltd.	England and Wales, UK	Distribution of automotive replacement parts of the three brands: LuK, INA and FAG to the automotive after sales market
39.	The Barden Corporation (UK) Ltd	England and Wales, UK	Designing and manufacturing of super precision ball bearings for safety-critical and harsh environment applications in a broad range of market sectors, from aerospace bearings to high performance machine tools
40.	LuK Transmission Systems, LLC	Delaware, USA	Designing and manufacturing components for transmission systems (*e.g.*, torque converter, duel mass flywheel)
41.	LuK USA LLC	Delaware, USA	Acquisition, holding and management of its own assets (including real estate) and leasing of employees and provision of services to its subsidiaries
42.	Schaeffler Group USA Inc	Delaware, USA	Engineering, production, sales and marketing for the INA, LuK, FAG and Barden brands throughout the United States, Canada, Mexico, Central America and the Caribbean
43.	The Barden Corporation	Connecticut, USA	Designing and manufacturing of super precision ball bearings

Schaeffler Verwaltung Zwei GmbH and Schaeffler Verwaltungs GmbH hold an 83.3% and 16.7% stake in Schaeffler AG, respectively, which in turn holds a 100% direct or indirect stake in each of the other Subsidiary Guarantors, other than Schaeffler Beteiligungsholding GmbH & Co. KG.

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.
MRO	Maintenance, repair and operations.
OEM	Original equipment manufacturer.
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.

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Audited consolidated financial statements of the Company as of and for the year ended December 31, 2014

1. Consolidated income statement

in € millions	Note	2014	2013	Change in %
Revenue	3.1	12,123	11,205	8.2
Cost of sales		(8,654)	(8,029)	7.8
Gross profit		**3,469**	**3,176**	**9.2**
Research and development expenses		(626)	(611)	2.5
Selling expenses		(827)	(761)	8.7
Administrative expenses		(467)	(476)	(1.9)
Other income	3.2	49	70	(30.0)
Other expenses	3.3	(82)	(416)	(80.3)
Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)		**1,516**	**982**	**54.4**
Financial income	3.5	264	217	21.7
Financial expenses	3.5	(921)	(659)	39.8
Financial result	**3.5**	**(657)**	**(442)**	**48.6**
Income from equity-accounted investees	**2.2, 3.6**	**727**	**801**	**(9.2)**
Earnings before income taxes		**1,586**	**1,341**	**18.3**
Income taxes	3.7	(247)	(469)	(47.3)
Net income		**1,339**	**872**	**53.6**
Attributable to shareholders of the parent company		1,331	865	53.9
Attributable to non-controlling interests		8	7	14.3

2. Consolidated statement of comprehensive income

in € millions	2014 before taxes	2014 taxes	2014 after taxes	2013 before taxes	2013 taxes	2013 after taxes
Net income	**1,586**	**(247)**	**1,339**	**1,341**	**(469)**	**872**
Foreign currency translation differences for foreign operations	228	0	228	(183)	0	(183)
Net gain (loss) on hedge of net investment in foreign operations	(105)	23	(82)	42	(7)	35
Effective portion of changes in fair value of cash flow hedges1)	(97)	27	(70)	(5)	1	(4)
Net change in fair value of available-for-sale financial assets	1	0	1	(1)	0	(1)
Share of other comprehensive income (loss) of equity-accounted investees	136	(2)	134	(185)	0	(185)
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**163**	**48**	**211**	**(332)**	**(6)**	**(338)**
Remeasurement of net defined benefit liability	(465)	134	(331)	25	(10)	15
Income (loss) of equity-accounted investees	(342)	134	(208)	96	(26)	70
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**(807)**	**268**	**(539)**	**121**	**(36)**	**85**
Total other comprehensive income (loss)	**(644)**	**316**	**(328)**	**(211)**	**(42)**	**(253)**
Total comprehensive income (loss) for the period	**942**	**69**	**1,011**	**1,130**	**(511)**	**619**
Total comprehensive income (loss) attributable to shareholders of the parent company	923	73	996	1,132	(511)	621
Total comprehensive income (loss) attributable to non-controlling interests	19	(4)	15	(2)	0	(2)
Total comprehensive income (loss) for the period	**942**	**69**	**1,011**	**1,130**	**(511)**	**619**

1) Including income of EUR 94 m (prior year: loss of EUR 46 m) reclassified to profit and loss.

See Notes 2.2, 4.11, and 4.15 to the consolidated financial statements for further detail.

3. Consolidated statement of financial position

in € millions	Note	12/31/2014	12/31/2013	Change in %
ASSETS				
Intangible assets	4.1	555	538	3.2
Property, plant and equipment	4.2	3,748	3,369	11.2
Investments in equity-accounted investees	4.3	5,568	5,085	9.5
Other investments		14	14	0.0
Other financial assets	4.7	895	206	> 100
Other assets	4.7	59	59	0.0
Income tax receivables	4.4	8	12	(33.3)
Deferred tax assets	4.4	467	230	> 100
Total non-current assets		**11,314**	**9,513**	**18.9**
Inventories	4.5	1,713	1,536	11.5
Trade receivables	4.6	1,900	1,676	13.4
Other financial assets	4.7	75	119	(37.0)
Other assets	4.7	181	141	28.4
Income tax receivables	4.4	49	142	(65.5)
Cash and cash equivalents	4.8	711	300	> 100
Total current assets		**4,629**	**3,914**	**18.3**
Total assets		**15,943**	**13,427**	**18.7**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves		4,847	2,643	83.4
Accumulated other comprehensive loss		(922)	(709)	30.0
Equity attributable to shareholders of the parent company		**4,425**	**2,434**	**81.8**
Non-controlling interests		17	57	(70.2)
Total shareholders' equity	**4.9**	**4,442**	**2,491**	**78.3**
Provisions for pensions and similar obligations	4.11	1,994	1,516	31.5
Provisions	4.12	73	96	(24.0)
Financial debt	4.10	6,413	5,965	7.5
Income tax payables	4.4	343	340	0.9
Other financial liabilities	4.13	22	162	(86.4)
Other liabilities	4.13	8	5	60.0
Deferred tax liabilities	4.4	122	154	(20.8)
Total non-current liabilities		**8,975**	**8,238**	**8.9**
Provisions	4.12	240	599	(59.9)
Financial debt	4.10	1	225	(99.6)
Trade payables		1,251	1,014	23.4
Income tax payables	4.4	155	155	0.0
Other financial liabilities	4.13	564	419	34.6
Other liabilities	4.13	315	286	10.1
Total current liabilities		**2,526**	**2,698**	**(6.4)**
Total shareholders' equity and liabilities		**15,943**	**13,427**	**18.7**

4. Consolidated statement of cash flows

in € millions	2014	2013	Change in %
Operating activities			
EBIT	1,516	982	54.4
Interest paid	(521)	(624)	(16.5)
Interest received	9	8	12.5
Income taxes paid	(238)	(385)	(38.2)
Dividends received	169	163	3.7
Depreciation, amortization and impairments	648	652	(0.6)
(Gains) losses on disposal of assets	1	1	0.0
Changes in:			
• Inventories	(108)	(101)	6.9
• Trade receivables	(141)	(109)	29.4
• Trade payables	127	230	(44.8)
• Provisions for pensions and similar obligations	(45)	(45)	0.0
• Other assets, liabilities and provisions	(310)	411	–
Cash flows from operating activities[1)]	**1,107**	**1,183**	**(6.4)**
Investing activities			
Proceeds from disposals of property, plant and equipment	8	15	(46.7)
Capital expenditures on intangible assets	(50)	(18)	> 100
Capital expenditures on property, plant and equipment	(807)	(554)	45.7
Other investing activities	(3)	3	–
Cash used in investing activities	**(852)**	**(554)**	**53.8**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	0.0
Receipts from loans	727	27	> 100
Repayments of loans	(429)	(649)	(33.9)
Other financing activities[2)]	(158)	(115)	37.4
Cash provided by (used in) financing activities	**139**	**(738)**	**–**
Net increase (decrease) in cash and cash equivalents	**394**	**(109)**	**–**
Effects of foreign exchange rate changes on cash and cash equivalents	17	(24)	–
Cash and cash equivalents as at beginning of period	300	433	(30.7)
Cash and cash equivalents as at end of period	**711**	**300**	**> 100**

1) Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2014 amount to EUR 1,628 m (prior year: EUR 1,807 m).

2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 154 m (prior year: EUR 85 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]				Subtotal	Non-controlling interests	Total
			Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses			
Balance as at January 01, 2013	**500**	**2,027**	**75**	**(2)**	**2**	**(554)**	**2,048**	**60**	**2,108**
Net income		865					865	7	872
Other comprehensive income (loss)		0	(324)	(4)	(1)	85	(244)	(9)	(253)
Total comprehensive income (loss) for the period	**0**	**865**	**(324)**	**(4)**	**(1)**	**85**	**621**	**(2)**	**619**
Transactions with shareholders									
Capital contribution	0	15					15		15
Dividends		(250)					(250)	(1)	(251)
Total amount of transactions with shareholders		**(235)**					**(235)**	**(1)**	**(236)**
Other items from equity-accounted investees recognized directly in shareholders' equity		(14)				14	0		0
Balance as at December 31, 2013	**500**	**2,643**	**(249)**	**(6)**	**1**	**(455)**	**2,434**	**57**	**2,491**
Balance as at January 01, 2014	**500**	**2,643**	**(249)**	**(6)**	**1**	**(455)**	**2,434**	**57**	**2,491**
Net income	0	1,331					1,331	8	1,339
Other comprehensive income (loss)		(2)	272	(70)	2	(537)	(335)	7	(328)
Total comprehensive income (loss) for the period	**0**	**1,329**	**272**	**(70)**	**2**	**(537)**	**996**	**15**	**1,011**
Transactions with shareholders									
Capital contribution		101					101		101
Dividends		(860)					(860)	(1)	(861)
Transactions involving non-controlling interests		1,634	19	12	0	89	1,754	(54)	1,700
Total amount of transactions with shareholders		**875**	**19**	**12**	**0**	**89**	**995**	**(55)**	**940**
Balance as at December 31, 2014	**500**	**4,847**	**42**	**(64)**	**3**	**(903)**	**4,425**	**17**	**4,442**

1) Including the effect of equity-accounted investees.

See Note 4.9 to the consolidated financial statements for further detail.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

	Automotive		Industrial		Total	
	01/01 – 12/31		01/01 – 12/31		01/01 – 12/31	
in € millions	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Revenue	8,982	8,164	3,141	3,041	12,123	11,205
Cost of sales	(6,461)	(5,959)	(2,193)	(2,070)	(8,654)	(8,029)
Gross profit	2,521	2,205	948	971	3,469	3,176
EBIT	1,230	665	286	317	1,516	982
• in % of revenue	13.7	8.1	9.1	10.4	12.5	8.8
Depreciation, amortization and impairments	(455)	(464)	(193)	(188)	(648)	(652)
Inventories[1)]	1,038	920	675	616	1,713	1,536
Trade receivables[1)]	1,389	1,197	511	479	1,900	1,676
Property, plant and equipment[1)]	2,763	2,367	985	1,002	3,748	3,369
Additions to intangible assets and property, plant and equipment	754	441	189	132	943	573

1) Amounts as of December 31.

See Note 5.4 to the consolidated financial statements for further detail.

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1. General information

1.1 Reporting entity

Schaeffler Verwaltung Zwei GmbH, Herzogenaurach (until October 22, 2014: Schaeffler AG), is a corporation domiciled in Germany with its registered office located at Industriestraße 1 – 3, 91074 Herzogenaurach. The company was founded on September 29, 2009 and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14734). The consolidated financial statements of Schaeffler Verwaltung Zwei GmbH as at December 31, 2014 comprise Schaeffler Verwaltung Zwei GmbH and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "SVZ" or "SVZ Group"). The SVZ Group is a leading integrated global supplier to the automotive and industrial sectors.

1.2 Group structure

Schaeffler AG, a wholly-owned subsidiary of Schaeffler Verwaltungs GmbH, was changed to a limited liability company ("Gesellschaft mit beschränkter Haftung") when that change was entered into the Commercial Register on October 23, 2014 and renamed Schaeffler Verwaltung Zwei GmbH. On October 24, 2014 (date entered in the Commercial Register), INA Beteiligungsgesellschaft mit beschränkter Haftung, a subsidiary of Schaeffler Verwaltung Zwei GmbH, was changed to a stock corporation ("Aktiengesellschaft") and renamed Schaeffler AG. Also on that date, all of the company's functions (CEO functions, Technology, Operations, Finance, and Human Resources) were transferred from Schaeffler Verwaltung Zwei GmbH to Schaeffler AG.

As at December 31, 2014, Schaeffler Verwaltung Zwei GmbH holds 71,990,458 shares (prior year: 68,390,458 shares) or 36.0% (prior year: 34.2%) of the voting interest in Continental AG via Beteiligungsholding GmbH & Co. KG (see Note 2.2).

1.3 Basis of preparation

As permitted by section 315a (3) HGB (German Commercial Code), SVZ Group has chosen to prepare its consolidated financial statements under IFRS.

Therefore, the consolidated financial statements of the SVZ Group for the year ended December 31, 2014 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with the additional requirements of German commercial law pursuant to section 315a (1) HGB. 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 IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were prepared based on the same standards.

These consolidated financial statements are presented in Euros (EUR), the functional and presentation currency of the SVZ Group's parent company. Unless stated otherwise, all amounts are in millions of Euros (EUR m).

The consolidated statement of financial position is classified using the current/non-current distinction. The SVZ Group classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period. Inventories are considered 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 SVZ is contractually required or has a constructive obligation 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.

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

Measurement bases

Assets and liabilities are generally measured on the basis of historical cost. The following assets and liabilities represent an exception, as they are measured at fair value:

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

Estimation uncertainty and management judgment

In the preparation of financial statements in accordance with IFRS as adopted in the EU, 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.

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 subject to estimation uncertainty in the application of accounting policies and management judgment have a significant impact on amounts recognized in the consolidated financial statements:

- determination of the useful life of property, plant and equipment,
- determination of valuation allowances on inventories,
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets,
- accounting for post-employment employee benefits, especially selecting actuarial assumptions,
- recognition and measurement of provisions,
- determination of fair values of financial debt and derivatives, and
- assessment of the recoverability of deferred tax assets.

Except for the measurement of defined benefit pension obligations, changes in assumptions made in the past or from the resolution of previously existing uncertainties related to the above items did not have a significant impact in 2014. The discount rate used to measure defined benefit pension obligations was reduced to reflect lower interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.9).

1.4 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by all SVZ Group entities for all periods presented in these consolidated financial statements.

Consolidation principles

All significant domestic and foreign subsidiaries of the SVZ Group have been consolidated in the company's consolidated financial statements. Subsidiaries are entities directly or indirectly controlled by Schaeffler Verwaltung Zwei GmbH. Control generally exists if the Schaeffler Verwaltung Zwei GmbH holds the majority of the voting rights or otherwise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The latter is considered to be the case when SVZ Group is exposed to variable returns from its involvement with the investee and has the ability to affect the amount of these returns by directing its relevant activities. Subsidiaries are consolidated in the consolidated financial statements from the date SVZ obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. This method involves measuring all assets, liabilities and additional identifiable intangible assets of the acquired companies at fair value and then eliminating the acquisition cost of the investment against the proportionate share of the equity thus remeasured. Any resulting positive difference is capitalized as goodwill, while negative differences are first reassessed and then recognized directly in profit or loss. Non-controlling interests are measured at the non-controlling interest's proportionate share of the fair value of assets acquired and liabilities assumed (partial goodwill method). Shareholders' equity attributable to non-controlling interests is presented under "non-controlling interests".

The SVZ Group's investments in equity-accounted investees comprise investments in associated companies and joint ventures. Associated companies are those entities for which the SVZ Group has significant influence on, but not control or joint control over, the financial and operating policies of the investee. A joint venture is an arrangement over which Schaeffler Verwaltung Zwei GmbH or a subsidiary of the SVZ Group exercises joint control and has rights to the net assets of the arrangement instead of rights to its assets and obligations for its liabilities. Investments in associated companies and joint ventures are accounted for using the equity method. They are initially recognized at cost which also includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the group's share of the comprehensive income of equity-accounted investees until significant influence or joint control ceases.

Interest income and expense on amounts receivable from or payable to associated companies are eliminated against the company's income from equity-accounted investees.

Balances and transactions with consolidated subsidiaries and any related income and expenses are completely eliminated in preparing the consolidated financial statements. Intercompany profits or losses on intra-group transactions and dividends paid within the Group are also eliminated in full. 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 "The Effects of Changes in Foreign Exchange Rates", 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. Non-monetary items measured at historical cost are translated at the rate in effect on the date of the transaction.

Exchange gains and losses on operating receivables and payables and on derivatives used to hedge the related currency risk are presented within earnings before financial result, income from equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives obtained to hedge the related currency risk are reflected in financial result.

Foreign entities

The SVZ Group presents its financial statements in Euros, Schaeffler Verwaltung Zwei GmbH's functional currency. Assets, including goodwill, 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 other comprehensive income and reported in accumulated other comprehensive income. The impact of currency translation recognized in shareholders' equity is reversed to profit or loss when consolidation of the subsidiary ceases.

Items in the consolidated statement of cash flows are translated at cumulative average monthly exchange rates except for cash and cash equivalents, which are translated at the spot rate at the end of the reporting period.

Revenue recognition and cost of sales

Revenue from the SVZ Group's operations are recognized at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue from the sale of goods and tools and of machinery constructed by the company is recognized when, based on the contract with the customer,

- the significant rewards and risks 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 SVZ Group,
- the costs associated with the transaction can be measured reliably,
- SVZ Group does not retain continuing managerial involvement with 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 goods, rendering services, or acquiring merchandise sold. Production cost comprises all direct costs attributable to the process of manufacturing goods 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.

Expenses incurred for research activities are expensed 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. Development costs are only recognized as intangible assets if

- their technical feasibility can be demonstrated,
- SVZ Group has the intention to complete the intangible asset and use or sell it,
- SVZ Group has the ability to use or sell the intangible asset,
- SVZ Group 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 the intangible asset, 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 reported 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.

Financial result

Interest income and expense is recognized pro rata temporis.

Goodwill

Goodwill is not amortized; however, it is tested for impairment when there is an indication that it may be impaired ("triggering event"), and at least annually. Goodwill is measured at cost less accumulated impairment losses.

The impairment test is performed by comparing the carrying amount of the cash-generating unit to which the goodwill has been allocated with its recoverable amount. A cash-generating unit is the smallest unit with largely independent cash flows. For the SVZ Group, this corresponds to its segments. Recoverable amount is determined using the discounted cash flow method and is the higher of fair value less costs of disposal and value in use of the cash-generating unit. Value in use is determined first. 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 of disposal. An impairment loss on goodwill is recognized when the carrying amount of the cash-generating unit exceeds its recoverable amount. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses on goodwill are not reversed.

Expected cash flows are based on a three-year-forecast which is reviewed regularly by SVZ Group management. This detailed 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 additions to 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 are capitalized at acquisition cost, internally generated intangible assets meeting the recognition criteria of IAS 38 "Intangible Assets" at production cost. Intangible assets with a definite useful life are amortized on a straight-line basis over their estimated useful lives of three years for software and six years for capitalized development costs. 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 SVZ Group does not have any intangible assets with indefinite useful lives.

In the consolidated income statement, straight-line amortization expense related to an intangible asset is presented within the functional area in which the intangible asset is utilized. Impairment losses and reversals of impairment losses are presented in other expense and other income, respectively.

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.

Additional costs incurred once an item of property, plant and equipment is in operating condition are only capitalized if they significantly increase the economic benefits to the company expected from the asset and can be clearly identified. All other subsequent costs are recognized as repairs and maintenance expense as incurred.

Property, plant and equipment is separated into components at the lowest level if these components have significantly different useful lives and the replacement or overhaul of these components during the total useful life of the plant is probable. Repairs and maintenance costs are expensed.

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 and 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, from 2 to 10 years for technical equipment and machinery and from 3 to 8 years for other equipment. 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. Land is not depreciated.

Leases

Leases transferring substantially all rewards and risks of ownership to SVZ Group 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 costs are allocated over the lease term so as to produce a constant periodic interest rate 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.

Where fulfillment of rights or obligations, particularly those arising from service arrangements, is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, such rights or obligations are also considered leases.

Impairments of other intangible assets and property, plant and equipment

The SVZ Group tests other intangible assets and property, plant and equipment for impairment when there is an indication that these assets may be impaired ("triggering event").

Assets are tested for impairment by comparing their carrying amount with their recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. 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. An impairment loss exists when the carrying amount exceeds the recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

Initially, the SVZ Group 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 of disposal.

Other intangible assets not yet available for use are tested for impairment annually at the end of the reporting period.

Financial instruments

Under IAS 32 "Financial Instruments: Presentation", 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 primary and derivative financial instruments. Regular way sales and purchases of financial assets are recognized and derecognized using settlement date accounting. The SVZ Group does not apply the fair value option. Please refer to Note 4.14 for an analysis of the SVZ Group's financial instruments by class as required by IFRS 7.6.

Primary financial instruments

Primary financial instruments comprise investments in equity and debt securities, trade and other financial assets, cash and cash equivalents, loans and receivables, and trade and other financial liabilities. Primary 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.

SVZ Group classifies its financial instruments in the following categories defined in IAS 39 "Financial Instruments: Recognition and Measurement":

Available-for-sale financial assets: Except for investments in companies accounted for using the equity method, SVZ Group 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 are recognized in other comprehensive income (including the 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. When the fair value of investments in equity instruments cannot be measured reliably using recognized valuation techniques, these investments are measured at cost.

When an available-for-sale financial asset is derecognized, the cumulative gain or loss previously reported in accumulated other comprehensive income is reclassified to profit or loss.

Any prolonged or significant decline in fair value below cost is considered an impairment and is immediately recognized in profit or loss.

Loans and receivables: Loans and receivables are measured at amortized cost less any impairment losses. Trade receivables, other financial assets with fixed or determinable payments that are not quoted in an active market, and cash and cash equivalents are accounted for under this category. These assets are tested for impairment at the end of each reporting period and when there is objective evidence of impairment, such as default or delinquency of the borrower or evidence of insolvency. Impairment losses on trade and other financial assets 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.

Cash includes cash on hand, checks, and cash at banks. Short-term, highly liquid investments with a maturity of up to three months from the date of acquisition are considered cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities: SVZ measures its financial liabilities at amortized cost using the effective interest method taking into account any transaction costs attributable to the liability.

For financial liabilities designated as a hedge of the currency risk of a net investment in a foreign operation, gains and losses are recognized in other comprehensive income and reported in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

Derivative financial instruments

SVZ Group holds derivative financial instruments to hedge the foreign exchange and interest rate risk exposures inherent in its assets and liabilities and in future cash flows.

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 amount to be recognized is determined using recognized valuation methods (e.g. option pricing models).

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". Attributable transaction costs are expensed as incurred. The SVZ Group does not have any fair value hedges.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in other comprehensive income and reported 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 reported in accumulated other comprehensive income remains in equity until the forecasted 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.

Non-derivative host instruments are reviewed for embedded derivatives (such as 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.

Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods are valued at production cost, consisting of direct material and labor costs, production-related overheads and production-related depreciation and amortization. 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

Deferred income taxes are accounted for in accordance with IAS 12 "Income Taxes" using the asset and liability method.

Unless the recognition of deferred taxes is not permitted, deferred taxes are recognized on temporary differences between carrying amounts in the consolidated IFRS statement of financial position and the company's tax balance sheets, on loss and interest carryforwards, and on tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which temporary differences and unused tax loss and interest carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that profits will be generated in the future.

Deferred taxes are measured using the future tax rate. Future tax rate changes are reflected in this tax rate when they have been substantively enacted.

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.

Provisions for pensions and similar obligations

The SVZ Group provides post-employment benefits to its employees in the form of defined benefit plans and defined contribution plans.

The SVZ 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 expectations, including those related to 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 provisions for pensions and similar obligations recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation at the end of the reporting period, where applicable net of the related plan assets measured at fair value. In addition to the pension funds maintained to fund the obligation, plan assets include all assets and rights under reimbursement insurance policies if the proceeds of the policy can be used only to make payments to employees entitled to pension benefits and are not available to satisfy claims of the company's other creditors. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent SVZ Group is entitled to a refund or reduction of future contributions to the fund.

The SVZ Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and reports them in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and included in financial expense on a net basis.

For defined contribution plans, SVZ Group pays fixed contributions to an independent third party. As the SVZ Group does not in any way guarantee a return on the assets, neither up to the date pension payments commence nor beyond, the Group's obligation is limited to the contributions it makes during the year. The contributions are recognized in personnel expense.

Provisions

A provision is recognized if, as a result of a past event, SVZ Group 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 consolidated financial statements provided certain criteria are met.

A provision is recognized at the best estimate of the amount required to settle the obligation. This estimate is subject to uncertainty. Non-current provisions are recognized at present value by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense arising from unwinding the discount on the provision and the impact of any changes in discount rates are presented within financial result.

1.5 New accounting pronouncements

In 2014, the following Standards and amendments to Standards adopted by the European Union (EU) as European law were required to be applied for the first time:

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment
IFRS 10	Consolidated Financial Statements	01/01/2014	Replaces the corresponding requirements of IAS 27 "Separate Financial Statements" (previously "Consolidated and Separate Financial Statements") and SIC 12 ("Consolidation – Special Purpose Entities")
IFRS 11	Joint Arrangements	01/01/2014	Replaces IAS 31 "Interests in Joint Ventures"
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	Disclosure of interests in other entities
Transition Guidance (Amendments to IFRS 10, 11 and 12)		01/01/2014	Amendments to transition guidance
Amendments to IAS 28	Investments in Associates and Joint Ventures	01/01/2014	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12
Amendments to IAS 32	Financial Instruments: Presentation	01/01/2014	Clarification regarding offsetting of financial assets and liabilities
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	01/01/2014	Continuation of hedge accounting under certain circumstances

IFRS 10 "Consolidated Financial Statements" introduced a consistent definition of control for consolidation purposes. In accordance with IFRS 11 "Joint Arrangements", joint arrangements will from now on be classified as joint ventures or joint operations based on their economic substance. The initial application of these two standards did not change the scope of consolidation of Schaeffler Verwaltung Zwei GmbH.

IFRS 12 "Disclosures of Interests in Other Entities" sets out the disclosure requirements with respect to an entity's interests in other entities. The required disclosures are considerably more extensive than the disclosures previously required by IAS 27, IAS 28, and IAS 31. Overall, IFRS 12 has no significant impact on the consolidated financial statements of Schaeffler Verwaltung Zwei GmbH.

"Transition Guidance (Amendments to IFRS 10, 11 and 12)" does not affect the SVZ Group's financial reporting.

The amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting", IAS 28 "Investments in Associates and Joint Ventures (revised 2011)", and IAS 32 "Financial Instruments: Presentation" do not affect the SVZ Group's financial reporting.

The SVZ Group is not yet required to apply the following amendments to Standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2014. None of these were adopted early.

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the SVZ Group
Annual Improvements to IFRS 2011-2013		01/01/2015	Various improvements to IFRS 1, IFRS 3, IFRS 13, and IAS 40	none to minor
Annual Improvements to IFRS 2010-2012		02/01/2015	Various improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38	none to minor
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	02/01/2015	Amendments to accounting for contributions from employees or third parties	none

In addition, the IASB has issued new Standards and amendments to existing Standards which have not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue by SVZ Group management. None of these were adopted early.

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the SVZ Group
Annual Improvements to IFRS 2012-2014		01/01/2016	Various improvements to IFRS 5, IFRS 7, IAS 19 and IAS 34	none to minor
Amendments to IAS 1	Disclosure Initiative	01/01/2016	Clarification regarding the materiality, presentation and structure of financial statement disclosures	minor
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01/01/2016	Clarification of accounting for gains and losses on transactions between an investor and its associate or joint venture	none
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016	Clarification that a revenue-based method is not an acceptable method of depreciation or amortization	none
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	Guidance on acquisitions of joint operations	none
IFRS 15	Revenue from Contracts with Customers	01/01/2017	Principles of recognition of revenue from contracts with customers	Revenue recognition[1)]
IFRS 9	Financial Instruments	01/01/2018	Accounting for financial instruments: Classification, recognition and derecognition, measurement, impairment, hedge accounting	Accounting for financial instruments and changes to related disclosures[1)]

1) Detailed statements regarding the extent of the impact are not yet possible.

2. Principles of consolidation

2.1 Scope of consolidation

In 2014, the SVZ Group includes, in addition to Schaeffler Verwaltung Zwei GmbH, 156 (prior year: 158) subsidiaries; 54 (prior year: 55) companies are domiciled in Germany and 102 (prior year: 103) in other countries.

The scope of consolidation of Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) did not change significantly compared to December 31, 2013.

In the consolidated financial statements as at December 31, 2014, six (prior year: seven) investments (including three joint ventures; prior year: three) are accounted for at equity.

Please refer to Note 5.8 for further detail on the SVZ Group's companies.

2.2 Investments in equity-accounted investees

Schaeffler Verwaltung Zwei GmbH has a significant joint venture, Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach. In the consolidated financial statements, the company accounts for this investment under the equity method. The primary purpose of the joint venture consists of holding strategic investments in other entities.

The key asset of Schaeffler Beteiligungsholding GmbH & Co. KG is its holding of 71,990,458 shares (prior year: 68,390,458 shares) or 36.0% (prior year: 34.2%) of the voting interest in Continental AG, Hanover. Schaeffler Beteiligungsholding GmbH & Co. KG accounts for Continental AG under the equity method as an associated company. Schaeffler Beteiligungsholding GmbH & Co. KG increased its investment in Continental AG by 3,600,000 shares or 1.8% in 2014. The purchase price paid for the shares of EUR 629 m was financed entirely by a loan provided by Schaeffler Verwaltungs GmbH (see Note 5.5). The loan is reported within other financial assets (see Note 4.7).

Schaeffler Verwaltung Zwei GmbH received a dividend of EUR 168 m (prior year: EUR 164 m) from Schaeffler Beteiligungsholding GmbH & Co. KG in 2014.

The following tables summarize Schaeffler Beteiligungsholding GmbH & Co. KG's financial information as at December 31, 2014 prepared for consolidation purposes:

in € millions	**2014**	**2013**
Net income after tax	725	797
including interest expense of	(2)	0
including income tax expense (benefit) of	(1)	2
Other comprehensive income	(74)	(115)
Comprehensive income	**651**	**682**

in € millions	**2014**	**2013**
Current assets	5	1
including cash and cash equivalents of	2	1
Non-current assets	6,192	5,083
Current liabilities	4	3
including current financial liabilities of[1]	1	0
Non-current liabilities	629	0
Net assets	**5,564**	**5,081**

1) Excluding trade payables, other liabilities, and provisions.

The following summary reconciles the net assets of Schaeffler Beteiligungsholding GmbH & Co. KG to the carrying amount of the group's investment in this company:

in Mio. EUR	2014	2013
Carrying amount as at January 01	**5,081**	**5,037**
Share of net income before tax	726	795
Income tax	(1)	2
Share of net income after tax	**725**	**797**
Share of other comprehensive income	(74)	(115)
Share of comprehensive income after tax	**651**	**682**
Other changes in shareholders' equity	0	2
Dividends received	(168)	(164)
Withdrawals[1)]	0	(476)
Carrying amount as at December 31	**5,564**	**5,081**

1) Schaeffler Verwaltung Zwei GmbH withdrew capital from Schaeffler Beteiligungsholding GmbH & Co. KG in 2013.

3. Notes to the consolidated income statement

3.1 Revenue

in € millions	2014	2013
Revenue from the sale of goods	11,962	10,996
Other revenue	161	209
Total	**12,123**	**11,205**

Other revenue primarily includes EUR 87 m (prior year: EUR 113 m) in revenue from services (e.g. for research and development) as well as EUR 72 m (prior year: EUR 92 m) from the sale of tools and machines constructed by the company.

3.2 Other income

in € millions	2014	2013
Exchange gains	8	35
Reversal of provisions	13	1
Reduction of allowances	5	3
Gains on disposal of assets	1	3
Miscellaneous income	22	28
Total	**49**	**70**

The change in **exchange gains** resulted primarily from exchange gains and losses realized on foreign exchange contracts hedging receivables and liabilities denominated in U.S. Dollar.

Reversal of provisions reflects mainly the unutilized portion of the provision for the investigations of the EU antitrust authorities in 2013 (see Note 4.12 for further detail).

3.3 Other expenses

in € millions	2014	2013
Increase in allowances	6	6
Losses on disposal of assets	2	4
Miscellaneous expenses	74	406
Total	**82**	**416**

The decrease in **miscellaneous expenses** compared to the prior year resulted primarily from the special item of EUR 380 m in the prior year that was related to the EU antitrust proceedings which have since been finalized (see Note 4.12 for further detail), while in 2014, this line item reflects, among other things, the recognition of provisions for the ongoing investigations of the Korean and Brazilian antitrust authorities. Miscellaneous other expenses also included items such as expenses for commissions for guarantees.

3.4 Personnel expense and headcount

Average number of employees by region	2014	2013
Europe	56,993	55,300
Americas	12,200	11,969
Greater China	9,121	7,533
Asia/Pacific	2,692	2,557
Total	**81,006**	**77,359**

The number of employees at December 31, 2014 was 82,294, 4.8% higher than the prior year level of 78,559.

The SVZ Group's personnel expense can be analyzed as follows:

In € millions	2014	2013
Wages and salaries	2,974	2,836
Social security contributions	568	533
Other personnel expenses	83	76
Total	**3,625**	**3,445**

The increase in personnel expense in 2014 is mainly attributable to pay increases arising from local collective agreements and the targeted expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions.

3.5 Financial result

			2014
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt[1)]	(529)	12	(517)
Fair value changes and compensation payments on derivatives	(71)	242	171
Foreign exchange gains and losses	(244)	0	(244)
Amortization of cash flow hedge accounting reserve	5	0	5
Interest income and expense on pensions and partial retirement obligations	(51)	0	(51)
Other	(31)	10	(21)
Total	**(921)**	**264**	**(657)**

in € millions	2013 Financial expenses	Financial income	Financial result
Interest expense on financial debt[1)]	(465)	0	(465)
Fair value changes and compensation payments on derivatives	(99)	114	15
Foreign exchange gains and losses	0	88	88
Amortization of cash flow hedge accounting reserve	2	0	2
Interest income and expense on pensions and partial retirement obligations	(50)	0	(50)
Other	(47)	15	(32)
Total	**(659)**	**217**	**(442)**

1) Incl. transaction costs.

Interest expense on financial debt includes EUR 320 m (prior year: EUR 388) in interest paid and accrued on the Group's external financing arrangements, EUR 144 m in expenses incurred in connection with the transactions completed in 2014 to refinance the company's debt, and interest expense on shareholder loans paid to Schaeffler Verwaltungs GmbH.

Fair value changes and compensation payments on derivatives consist largely of net gains on interest rate and cross-currency derivatives of EUR 226 m (prior year: net losses of EUR 99 m) and net losses on embedded derivatives of EUR 55 m (prior year: net gains of EUR 114 m). The derecognition of the redemption options related to the bonds that were redeemed in connection with the refinancing transactions in 2014 as well as the impact of amending the terms of the prepayment options related to the institutional loan tranches resulted in losses of EUR 77 m.

Net foreign exchange losses on financial assets and liabilities amounted to EUR 244 m (prior year: net gains of EUR 88 m) and resulted primarily from translating financing instruments denominated in U.S. Dollar to Euro (see Note 1.4). The company has hedged this financial debt using cross-currency derivatives and reports the resulting offsetting impact of EUR 226 m under fair value changes and compensation payments on derivatives.

Additional income of EUR 5 m (prior year: EUR 2 m) arose from amortizing the cash flow hedge accounting reserve related to interest rate hedging instruments. As this income is economically related to interest expense on the Group's financial debt, it is presented within interest expense, as well.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 51 m (prior year: EUR 50 m). See Note 4.11 for further detail on pensions.

3.6 Income from at equity-accounted investees

The company's income from equity-accounted investees of EUR 727 m (prior year: EUR 801 m) arises almost entirely from measuring the interest in Schaeffler Beteiligungs GmbH & Co. KG at equity. The SVZ Group holds a 100% equity interest in Schaeffler Beteiligungsholding GmbH & Co. KG. As Schaeffler Beteiligungsholding GmbH & Co. KG's net income is almost entirely the result of measuring its interest in Continental AG at equity, the impact of applying the equity method to the company's investment in Schaeffler Beteiligungsholding GmbH & Co. KG is discussed below.

The SVZ Group's share of depreciation, amortization and impairments on fair value adjustments and its share of Continental AG's net income, excluding impairment losses Continental AG has recognized on goodwill but including special items realized through the purchase price allocation and net of offsetting deferred tax effects and interest expense, result in income after tax of EUR 726 m. The effect on the SVZ Group's net income is as follows:

in € millions	2014	2013
Depreciation, amortization and impairments of fair value adjustments	(129)	(136)
Share of net income or loss of Continental AG	814	687
Goodwill impairment loss recognized by Continental AG	0	23
Effect before income taxes	**685**	**574**
Deferred taxes	39	34
Effect on net income of Schaeffler Beteiligungsholding GmbH & Co. KG before special items	**724**	**608**
• Adjustment of impairment losses on investments in associated companies	1	3
Effect on net income of Schaeffler Beteiligungsholding GmbH & Co. KG	**725**	**611**
• Elimination of interest result against income from equity-accounted investees	1	0
Effect on consolidated net income	**726**	**611**

In September 2013, the company sold 3,900,000 million shares (representing a 1.95% interest) in Continental AG at a price of EUR 122.50 per share resulting in a gain on sale of EUR 187 m.

Market capitalization

Based on a share price of EUR 175,55 per share (prior year: EUR 159,40 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (36.0%, prior year: 34.2%) was EUR 12,638 m (prior year: EUR 10,901 m) on December 31, 2014.

3.7 Income taxes

in € millions	2014	2013
Current income taxes	330	317
Deferred income taxes	(83)	152
Income taxes	**247**	**469**

As a corporation, Schaeffler Verwaltung Zwei GmbH was subject to German corporation tax and trade tax during the reporting period 2014. Trade tax is levied by municipalities.

The average domestic tax rate was 28.3% in 2014 (prior year: 28.1%). This tax rate consisted of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.4% (prior year: 12.2%). Partnerships located in Germany are only subject to trade tax.

The current income tax benefit related to prior years amounted to EUR 35 m (prior year: EUR 23 m) in 2014. SVZ Group incurred EUR 12 m in deferred tax expense related to prior years (prior year: EUR 49 m) in 2014.

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 2014 is based on the Schaeffler Group's 28.3% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge.

in € millions	2014	2013
Net income before tax	1,586	1,341
Expected tax expense	**449**	**376**
Addition/reduction due to deviating local tax bases	8	7
Foreign/domestic tax rate differences	(4)	(6)
Change in tax rate and law	0	(1)
Non-recognition of deferred tax assets	(5)	45
Tax credits	(12)	(7)
Non-deductible expenses	45	247
Income (loss) from equity-accounted investees	(205)	(224)
Taxes for previous years	(23)	26
Other	(6)	6
Reported tax expense	**247**	**469**

Deviations from the expected tax rate represents the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-recognition of deferred tax assets reflects mainly the capitalization of loss carryforwards not previously recognized which are now considered probable of being utilized in the future. This line item also includes deferred tax assets on temporary differences for which deferred taxes had not previously been recognized.

Non-deductible expenses include non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries. This line item also includes the impact of the interest deduction cap, which has the effect of increasing the effective tax rate as it makes certain interest expenses of Schaeffler Verwaltung Zwei GmbH non-deductible. This impact is offset by the related but opposite impact of deferred tax assets recognized by a subsidiary on interest carryforwards not previously considered recoverable. The decrease compared to the prior year resulted primarily from non-deductible expenses in the prior year related to the EU antitrust proceedings which have since been finalized (see Note 4.12 for further detail).

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2013	**483**	**1,017**	**236**	**1,736**
Additions	0	10	8	18
Disposals	0	(17)	0	(17)
Foreign currency translation	0	(2)	0	(2)
Balance as at December 31, 2013	**483**	**1,008**	**244**	**1,735**
Balance as at January 01, 2014	**483**	**1,008**	**244**	**1,735**
Additions	0	19	31	50
Disposals	0	(3)	0	(3)
Foreign currency translation	0	5	0	5
Balance as at December 31, 2014	**483**	**1,029**	**275**	**1,787**
Accumulated depreciation and impairment losses				
Balance as at January 01, 2013	**0**	**993**	**189**	**1,182**
Depreciation	0	11	23	34
Disposals	0	(17)	0	(17)
Foreign currency translation	0	(2)	0	(2)
Balance as at December 31, 2013	**0**	**985**	**212**	**1,197**
Balance as at January 01, 2014	**0**	**985**	**212**	**1,197**
Depreciation	0	14	19	33
Disposals	0	(3)	0	(3)
Foreign currency translation	0	5	0	5
Balance as at December 31, 2014	**0**	**1,001**	**231**	**1,232**
Net carrying amounts				
As at January 01, 2013	**483**	**24**	**47**	**554**
As at December 31, 2013	**483**	**23**	**32**	**538**
As at January 01, 2014	**483**	**23**	**32**	**538**
As at December 31, 2014	**483**	**28**	**44**	**555**

The carrying amounts of **goodwill** allocated to cash-generating units amounted 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.

The SVZ Group tests its goodwill for impairment at least annually using the approach described in Note 1.4.

For purposes of determining recoverable amount, cash flows beyond the detailed forecasting horizon of 2017 are based on an annual growth rate of 1.0% (prior year: 1.0%) for each segment. Depending on the underlying business and its country of operation, SVZ Group uses an assumed pre-tax interest rate of 13.7% (prior year: 14.6%) as the weighted average cost of capital for the Automotive segment and 13.8% (prior year: 14.7%) for the Industrial segment. This corresponds to a post-tax interest rate of 9.7% for the Automotive segment (prior year: 10.2%) and 9.7% for the Industrial segment (prior year: 10.1%).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2014 and the prior year, they were not impaired.

In 2014, capitalized development costs included in **internally generated intangible assets** increased to EUR 29 m (prior year: EUR 11 m) as a result of additions of EUR 26 m (prior year: EUR 0 m) which were partially offset by EUR 8 m (prior year: EUR 10 m) in amortization.

Internally generated intangible assets include EUR 15 m (prior year: EUR 21 m) in internally generated software, mainly relating to the implementation of ERP systems.

Amortization of internally generated intangible assets totaling EUR 33 m (prior year: EUR 34 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 9 m (prior year: EUR 10 m), research and development expenses EUR 5 m (prior year: EUR 5 m), selling expenses EUR 2 m (prior year: EUR 3 m), and administrative expenses EUR 17 m (prior year: EUR 16 m).

Internally generated intangible assets with a carrying amount of EUR 26 m (prior year: EUR 5 m) were not yet subject to amortization.

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 01, 2013	**2,202**	**6,510**	**884**	**376**	**9,972**
Additions	31	202	62	260	555
Additions from first consolidation of subsidiaries	3	4	5	1	13
Disposals	(10)	(125)	(54)	(4)	(193)
Transfers	20	205	9	(234)	0
Foreign currency translation	(37)	(146)	(15)	(10)	(208)
Balance as at December 31, 2013	**2,209**	**6,650**	**891**	**389**	**10,139**
Balance as at January 01, 2014	**2,209**	**6,650**	**891**	**389**	**10,139**
Additions	21	351	82	439	893
Additions from first consolidation of subsidiaries	0	0	0	0	0
Disposals	(4)	(166)	(35)	(3)	(208)
Transfers	52	231	16	(299)	0
Foreign currency translation	58	188	16	17	279
Balance as at December 31, 2014	**2,336**	**7,254**	**970**	**543**	**11,103**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2013	**1,061**	**4,689**	**707**	**0**	**6,457**
Depreciation	74	466	73	0	613
Additions from first consolidation of subsidiaries	1	2	3	0	6
Impairments	0	0	0	5	5
Disposals	(6)	(120)	(51)	0	(177)
Transfers	0	2	(2)	0	0
Foreign currency translation	(15)	(107)	(12)	0	(134)
Balance as at December 31, 2013	**1,115**	**4,932**	**718**	**5**	**6,770**
Balance as at January 01, 2014	**1,115**	**4,932**	**718**	**5**	**6,770**
Depreciation	75	469	70	0	614
Additions from first consolidation of subsidiaries	0	0	0	0	0
Impairments	0	3	0	0	3
Disposals	(4)	(162)	(33)	0	(199)
Transfers	0	(1)	1	0	0
Foreign currency translation	23	132	12	0	167
Balance as at December 31, 2014	**1,209**	**5,373**	**768**	**5**	**7,355**
Net carrying amounts					
As at January 01, 2013	**1,141**	**1,821**	**177**	**376**	**3,515**
As at December 31, 2013	**1,094**	**1,718**	**173**	**384**	**3,369**
As at January 01, 2014	**1,094**	**1,718**	**173**	**384**	**3,369**
As at December 31, 2014	**1,127**	**1,881**	**202**	**538**	**3,748**

At December 31, 2014, the SVZ Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 262 m (prior year: EUR 177 m).

4.3 Investments in equity-accounted investees

in € millions	12/31/2014	12/31/2013
Schaeffler Beteiligungsholding GmbH & Co. KG	5,564	5,081
Other	4	4
Total	**5,568**	**5,085**

The increase in the carrying amount of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG is almost entirely the result of measuring the interest in Continental AG, which is held indirectly, at equity.

Please also refer to the discussion in Note 2.2.

4.4 Deferred tax assets and liabilities and income tax receivables and payables

Deferred tax assets and liabilities

The following items gave rise to the recognized deferred tax assets and liabilities:

	12/31/2014		12/31/2013	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	3	(17)	1	(12)
Property, plant and equipment	88	(147)	78	(129)
Financial assets	1	(48)	4	(35)
Inventories	78	(5)	76	(5)
Trade receivables and other assets	52	(137)	53	(122)
Provisions for pensions and similar obligations	389	(74)	267	(87)
Other provisions and other liabilities	219	(108)	179	(204)
Loss carryforwards	58	0	16	0
Other	0	(7)	2	(6)
Deferred taxes (gross)	**888**	**(543)**	**676**	**(600)**
Netting	(421)	421	(446)	446
Deferred taxes, net	**467**	**(122)**	**230**	**(154)**

The group had gross carryforwards under the interest deduction cap, net of prior year adjustments, of EUR 378 m (prior year: EUR 766 m) at the end of the reporting period. The decrease in interest carryforwards was primarily the result of an internal reorganization of the group structure. As no deferred taxes had been recognized on these interest carryforwards in prior years, the decrease did not generate tax expense. As utilization of carryforwards under the interest deduction cap is now considered sufficiently probable, a deferred tax asset of EUR 34 m (prior year: EUR 0 m) was recognized on these carryforwards for the first time.

No deferred tax assets were recognized on EUR 6 m (prior year: EUR 25 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

At December 31, 2014, the SVZ Group had gross loss carryforwards of EUR 141 m (prior year: EUR 158 m) for corporation tax and EUR 367 m (prior year: EUR 319 m) for trade tax, including EUR 79 m (prior year: EUR 107 m) in corporation tax losses and EUR 304 m (prior year: EUR 294 m) in trade tax losses for which no deferred taxes have been recognized. The trade tax loss carryforwards largely relate to a joint venture all of whose earnings are attributable to Schaeffler Verwaltung Zwei GmbH.

The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred taxes have been recognized on EUR 4,394 m (prior year: EUR 3,420 m) in undistributed profits of certain subsidiaries, as the company intends to continually reinvest these profits rather than distributing them.

As at the end of the reporting period, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 42 m (prior year: EUR 18 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2014, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 468 m (prior year: EUR 152 m) and mainly related to changes in the fair value of financial instruments designated as hedging instruments and of available for sale financial assets as well as remeasurements of pensions and similar obligations.

Income tax receivables and payables

At December 31, 2014, income tax receivables amounted to EUR 57 m (prior year: EUR 154 m), including non-current balances of EUR 8 m (prior year: EUR 12 m).

At December 31, 2014, income tax payables amounted to EUR 498 m (prior year: EUR 495 m), including non-current balances of EUR 343 m (prior year: EUR 340 m).

4.5 Inventories

in € millions	12/31/2014	12/31/2013
Raw materials and supplies	317	294
Work in progress	431	399
Finished goods and merchandise	960	840
Advance payments	5	3
Total	**1,713**	**1,536**

EUR 8,523 m (prior year: EUR 7,877 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2014.

Write-downs of inventories recognized in 2014 amounted to EUR 209 m (prior year: EUR 217 m).

4.6 Trade receivables

in € millions	12/31/2014	12/31/2013
Trade receivables (gross)	**1,924**	**1,699**
Impairment allowances	(24)	(23)
Trade receivables (net)	**1,900**	**1,676**

Movements in impairment allowances on these trade receivables can be reconciled as follows:

in € millions	2014	2013
Impairment allowances as at January 01	**(23)**	**(23)**
Additions	(6)	(6)
Allowances used to cover write-offs	0	3
Reversals	5	3
Impairment allowances as at December 31	**(24)**	**(23)**

Trade receivables past due were as follows:

in € millions		12/31/2014	12/31/2013
Carrying amount		**1,900**	**1,676**
Not past due		**1,767**	**1,572**
	up to 60 days	122	91
	61-120 days	7	8
Past due	121-180 days	1	3
	181-360 days	2	1
	> 360 days	1	1

At December 31, 2014, trade receivables of EUR 940 m (prior year: EUR 864 m) were pledged as collateral under loan and bond agreements.

The SVZ Group's exposure to currency and liquidity risk related to trade receivables is disclosed in Note 4.14.

4.7 Other financial assets and other assets

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial assets						
Loans receivable and financial receivables	635	3	638	7	0	7
Marketable securities	11	1	12	9	0	9
Derivative financial assets	244	25	269	189	60	249
Miscellaneous financial assets	5	46	51	1	59	60
Total	**895**	**75**	**970**	**206**	**119**	**325**

The increase in non-current **loans receivable and financial receivables** was primarily related to the increase in the capital of Schaeffler AG by way of a contribution in kind in December 2014. As part of this transaction, a loan of EUR 629 m receivable from a related company was contributed to the SVZ Group (see Note 5.5).

At December 31, 2014, non-current **derivative financial assets** consisted mainly of derivatives used to hedge currency risk and prepayment options on financial debt. The current portion of derivative financial assets represented fair values of derivatives the SVZ Group uses to hedge currency risk.

Current **miscellaneous financial assets** consisted largely of amounts due from employees, claims for damages, and deposits paid.

The SVZ Group did not recognize a valuation allowance on other financial assets at December 31, 2014 (prior year: EUR 1 m).

At December 31, 2014, other financial assets of EUR 758 m were pledged as collateral under loan- and bond agreements (prior year: EUR 89 m).

The SVZ Group's exposure to currency and liquidity risk related to other financial assets is disclosed in Note 4.14 on financial instruments.

in € millions	12/31/2014 Non-current	Current	Total	12/31/2013 Non-current	Current	Total
Other assets						
Pension asset	37	0	37	42	0	42
Tax receivables	1	145	146	1	116	117
Miscellaneous assets	21	36	57	16	25	41
Total	**59**	**181**	**240**	**59**	**141**	**200**

Tax receivables consisted largely of value-added tax refunds receivable.

At December 31, 2014, other assets of EUR 3 m (prior year: EUR 0 m) were pledged as collateral under loan- and bond agreements.

4.8 Cash and cash equivalents

At December 31, 2014, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 172 m (prior year: EUR 151 m) held by subsidiaries in Argentina, Brazil, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Thailand, Venezuela, and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to Schaeffler Verwaltung Zwei GmbH as the parent entity is restricted.

At the end of the reporting period, cash and cash equivalents of EUR 296 m (prior year: EUR 36 m) were pledged as collateral under loan- and bond agreements.

4.9 Shareholders' equity and significant non-controlling interests

in € millions	12/31/2014	12/31/2013
Share capital	500	500
Reserves	4,847	2,643
Accumulated other comprehensive income (loss)	(922)	(709)
Equity attributable to shareholders of the parent company	**4,425**	**2,434**
Non-controlling interests	17	57
Total shareholders' equity	**4,442**	**2,491**

The transformation of Schaeffler AG to a limited liability company ("Gesellschaft mit beschränkter Haftung") on October 23, 2014 did not affect the amount of its shareholders' equity. Its share capital ("Grundkapital") of EUR 500 m was converted to Schaeffler Verwaltung Zwei GmbH's share capital ("Stammkapital") in the transformation. **Subscribed capital** was fully paid up at December 31, 2014.

In October 2014, Schaeffler Verwaltungs GmbH, in its role of shareholder of Schaeffler Verwaltung Zwei GmbH, waived EUR 101 m of a **shareholder loan** (see Note 5.5) increasing reserves by the same amount.

A subsidiary of Schaeffler Verwaltung Zwei GmbH, Schaeffler AG, completed a capital increase by way of a contribution in kind in December 2014. This transaction made Schaeffler Verwaltungs GmbH an additional shareholder of Schaeffler AG, which had previously been wholly-owned by Schaeffler Verwaltung Zwei GmbH. The increase in the capital of Schaeffler AG by way of a contribution in kind added a further EUR 1.6 bn to reserves attributable to the shareholders of the parent company of the SVZ Group. The dividends of EUR 250 m in respect of

2013 and of EUR 610 m to be charged against revenue reserves declared in March 2014 and December 2014, respectively, and payable to the company's shareholder, Schaeffler Verwaltungs GmbH, had an offsetting effect (see Notes 5.3 and 5.5).

For 2014, a dividend of EUR 250 m will be proposed to the annual general meeting.

Accumulated other comprehensive income consisted of currency translation, changes in the fair value of financial instruments designated as hedging instruments (cash flow hedges and net investment hedges) and of available for sale financial assets, as well as remeasurements of pensions and similar obligations.

The significant **non-controlling interest** relates to the minority interest in the equity of Schaeffler AG, which is based in Herzogenaurach. All of the shares issued to effect the increase in the capital of Schaeffler AG by way of a contribution in kind were acquired by Schaeffler Verwaltungs GmbH, giving it a 16.7% interest in Schaeffler AG. As a result, Schaeffler Verwaltung Zwei GmbH's interest in the equity of Schaeffler AG amounts to 83.3% (prior year: 100%).

Consolidated shareholders' equity of Schaeffler AG attributable to the SVZ Group changed as follows in 2014:

in € millions	2014
Shareholders' equity attributable to shareholders of the parent company as at January 01	**(2,023)**
Change due to increase in capital of Schaeffler AG by way of contribution in kind	1,700
Share of comprehensive income	409
Partial waiver of shareholder loan	101
Before transfer to non-controlling interests	**187**
Transfer to non-controlling interests[1]	54
Shareholders' equity attributable to shareholders of the parent company as at December 31	**241**

1) Non-controlling interests were calculated using the partial goodwill method.

The following information was taken from the consolidated financial statements of Schaeffler AG as at December 31, 2014.

in € millions	2014	2013
Revenue	12,124	11,205
Net income	662	134
Other comprehensive loss	(238)	(139)
Comprehensive income	**424**	**(5)**

The acquired newly issued shares, by Schaeffler Verwaltungs GmbH, of Shaeffler AG will bear dividend rights as of January 01, 2015.

in € millions	2014	2013
Current assets	4,815	3,977
Non-current assets	6,802	4,410
Current liabilities	2,520	2,483
Non-current liabilities	8,839	7,870
Net assets	**258**	**(1,966)**
Carrying amount of SVZ Group non-controlling interests	54	0

in Mio. EUR	2014	2013
Cash flows from operating activities	900	1,027
Cash used in investing activities	(852)	(554)
Cash provided by (used in) financing activities	271	(582)
Net increase (decrease) in cash and cash equivalents	**319**	**(109)**

4.10 Current/Non-current financial debt

	12/31/2014			12/31/2013		
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
Bank loans	1,775	1	1,774	2,236	27	2,209
Bonds	4,634	0	4,634	3,506	0	3,506
Other financial debt	5	0	5	448	198	250
Financial debt	**6,414**	**1**	**6,413**	**6,190**	**225**	**5,965**

The increase in financial debt compared to December 31, 2013 resulted primarily from financing obtained for the antitrust penalty in the second quarter of 2014 and from the impact of translating the financial debt denominated in U.S. Dollar to Euro. The SVZ Group did not have any loans payable to its controlling shareholders as at December 31, 2014 (prior year: EUR 443 m).

In May 2014, Schaeffler Finance B.V. placed four new bond issues with a total principal of approximately EUR 2.0 bn that are listed on the Euro MTF market of the Luxembourg Stock Exchange. As part of this placement, loan tranches C EUR and C USD were repaid in full using the proceeds of new loan tranches (E EUR and E USD). The new loan tranches carry more favorable terms and improved maturities. Both loan tranches are secured and carry an interest rate floor of 0.75%. The proceeds of the refinancing transaction completed in May 2014 were used to redeem the 2017 EUR retail bonds and the 2019 EUR and USD bonds. The SVZ Group also prepaid the two institutional loan tranches and EUR 309 m of loan tranche D. In May 2014, the SVZ Group made an additional partial prepayment of EUR 171 m on loan tranche D.

In October, SVZ Group completed another successful refinancing transaction in which loan tranches D, E EUR, and E USD were repaid in full using new loan tranches B EUR and B USD. Both loan tranches carry an interest rate floor of 0.75%. In addition, the existing revolving credit facility was replaced with a new revolving credit facility maturing in 2019.

At December 31, 2014, the group’s debt consisted of two loan tranches with a total principal equivalent to approximately EUR 1,821 m obtained from institutional investors (Facilities Agreement), eight bond issues totaling the equivalent of approximately EUR 4,671 m and a revolving line of credit of EUR 1,000 m.

The Facilities Agreement consists of the following loan tranches:

Tranche	Currency	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013	Maturity
		Face value in millions		Carrying amount in € millions		Coupon		
Senior Term Loan E	EUR	0	299	0	292	–	Euribor + 3.75%	–
Senior Term Loan E	USD	0	1,699	0	1,213	–	Libor + 3.25%	–
Senior Term Loan B[1]	EUR	750	0	757	0	Euribor + 3.50%[2]	–	05/15/2020
Senior Term Loan B[3]	USD	1,300	0	1,031	0	Libor + 3.50%[4]	–	05/15/2020
Senior Term Loan D	EUR	0	730	0	713	–	Euribor + 2.875%	–
Revolving Credit Facility[5]	EUR	1,000	1,000	(14)	(9)	Euribor + 2.875%	Euribor + 2.875%	10/27/2019

1) Since October 27, 2014, previously Senior Term Loan E EUR.

2) Euribor floor of 0.75% since October 27, 2014

3) Since October 27, 2014, previously Senior Term Loan E USD.

4) Libor floor of 0.75% since October 27, 2014.

6) EUR 34 m (December 31, 2013: EUR 49 m) were drawn down as at December 31, 2014, primarily in the form of letters of credit.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at the end of the reporting period:

ISIN	Currency	12/31/2014	12/31/2013	12/31/2014	12/31/2013	Coupon	Maturity
		Face value in millions		Carrying amount in € millions			
XS0741938624	EUR	800	800	791	788	7.75%	02/15/2017
US806261AC75	USD	600	600	489	428	7.75%	02/15/2017
XS0923613060	EUR	600	600	596	595	4.25%	05/15/2018
XS1067864881	EUR	500	–	496	–	3.25%	05/15/2019
XS1067862919	EUR	500	–	496	–	2.75%	05/15/2019
US806261AJ29	USD	700	–	571	–	4.25%	05/15/2021
US806261AE32	USD	850	850	696	612	4.75%	05/15/2021
XS1067864022	EUR	500	–	499	–	3.50%	05/15/2022
XS0801261156	EUR	–	326	–	323	6.75%	07/01/2017[1]
XS0741939788	EUR	–	400	–	398	8.75%	02/15/2019[1]
US806261AA10	USD	–	500	–	361	8.50%	02/15/2019[1]

1) Redeemed early on May 14, 2014.

The differences between face value and carrying amount represented unamortized transaction costs. The carrying value of the revolving credit facility consisted entirely of unamortized transaction costs.

An additional EUR 55 m (prior year: EUR 71 m) in interest accrued on the bonds up to December 31, 2014 have been reported in other financial liabilities (see Note 4.14).

The decrease in other financial debt by EUR 443 m to EUR 5 m was primarily related to the increase in the capital of Schaeffler AG, a subsidiary of the SVZ Group, by way of a contribution in kind in December 2014 (see Note 5.5 for further detail).

Both the Facilities Agreement and the bond agreements contain certain constraints including a requirement to meet certain financial covenants. The financial covenants relevant to the Facilities Agreement are senior debt leverage cover and senior interest 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 in connection with the loan and bond agreements. Details of such collateral have been disclosed as required in the notes relating to the various assets concerned.

4.11 Provisions for pensions and similar obligations

The post-employment benefits the SVZ Group provides to its employees include both defined benefit plans and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are recognized in the consolidated statement of financial position. These provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans

The SVZ Group's defined benefit plans include pension plans, termination payments mandatorily payable upon retirement regardless of the reason employment is terminated, and other post-employment benefits. The company's pension obligations relate to Germany, the U.S., and the United Kingdom, with the majority of the obligation attributable to Germany.

Germany

In Germany, the company grants pension benefits largely in the form of pension commitments based on pension units and as part of deferred compensation arrangements.

Benefits under pension commitments based on pension units are always paid on an annuity basis. Some plans include guaranteed minimum benefits with the amount of the guarantee determined by the terms of the relevant pension scheme. The pension obligations arising from these pension commitments are unfunded.

In addition, employees have various deferred compensation arrangements to choose from. Some SVZ Group subsidiaries offer their staff a company pension model under which the employees contribute a portion of their pre-tax salary in return for a pension commitment. The compensation deferred is invested in equity, fixed-income, and money market funds under a lifecycle model, i.e. plan assets are moved to lower-risk asset classes as the beneficiary's age increases. In addition, SVZ Group guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

U.S. and United Kingdom

Additional significant defined benefit pension plans cover employees in the U.S. and in the United Kingdom. The SVZ Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2014, approximately 72% (prior year: 77%) of pension obligations in the U.S. and approximately 102% (prior year: 102%) of pension obligations in the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom) and replaced with defined contribution plans. As a result, employees can no longer earn additional defined benefits.

Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented as follows in the consolidated statement of financial position as at December 31, 2014:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2014
Provisions for pensions (liabilities net of related plan assets)	(1,829)	(63)	(7)	(95)	(1,994)
Pension asset (plan assets net of related liabilities)	27	0	10	0	37
Net defined benefit obligation	**(1,802)**	**(63)**	**3**	**(95)**	**(1,957)**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2013
Provisions for pensions (liabilities net of related plan assets)	(1,398)	(38)	(5)	(75)	(1,516)
Pension asset (plan assets net of related liabilities)	34	0	8	0	42
Net defined benefit obligation	**(1,364)**	**(38)**	**3**	**(75)**	**(1,474)**

The increase in the net defined benefit obligation as at December 31, 2014 was mainly the result of a further decrease in the discount rate used to measure defined benefit plan obligations, particularly those under the German plans. In addition to the change in the discount rate, the mortality tables used to measure the U.S. plans were also updated as at the end of the reporting date, resulting in an increase in defined benefit obligations of approximately EUR 14 m which was recognized in the consolidated statement of comprehensive income and is reported under accumulated other comprehensive income.

At the end of the reporting period, the defined benefit obligations and related plan assets amounted to the following:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2014
Present value of defined benefit obligation (active members)	(1,014)	(83)	0	(226)	(1,323)
Present value of defined benefit obligation (deferred members)	(153)	(42)	(131)	(13)	(339)
Present value of defined benefit obligation (pensioners)	(849)	(97)	(57)	(47)	(1,050)
Present value of defined benefit obligations (total)	**(2,016)**	**(222)**	**(188)**	**(286)**	**(2,712)**
Fair value of plan assets	214	159	191	191	755
Net defined benefit obligation	**(1,802)**	**(63)**	**3**	**(95)**	**(1,957)**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2013
Present value of defined benefit obligation (active members)	(693)	(62)	0	(177)	(932)
Present value of defined benefit obligation (deferred members)	(115)	(31)	(102)	(8)	(256)
Present value of defined benefit obligation (pensioners)	(750)	(72)	(51)	(37)	(910)
Present value of defined benefit obligations (total)	**(1,558)**	**(165)**	**(153)**	**(222)**	**(2,098)**
Fair value of plan assets	194	127	156	150	627
Change due to asset ceiling	0	0	0	(3)	(3)
Net defined benefit obligation	**(1,364)**	**(38)**	**3**	**(75)**	**(1,474)**

In the prior year, for the first time, the net pension asset recognized for a Canadian pension plan was limited to the amount of the defined benefit obligation, representing the present value of the economic benefits of the plan assets to the SVZ Group as at the reporting date (asset ceiling). As a result, the net pension asset recognized for this plan was reduced by EUR 3 m in 2013. As the defined benefit obligations exceeded the fair value of the plan assets as at the reporting date 2014, the asset ceiling is not applicable as at December 31, 2014. The resulting adjustment of EUR 3 m was recognized in other comprehensive income and reported in accumulated other comprehensive income.

Movements in the net defined pension benefit liability in 2014 can be reconciled as follows:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2014
Net defined benefit liability/asset as at January 01	**(1,364)**	**(38)**	**3**	**(75)**	**(1,474)**
Benefits paid	59	0	(1)	4	62
Service cost	(32)	1	0	(18)	(49)
Net interest on net defined benefit liability	(47)	(2)	0	(2)	(51)
Employer contributions	0	9	0	17	26
Transfers in/out	0	(1)	0	0	(1)
Remeasurement of net defined benefit liability	(419)	(28)	0	(18)	(465)
Changes in foreign exchange rates	1	(4)	1	(3)	(5)
Net defined benefit liability/asset as at December 31	**(1,802)**	**(63)**	**3**	**(95)**	**(1,957)**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2013
Net defined benefit liability/asset as at January 01	**(1,355)**	**(70)**	**13**	**(95)**	**(1,507)**
Benefits paid	58	0	0	7	65
Service cost	(32)	0	0	(13)	(45)
Net interest on net defined benefit liability	(45)	(2)	1	(4)	(50)
Employer contributions	9	3	0	23	35
Transfers in/out	0	(2)	0	0	(2)
Remeasurement of net defined benefit liability	2	30	(11)	4	25
Changes in foreign exchange rates	(1)	3	0	3	5
Net defined benefit liability/asset as at December 31	**(1,364)**	**(38)**	**3**	**(75)**	**(1,474)**

Funding requirements for defined benefit plans are generally met from cash flows from operating activities, taking into account any local legal funding requirements regarding the pension obligation.

Movements in defined benefit obligation

The opening and closing balances of the present value of the defined benefit obligation as at the end of the reporting period can be reconciled as follows:

in € millions	Germany	U.S.A.	United Kingdom	Other Countries	Total
					2014
Present value of defined benefit obligations as at January 1	**(1,558)**	**(165)**	**(153)**	**(222)**	**(2,098)**
Benefits paid	62	8	6	10	86
Current service cost	(32)	0	0	(13)	(45)
Past service cost	0	0	0	(5)	(5)
Interest cost	(54)	(8)	(7)	(8)	(77)
Employee contributions	(9)	(1)	0	(1)	(11)
Settlements paid	0	3	0	0	3
Gains (+) / losses (-) on settlements	0	1	0	0	1
Gains (+) / losses (-) – changes in financial assumptions	(416)	(23)	(24)	(36)	(499)
Gains (+) / losses (-) – changes in demographic assumptions	0	(14)	0	(3)	(17)
Gains (+) / losses (-) – experience adjustments	(8)	(1)	0	2	(7)
Changes in foreign exchange rates	(1)	(22)	(10)	(10)	(43)
Present value of defined benefit obligations as at December 31	**(2,016)**	**(222)**	**(188)**	**(286)**	**(2,712)**

in € millions	Germany	U.S.A.	United Kingdom	Other Countries	Total
					2013
Present value of defined benefit obligations as at January 1	**(1,524)**	**(190)**	**(146)**	**(227)**	**(2,087)**
Benefits paid	61	7	4	14	86
Current service cost	(31)	0	0	(13)	(44)
Past service cost	(1)	0	0	0	(1)
Interest cost	(52)	(7)	(6)	(8)	(73)
Employee contributions	(9)	(1)	0	(1)	(11)
Gains (+) / losses (-) – changes in financial assumptions	(1)	23	(8)	8	22
Gains (+) / losses (-) – changes in demographic assumptions	0	(5)	0	0	(5)
Gains (+) / losses (-) – experience adjustments	(1)	0	0	(5)	(6)
Changes in foreign exchange rates	0	8	3	10	21
Present value of defined benefit obligations as at December 31	**(1,558)**	**(165)**	**(153)**	**(222)**	**(2,098)**

Movements in and types of plan assets

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2014
Fair value of plan assets as at January 01	**194**	**127**	**156**	**150**	**627**
Benefits paid	(3)	(8)	(7)	(6)	(24)
Interest income on plan assets	7	6	7	6	26
Employee contributions	9	1	0	1	11
Employer contributions	0	9	0	17	26
Transfers in/out	0	(1)	0	0	(1)
Settlements paid	0	(3)	0	0	(3)
Return on plan assets excluding interest income	5	10	24	16	55
Changes in foreign exchange rates	2	18	11	7	38
Fair value of plan assets as at December 31	**214**	**159**	**191**	**191**	**755**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2013
Fair value of plan assets as at January 01	**169**	**120**	**159**	**132**	**580**
Benefits paid	(3)	(7)	(4)	(7)	(21)
Interest income on plan assets	7	5	7	4	23
Employee contributions	9	1	0	1	11
Employer contributions	9	3	0	23	35
Transfers in/out	0	(2)	0	0	(2)
Settlements paid	0	0	0	0	0
Return on plan assets excluding interest income	4	12	(3)	4	17
Changes in foreign exchange rates	(1)	(5)	(3)	(7)	(16)
Fair value of plan assets as at December 31	**194**	**127**	**156**	**150**	**627**

The SVZ Group expects to make contributions to plan assets of EUR 12 m in 2015.

Plan assets before application of the asset ceiling consist of the following:

in € millions	Germany	U.S.A.	United Kingdom	Other Countries	Total
					12/31/2014
Equity instruments	95	63	46	19	223
Debt instruments	34	96	38	101	269
Real estate	0	0	0	12	12
Cash	7	0	1	2	10
(Reimbursement) insurance policies	56	0	0	57	113
Mixed funds	22	0	106	0	128
Total	**214**	**159**	**191**	**191**	**755**

in € millions	Germany	U.S.A.	United Kingdom	Other Countries	Total
					12/31/2013
Equity instruments	87	77	41	24	229
Debt instruments	31	46	56	69	202
Real estate	0	4	0	12	16
Cash	21	0	59	2	82
(Reimbursement) insurance policies	55	0	0	43	98
Mixed funds	0	0	0	0	0
Total	**194**	**127**	**156**	**150**	**627**

Plan assets do not include real estate used by the SVZ Group or any of the SVZ Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset liability studies are prepared at regular intervals for the funded defined benefit plans in the United Kingdom and in the U.S., and the investment policy of each fund is based on the applicable study and any local legal requirements.

Comprehensive income

The following summarizes the various amounts recognized in comprehensive income for defined benefit plans:

in € millions					2014
	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	32	0	0	13	45
Past service cost	0	0	0	5	5
● plan amendments	0	0	0	5	5
Gains (-)/losses on settlements	0	(1)	0	0	(1)
Service cost	**32**	**(1)**	**0**	**18**	**49**
Interest cost	54	8	7	8	77
Interest income	(7)	(6)	(7)	(6)	(26)
Net interest on net defined benefit liability/asset	**47**	**2**	**0**	**2**	**51**
Gains (-)/losses – changes in financial assumptions	416	23	24	36	499
Gains (-)/losses – changes in demographic assumptions	0	14	0	3	17
Gains (-)/losses – experience adjustments	8	1	0	(2)	7
Return on plan assets excluding interest income	(5)	(10)	(24)	(16)	(55)
Impact of asset ceiling	0	0	0	(3)	(3)
Remeasurements of net defined benefit liability/ asset	**419**	**28**	**0**	**18**	**465**
Total comprehensive income on defined benefit obligations	**498**	**29**	**0**	**38**	**565**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2013
Current service cost	31	0	0	13	44
Past service cost	1	0	0	0	1
● plan amendments	1	0	0	0	1
Service cost	**32**	**0**	**0**	**13**	**45**
Interest cost	52	7	6	8	73
Interest income	(7)	(5)	(7)	(4)	(23)
Net interest on net defined benefit liability/ asset	**45**	**2**	**(1)**	**4**	**50**
Gains (-)/losses – changes in financial assumptions	1	(23)	8	(8)	(22)
Gains (-)/losses – changes in demographic assumptions	0	5	0	0	5
Gains (-)/losses – experience adjustments	1	0	0	5	6
Return on plan assets excluding interest income	(4)	(12)	3	(4)	(17)
Impact of asset ceiling	0	0	0	3	3
Remeasurements of net defined benefit liability/asset	**(2)**	**(30)**	**11**	**(4)**	**(25)**
Total comprehensive income on defined benefit obligations	**75**	**(28)**	**10**	**13**	**70**

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2014
Cost of sales	18	(1)	0	14	31
Research and development expenses	6	0	0	1	7
Selling expenses	3	0	0	2	5
Administrative expenses	5	0	0	1	6
Included in EBIT	**32**	**(1)**	**0**	**18**	**49**
Interest expense	54	8	7	8	77
Interest income on plan assets	(7)	(6)	(7)	(6)	(26)
Included in financial result	**47**	**2**	**0**	**2**	**51**
Total	**79**	**1**	**0**	**20**	**100**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2013
Cost of sales	17	0	0	7	24
Research and development expenses	5	0	0	1	6
Selling expenses	3	0	0	1	4
Administrative expenses	7	0	0	4	11
Included in EBIT	**32**	**0**	**0**	**13**	**45**
Interest expense	52	7	6	8	73
Interest income on plan assets	(7)	(5)	(7)	(4)	(23)
Included in financial result	**45**	**2**	**(1)**	**4**	**50**
Total	**77**	**2**	**(1)**	**17**	**95**

Duration

The weighted average duration of defined benefit obligations is 18.7 years (prior year: 16.4 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 19.2 years (prior year: 16.6 years), 13.1 years (prior year: 12.0 years), and 25.5 years (prior year: 24.6 years), respectively.

The increase in the duration compared to the prior year is mainly the result of the reduction in the discount rate used to determine duration.

Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

The weighted averages of the principal actuarial assumptions for the SVZ Group are as follows:

	Germany	U.S.A.	United Kingdom	Other countries	
					2014
Discount rate as at December 31	2.1%	3.9%	3.9%	2.6%	2.5%
Future salary increases	3.3%	n.a.[1)]	n.a.[1)]	3.1%	3.2%
Future pension increases	1.8%	2.5%	3.2%	1.1%	1.9%

	Germany	U.S.A.	United Kingdom	Other countries	
					2013
Discount rate as at December 31	3.5%	4.8%	4.5%	3.8%	3.7%
Future salary increases	3.3%	n.a.[1)]	n.a.[1)]	3.3%	3.3%
Future pension increases	1.8%	1.3%	3.2%	1.1%	1.9%

1) The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Mortality assumptions are based on published statistics and country-specific mortality tables. The "RICHTTAFELN 2005 G" mortality tables developed by Prof. Dr. Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which include appropriate assumptions to take into account future increases in life expectancy in particular.

Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions. The calculation does not take into account correlations between the various assumptions.

		Change in present value of defined benefit obligation				
						2014
in Mio. EUR		**Germany**	**U.S.A.**	**United Kingdom**	**Other countries**	**Total**
Discount rate	Plus 1.0%	(319)	(26)	(41)	(37)	**(423)**
	Minus 1.0%	436	32	57	46	**571**
Future salary increases	Plus 1.0%	44	n.a.[1)]	n.a.[0]	18	**62**
	Minus 1.0%	(38)	n.a.[1)]	n.a.[0]	(16)	**(54)**
Future pension increases	Plus 1.0%	222	0	24	16	**262**
	Minus 1.0%	(184)	0	(20)	(10)	**(214)**

						2013
in Mio. EUR		**Germany**	**U.S.A.**	**United Kingdom**	**Other countries**	**Total**
Discount rate	Plus 1.0%	(209)	(18)	(32)	(22)	**(281)**
	Minus 1.0%	270	22	44	36	**372**
Future salary increases	Plus 1.0%	25	n.a.[1)]	n.a.[1)]	16	**41**
	Minus 1.0%	(30)	n.a.[1)]	n.a.[1)]	(10)	**(40)**
Future pension increases	Plus 1.0%	147	0	19	12	**178**
	Minus 1.0%	(131)	0	(16)	(34)	**(181)**

1) The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Another key parameter in the measurement of the SVZ Group's pension obligations is life expectancy. An increase in life expectancy in the most significant countries by one year would lead to an increase in the present value of the corresponding obligation by EUR 95 m (prior year: EUR 67 m) in Germany, EUR 7 m (prior year: EUR 5 m) in the U.S., and EUR 7 m (prior year: EUR 5 m) in the United Kingdom.

Risk

The defined benefit plans expose the SVZ Group to actuarial risk such as longevity risk, currency risk, interest rate risk and investment risk.

Defined contribution pension plans

In 2014, SVZ incurred EUR 10 m (prior year: EUR 12 m) in expenses related to defined contribution plans. At EUR 6 m (prior year: EUR 8 m), the majority of this amount relates to plans in the U.S.

4.12 Provisions

in € millions	Employee benefits	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 01, 2013	**131**	**80**	**42**	**12**	**430**	**695**
Additions	34	27	6	2	79	148
Utilization	(42)	(39)	(10)	(5)	(390)	(486)
Reversals	(32)	(5)	0	(4)	(13)	(54)
Interest expense	5	0	0	0	1	6
Foreign currency translation	0	1	0	1	2	4
Balance as at December 31, 2014	**96**	**64**	**38**	**6**	**109**	**313**

Provisions consist of the following current and non-current portions:

	12/31/2014			12/31/2013		
in € millions	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Employee benefits	55	41	96	82	49	131
Warranties	0	64	64	0	80	80
Other taxes	0	38	38	0	42	42
Liability and litigation risks	0	6	6	0	12	12
Other	18	91	109	14	416	430
Total	**73**	**240**	**313**	**96**	**599**	**695**

Provisions for employee benefits consisted primarily of EUR 29 m (prior year: EUR 20 m) in provisions for long-time service awards and EUR 25 m (prior year: EUR 39 m) in provisions for personnel-related structural measures at the Schweinfurt and Wuppertal locations.

Provisions for other taxes comprised primarily land transfer tax related to internal reorganizations of the group structure.

The decrease in **other provisions** compared to the prior year resulted largely from the utilization of the provision for the EU antitrust proceedings in 2014, for which the company had recognized a provision of EUR 380 m in December 2013. In March 2014, the European Commission imposed a penalty of EUR 370.5 m on certain SVZ Group companies. The penalty was paid in June 2014. The reversal of the remaining provision of EUR 9.5 m was recognized as other income (see Note 3.2).

At December 31, 2014, other provisions included, among other things, provisions for the ongoing investigations of the Korean and Brazilian antitrust authorities. Provisions for environmental risks, document retention, and inventors' bonuses, among other things, were also included in this line item.

4.13 Other financial liabilities and other liabilities

	12/31/2014			12/31/2013		
in € millions	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Other financial liabilities						
Amounts payable to staff	0	241	241	0	189	189
Derivative financial liabilities	10	77	87	152	15	167
Miscellaneous financial liabilities	12	246	258	10	215	225
Total	**22**	**564**	**586**	**162**	**419**	**581**

Amounts payable to staff consist primarily of profit sharing accruals. The increase from the prior year can largely be attributed to the positive development in the SVZ Group's business in 2014 and targeted staff increases.

Derivative financial liabilities included forward exchange contracts and cross-currency swaps used to hedge the SVZ Group's currency risk. The decrease was primarily caused by the increase in the fair value of cross-currency swaps which was partially offset by adverse changes in the fair value of forward exchange contracts.

Miscellaneous financial liabilities mainly included accrued selling costs (customer bonuses, rebates, early-payment discounts) and accrued bond interest.

The SVZ Group's exposure to currency and liquidity risk related to other financial liabilities is disclosed in Note 4.14.

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	12/31/2014			12/31/2013		
in € millions	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Other liabilities						
Social security contributions payable	3	40	43	3	38	41
Advance payments received	0	31	31	0	31	31
Other tax payables	0	84	84	0	81	81
Miscellaneous liabilities	5	160	165	2	136	138
Total	**8**	**315**	**323**	**5**	**286**	**291**

Social security contributions payable consist mainly of unpaid contributions to social security schemes.

Miscellaneous liabilities primarily contained accrued vacation and overtime accounts.

4.14 Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position 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 € millions	Category per IFRS 7.8	12/31/2014 Carrying amount	12/31/2014 Fair value	12/31/2013 Carrying amount	12/31/2013 Fair value
Financial assets, by class					
Trade receivables	LaR	1,900	1,900	1,676	1,676
Other investments[1]	AfS	14	–	14	–
Other financial assets					
• Marketable securities	AfS	12	12	9	9
• Derivatives designated as hedging instruments	n.a.	24	24	42	42
• Derivatives not designated as hedging instruments	HfT	245	245	207	207
• Miscellaneous financial assets	LaR	689	693	68	68
Cash and cash equivalents	LaR	711	711	300	300
Financial liabilities, by class					
Financial debt	FLAC	6,414	6,846	6,190	6,761
Trade payables	FLAC	1,251	1,251	1,014	1,014
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	64	64	104	104
• Derivatives not designated as hedging instruments	HfT	23	23	63	63
• Miscellaneous financial liabilities	FLAC	499	499	414	414
Summary by category					
Available-for-sale financial assets (AfS)		26	–	23	–
Financial assets held for trading (HfT)		245	–	207	–
Loans and receivables (LaR)		3,300	–	2,044	–
Financial liabilities at amortized cost (FLAC)		8,164	–	7,618	–
Financial liabilities held for trading (HfT)		23	–	63	–

1) Investments accounted for at cost.

The carrying amounts of trade receivables, miscellaneous financial assets, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. The loan receivable of EUR 629 m included in other financial assets represent an exception to this approach, as they have a maturity of ten (see Note 4.7, Note 4.9 and Note 5.5).

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 2014, 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 risk in cash flow hedges. The SVZ Group uses cross-currency swaps and forward exchange contracts as hedging instruments here.

The carrying amounts of trade payables and miscellaneous financial liabilities are assumed to represent their fair value.

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 SVZ Group have been pledged on the basis of the Facilities Agreement and the bond agreements (see Note 4.10). Collateral has generally been provided for the term of the loan and bond agreements and may be enforced if the creditors are entitled to call the debt, for instance if financial covenants are not met.

Financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements have been classified using a fair value hierarchy that reflects the significance of the inputs used in arriving at the measurements (Level 1 to Level 3). 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 marketable securities, whose fair value is determined using 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 cross-currency swaps and forward exchange contracts, this level also includes the company's long-term loans receivable, financial debt, and 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. 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.
- Level 3: Determined using a valuation method for which significant inputs are not based on observable market data. The SVZ Group does not have any financial instruments in this level.

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

in € millions	Level 1	Level 2	Total
December 31, 2014			
Marketable securities	12		12
Derivatives designated as hedging instruments		24	24
Derivatives not designated as hedging instruments		245	245
Other financial assets		634	634
Total financial assets	**12**	**903**	**915**
Financial debt		6,846	6,846
Derivatives designated as hedging instruments		64	64
Derivatives not designated as hedging instruments		23	23
Total financial liabilities	**0**	**6,933**	**6,933**
December 31, 2013			
Marketable securities	9		9
Derivatives designated as hedging instruments		42	42
Derivatives not designated as hedging instruments		207	207
Total financial assets	**9**	**249**	**258**
Financial debt		6,761	6,761
Derivatives designated as hedging instruments		104	104
Derivatives not designated as hedging instruments		63	63
Total financial liabilities	**0**	**6,928**	**6,928**

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

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	Foreign currency translation	2014	2013
Available-for-sale financial assets		1			1	1
Financial assets and liabilities held for trading	(2)	174			172	91
Loans and receivables	18		(1)	26	43	(6)
Financial liabilities at amortized cost	(529)			(260)	(789)	(363)
Total	**(513)**	**175**	**(1)**	**(234)**	**(573)**	**(277)**

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 172 m (prior year: EUR 91 m) relates entirely to derivatives. EUR 190 m (prior year: EUR 38 m) of this net gain is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 55 m (prior year: gains of EUR 114 m).

The impairment loss on financial assets classified as loans and receivables consisted of an impairment reversal of EUR 5 m (prior year: EUR 3 m) and an impairment loss of EUR 6 m (prior year: EUR 6 m) and related entirely to the trade receivables class in 2014.

Financial risk management

Its financial instruments expose the SVZ Group to various risks.

The management of the SVZ Group 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 regularly reports to the management of the SVZ Group.

Group-wide risk management policies are in place to identify and analyze the SVZ Group'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 the SVZ Group's activities.

The SVZ Group has guidelines for the use of hedging instruments, and compliance with these guidelines is reviewed on a regular basis. Internal execution risk is minimized by strict segregation of duties.

Please refer to the "Report on opportunities and risks" in the combined management report for further details on the group's financial risk management.

The SVZ Group distinguishes between liquidity risk, counterparty risk, and market risk (interest rate, currency, and other price risk).

Liquidity risk

The risk that the SVZ Group will not be able to meet its payment obligations as they come due is referred to as liquidity risk. The SVZ Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they come due without incurring unacceptable losses or risking damage to SVZ Group's reputation.

Liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period ranging from four weeks through 13 weeks to twelve and 18 months. Both liquidity status and liquidity forecast are reported regularly to the Executive Management Board.

The SVZ Group ensures it can 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. SVZ Group has access to a line of credit of EUR 1,000 m which bears interest at Euribor plus 287.5 basis points.

The SVZ Group's contractual payments of interest and principal on financial liabilities and derivative 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, 2014					
Non-derivative financial liabilities	**8,164**	**9,699**	**2,062**	**3,879**	**3,758**
• Financial debt	6,414	7,949	320	3,871	3,758
• Trade payables	1,251	1,251	1,251	0	0
• Other financial liabilities	499	499	491	8	0
Derivative financial liabilities	**87**	**17**	**74**	**(11)**	**(46)**
Total	**8,251**	**9,716**	**2,136**	**3,868**	**3,712**
December 31, 2013					
Non-derivative financial liabilities	**7,618**	**9,291**	**1,941**	**5,528**	**1,822**
• Financial debt	6,190	7,863	521	5,520	1,822
• Trade payables	1,014	1,014	1,014		
• Other liabilities	414	414	406	8	0
Derivative financial liabilities	**167**	**149**	**25**	**95**	**29**
Total	**7,785**	**9,440**	**1,966**	**5,623**	**1,851**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans. Contractual cash flows for derivative financial liabilities consist of the undiscounted expected cash flows translated at closing rates.

Counterparty risk

The risk that the SVZ 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 miscellaneous financial assets.

Counterparty risk arising on trade receivables is managed by constant monitoring of customers' financial status, creditworthiness and payment history. Additional measures to manage counterparty risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a SVZ Group guideline.

Counterparty risk inherent in derivative financial instruments is the risk that counterparties will not meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The counterparty risk inherent in the company's long-term loan receivable from a related company of EUR 629 m is limited as Schaeffler Beteiligungsholding GmbH & Co. KG has pledged shares in Continental AG with a market value (reference XETRA, December 12, 2014) equal to twice the loan principal as collateral.

The maximum counterparty risk at the reporting date, excluding collateral, is represented by the carrying amount of the corresponding financial asset.

The management of the SVZ Group 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. Except for amounts recognized in impairment provisions, there are no indications that the counterparties to other financial assets, i.e. marketable securities, derivative financial assets, and miscellaneous financial assets will be unable to meet their future contractual obligation.

Trade receivables in the Automotive division are subject to a concentration of risk with respect to several OEMs (see Note 5.4).

Interest rate risk

Variable interest features give rise to the risk of rising interest rates on financial liabilities and falling interest rates on financial assets. This risk is measured, assessed and, where necessary, hedged using derivative interest rate hedging instruments. The hedged item is the SVZ Group's interest-bearing net financial debt.

SVZ Group's financial debt can be summarized by type of interest as follows:

	Carrying amount	
in € millions	12/31/2014	12/31/2013
Variable interest instruments	**1,775**	**2,212**
• Financial debt	1,775	2,212
Fixed interest instruments	**4,639**	**3,978**
• Financial debt	4,639	3,978

IFRS 7 requires the disclosure of the impact of financial instruments on net income and shareholders' equity as a result of changes in interest rates; this disclosure is required to be made using sensitivity analyses.

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that contractual arrangements prevent interest rates from falling below 0%. With regard to variable interest instruments, a shift in the yield curve of 100 basis points (Bp) as at December 31, 2014 would affect (increase/decrease) net income and shareholder's equity as follows:

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2014				
Variable interest instruments	(7)	0	0	0
Interest rate derivatives not designated as hedging instruments	(4)	3	0	0
Total	**(11)**	**3**	**0**	**0**
As at December 31, 2013				
Variable interest instruments	(8)	1	0	0
Interest rate derivatives not designated as hedging instruments	(30)	55	0	0
Total	**(38)**	**56**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. In the prior year, the impact of interest rate derivatives not designated as hedging instruments on net income would have been EUR -30 m and EUR 55 m, respectively, including the impact of embedded derivatives of EUR -31 m and EUR 55 m, respectively, as well as the impact of interest rate derivatives of EUR 1 m and EUR 0 m, respectively.

Currency risk

The SVZ 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 SVZ Group entity.

Currency risk from operations

The international nature of the SVZ Group's operations gives rise to flows of goods and cash in a wide range of currencies. This represents a currency risk, as the value of assets denominated in a currency with a falling exchange rate declines while the value of liabilities denominated in a currency whose exchange rate is rising will increase.

The SVZ Group's significant currency risk exposures from operations by currency based on face values as of the end of each reporting period are as follows:

in € millions	USD	CNY	HUF	RON
December 31, 2014				
Estimated currency risk from operations	1,197	181	(114)	(194)
Forward exchange contracts	(476)	0	68	76
Remaining currency risk from operations	**721**	**181**	**(46)**	**(118)**
December 31, 2013				
Estimated currency risk from operations	1,026	0	(115)	(167)
Forward exchange contracts	(608)	0	86	177
Remaining currency risk from operations	**418**	**0**	**(29)**	**10**

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 SVZ Group entities not subject to local restrictions on foreign exchange transactions with SVZ Group'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 4.8) is monitored by SVZ Group's finance organization. The most significant currency risk exposure in these countries arises on the U.S. Dollar and amounts to an estimated EUR -321 m (prior year: EUR -225 m).

At any point in time the SVZ Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using forward exchange contracts.

IFRS 7 requires entities to disclose the impact of hypothetical changes in exchange rates on net income and shareholders' equity using sensitivity analyses. Exchange rate changes are applied to all of the SVZ Group's financial instruments as at the end of the reporting date. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk.

The sensitivity analysis for currency risk from operations is based on a hypothetical 10% weakening of the Euro against each of the significant foreign currencies as of December 31, 2014, assuming 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:

	12/31/2014		12/31/2013	
in € millions	**Net income (loss)**	**Shareholders' equity**	**Net income (loss)**	**Shareholders' equity**
USD	15	(45)	14	(61)
CNY	10	0	0	0
HUF	1	5	0	8
RON	(2)	9	0	18

Conversely, a 10% rise in the Euro against the significant foreign currencies as at December 31, 2014 would have had the same but opposite effect, again holding all other variables constant.

Currency risk from financing

Loans between SVZ Group companies 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.

Currency risk arising from intra-group foreign currency loans is fully hedged economically and does not result in any significant additional currency risk exposure.

A portion of the company's external financial debt denominated in a currency other than the functional currency is hedged using cross-currency swaps with notional amounts totaling USD 2,510 m (prior year: USD 2,650 m). Changes in the fair value of these cross-currency swaps, which are not subject to hedge accounting, (notional amount of USD 1,510 m; prior year: USD 1,250 m) were recognized directly in profit or loss in 2014. The SVZ Group also uses forward exchange contracts in these hedging activities.

The sensitivity analysis for currency risk from financing activities is based on a hypothetical 10% weakening of the Euro against the U.S. Dollar as at December 31, 2014. 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.

	12/31/2014		12/31/2013	
in € millions	**Net income (loss)**	**Shareholders' equity**	**Net income (loss)**	**Shareholders' equity**
Foreign exchange gains and losses on financial debt . . .	(207)	(77)	(192)	(72)
Foreign exchange gains and losses on derivatives	211	14	192	21
Total	**4**	**(63)**	**0**	**(51)**

Other price risk: Other price risk 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 SVZ Group. Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the SVZ Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the risk management system. Nominal values and fair values of derivative financial instruments as at the reporting date were as follows:

	12/31/2014		12/31/2013	
in € millions	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Financial assets				
Currency hedging				
Forward exchange contracts	975	27	1,353	60
thereof: hedge accounting	566	9	787	42
Cross currency swaps	1,376	79	0	0
thereof: hedge accounting	305	15	0	0
Interest rate hedging				
Interest rate cap	0	0	400	0
thereof: hedge accounting	0	0	0	0
Financial liabilities				
Currency hedging				
Forward exchange contracts	1,238	77	712	15
thereof: hedge accounting	159	55	310	4
Cross currency swaps	537	10	2,020	152
thereof: hedge accounting	461	10	1,070	100

The SVZ Group applies hedge accounting to certain hedging relationships using the cash flow and net investment hedge accounting models. The Group does not use fair value hedge accounting.

Cash Flow hedges

A portion of SVZ Group's 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 forecasted 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 from operations changed as follows:

in € millions	2014	2013
Balance as at January 1	**37**	**23**
Additions	(45)	37
Reclassified to income statement		
• to other income	(37)	(23)
• to other expense	0	0
Balance as at December 31	**(45)**	**37**

The SVZ Group also applies cash flow hedge accounting to the foreign currency hedge of its bonds issued in U.S. Dollar using cross-currency swaps with a nominal value of USD 1,000 m (prior year: USD 1,400 m). As a result, accumulated losses of EUR 9 m (prior year: EUR 23 m) representing the effective portion of fair value changes on designated financial instruments were recognized in other comprehensive income and reported in accumulated other comprehensive income as at December 31, 2014. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2015 to 2021.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from financing activities changed as follows:

in € millions	2014	2013
Balance as at January 1	**(47)**	**(24)**
Additions	81	(74)
Reclassified to income statement		
• to financial income	(90)	0
• to financial expense	0	51
Balance as at December 31	**(56)**	**(47)**

The changes in fair value recognized in other comprehensive income without affecting net income up to November 21, 2013 under a cash flow hedge that has since been terminated were amortized to net income on a straight-line basis over the remaining term of the hedged item, which ended June 30, 2014.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of interest rate risk changed as follows:

in € millions	2014	2013
Balance as at January 1	**5**	**2**
Additions	0	(33)
Reclassified to income statement		
• to financial income	(5)	0
• to financial expense	0	36
Balance as at December 31	**0**	**5**

Net investment hedge

The SVZ Group hedges the currency risk of part of its investment in its U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollars (principal of USD 940 m; prior year: USD 999 m) under a net investment hedge. This mitigates the group's translation risk on the U.S. subsidiaries. As a result, foreign exchange losses of EUR 105 m (prior year: gains of EUR 42 m) on designated financial debt were recognized in other comprehensive income and reported in accumulated other comprehensive income in 2014. 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.

Offsetting financial assets and financial liabilities

Certain SVZ Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag für Finanztermingeschäfte" – DRV) or on the master agreement of the International Swaps and Derivatives Associations (ISDA). These agreements permit each counterparty to combine all amounts relating to outstanding transactions due on the same date and in the same currency, arriving at one net amount to be paid by one of the parties to the other. In certain cases, for instance when a credit event such as default occurs, all transactions outstanding under this agreement are terminated, their fair value upon termination is determined, and only a single net amount is payable in settlement of all of these transactions.

The German Master Agreements and ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position, as the SVZ Group does not currently have a legal right to settle the recognized amounts on a net basis. The right to settle net is only legally enforceable upon the occurrence of future events such as the insolvency of one of the parties to the contract. Hedging transactions entered into directly by SVZ Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements are as follows:

in € millions	12/31/2014	12/31/2013
Financial assets		
Gross amount of financial assets	269	249
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	269	249
Amounts subject to master netting arrangements		
Derivatives	(59)	(56)
Net amount of financial assets	210	193
Financial liabilities		
Gross amount of financial liabilities	87	167
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	87	167
Amounts subject to master netting arrangements		
Derivatives	(59)	(56)
Net amount of financial liabilities	28	111

4.15 Capital management

The SVZ Group has a long-term strategy of pursuing profitable growth. Actively managing its capital provides the financial resources that strategy requires, ensures the SVZ Group's liquidity, and secures its credit standing. Capital management also serves to administer and continually improve the company's existing financial debt. To this end, the SVZ Group has made preparations to obtain external financing via the capital markets. The SVZ Group's management will continue to focus on the group's ability to place financial instruments with a broad range of investors and to further improve the terms of its existing loans and bonds.

Under these existing financing agreements, the SVZ 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 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.

As in the prior year, the company has complied with the financial covenants in 2014 as stipulated in the debt agreements. Based on its forecast, the SVZ Group also expects to comply with these covenants in subsequent years.

In addition to the financial covenants contained in the financing agreements, the SVZ Group regularly determines further financial indicators. One such further indicator is the ratio of net debt to EBITDA (earnings before financial result, income from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses), which is calculated as follows:

in € millions	12/31/2014	12/31/2013
Current financial debt	1	225
Non-current financial debt	6,413	5,965
Total financial debt	**6,414**	**6,190**
Cash and cash equivalents	711	300
Total net financial debt	**5,703**	**5,890**
Shareholder loans	0	443
Net financial debt excluding shareholder loans	**5,703**	**5,447**
Earnings before financial result, income from equity-accounted investees, income taxes, depreciation and amortization (EBITDA)	**2,164**	**1,634**
Net financial debt excluding shareholder loans to EBITDA ratio	**2.6**	**3.3**

5. Other disclosures

5.1 Leases

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

in € millions	12/31/2014	12/31/2013
Less than one year	54	48
Between one and five years	59	53
More than five years	7	5
Total	**120**	**106**

The obligations consisted primarily of rental agreements for real estate, leases of company vehicles, and contracts for IT and logistics services.

In 2014, expenses of EUR 76 m related to operating rental and lease agreements were recognized in profit or loss (prior year: EUR 71 m).

5.2 Contingent liabilities

At December 31, 2014, the SVZ Group had contingent liabilities of EUR 19 m (prior year: EUR 19 m) consisting 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.

In addition, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts, particularly for the automotive and other industrial sectors, since 2011. The authorities are investigating possible agreements violating antitrust laws. Certain SVZ Group companies are among the entities subject to these investigations. During the year, the investigations of the Korean antitrust authorities have become sufficiently concrete for the SVZ Group to recognize a provision as at December 31, 2014. The investigations of the Brazilian antitrust authorities relate to various SVZ Group products. As at the end of the reporting period, the SVZ Group has recognized provisions for a portion of these investigations; other parts of the investigations have not yet become sufficiently concrete. In addition, there is a risk that third parties may claim damages resulting from antitrust proceedings that are either ongoing or have been finalized. Various plaintiffs in the U.S. and in Canada have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain and can currently not be estimated.

5.3 Additional disclosures on the consolidated statement of cash flows

Changes in balance sheet items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position as they have been adjusted for the impact of foreign currency translation.

EUR 731 m in receipts from loans and EUR 236 m in repayments of loans were related to the refinancing arrangements completed in May and October 2014. The prepayment penalty and transaction costs paid for the refinancing arrangement are included in cash flows from operating activities. All other transactions under these two refinancing arrangements were non-cash in nature (see Note 4.10 for further detail).

Decreases in current financial debt have reduced the amount of receipts from loans reported in the consolidated statement of cash flows to EUR 727 m. Additional funds of EUR 171 m were used to partially prepay debt, financed largely by the dividend from Continental AG, which was passed on to the company (see Note 5.5).

The dividend of EUR 250 m in respect of 2013 and the dividend of EUR 610 m to be charged against revenue reserves declared in March 2014 and December 2014, respectively, and payable to the company's shareholder, Schaeffler Verwaltungs GmbH, were non-cash in nature, as they were added directly to the shareholder loan (see Note 5.5 for further detail).

The increase in the capital of Schaeffler AG, a subsidiary of the SVZ Group, by EUR 1,700 m completed in December 2014 by way of a contribution in kind was also a non-cash transaction (see Note 4.9).

5.4 Segment Reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and leadership structure including the internal reporting system to the SVZ Group Management. SVZ engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the SVZ Group's 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.

SVZ Group's operating segments are reported in a manner consistent with the internal reports. The SVZ Group is divided into the two segments Automotive division and Industrial division as described below, each focusing on a specific worldwide group of customers. 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 SVZ Group's two reportable segments:

Automotive: Product and service business with customers in the automotive sector. These include primarily manufacturers of passenger cars and commercial vehicles (OEM), automotive suppliers (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, drive technology, wind power, construction machinery/tractors, consumer goods, heavy industries, rail traffic, and power transmission sectors as well as in the industrial aftermarket. The business with customers in the aerospace industry is also included in this segment. This segment's key products are rolling and plain bearings, linear guidance systems, and direct drives.

Information on the operating activities of the two reportable segments 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.

The amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairments are reported based on the current allocation of customers to divisions. The allocation of customers to divisions 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. Gains on transactions between operating segments are not included.

Reconciliation to earnings before income taxes in € millions	**2014**	**2013**
EBIT Automotive[1]	1,230	665
EBIT Industrial[1]	286	317
EBIT	**1,516**	**982**
Financial result	(657)	(442)
Income from equity-accounted investees	**727**	**801**
Earnings before income taxes	**1,586**	**1,341**

1) Prior year information presented based on 2014 segment structure.

The reportable segments Automotive division and Industrial division are managed on a global basis and operate production and distribution facilities in the geographical areas Europe, Americas, Asia/Pacific, and Greater China.

In 2014, the SVZ Group generated revenue of EUR 1,573 m (prior year: EUR 1,396 m) from one key customer, representing approximately 13.0% (prior year: 12.5%) of total group revenue and approximately 17.5% (prior year: 17.1%) of Automotive segment revenue.

The SVZ Group's operations are geographically divided into the regions Europe, Americas, Greater China, and Asia/Pacific regions. Revenue and non-current assets of the four regions for 2014 were as follows:

Information about geographical areas

	Revenue[1]		**Non-current assets[2]**	
in € millions	**2014**	**2013**	**12/31/2014**	**12/31/2013**
Europe	6,905	6,526	2,688	2,614
Americas	2,473	2,359	613	505
Asia/Pacific	1,205	1,130	293	243
Greater China	1,540	1,190	709	545
Total	**12,123**	**11,205**	**4,303**	**3,907**

1) Revenue by customer location. Prior year information presented based on 2014 segment structure.

2) Non-current assets by production location. Non-current assets consist of property, plant and equipment and intangible assets.

EUR 2,904 m (prior year: EUR 2,796 m) of revenue and EUR 1,573 m (prior year: EUR 1,541 m) of non-current assets included in the Europe region relate to Germany.

5.5 Related parties

Related persons

Under the definitions of IAS 24, Maria-Elisabeth Schaeffler-Thumann and Georg F.W. Schaeffler as shareholders of Schaeffler Verwaltung Zwei GmbH, and the close members of their family are related parties of the SVZ Group.

The SVZ Group does not have any significant direct business relations with Maria-Elisabeth Schaeffler-Thumann and Georg F.W. Schaeffler.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the SVZ Group, directly or indirectly. Persons related to the SVZ Group also include the members of the Executive Management Board of Schaeffler Verwaltung Zwei GmbH and the close members of their family. In addition, the members of the Board of Managing Directors and the Supervisory Board of the legal predecessor of Schaeffler Verwaltung Zwei GmbH, the managing directors of INA Beteiligungsgesellschaft mit beschränkter Haftung (IBH), and the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG (formerly IBH) also represent key management personnel, making them and the close members of their family related parties of the SVZ Group.

Total remuneration of the Board of Managing Directors of the legal predecessor of Schaeffler Verwaltung Zwei GmbH in place until October 23, 2014, of the Executive Management Board of Schaeffler Verwaltung Zwei GmbH in place since October 24, 2014, of the managing directors and the Board of Managing Directors of Schaeffler AG (formerly IBH) for the year 2014 amounted to EUR 15 m (prior year: EUR 26 m). Total remuneration included EUR 12 m (prior year: EUR 18 m) in short-term benefits, EUR 3 m (prior year: EUR 3 m) in post-employment benefits, and EUR 0 m (prior year: EUR 5 m) in termination benefits.

Short-term benefits paid to members of the Supervisory Board of the legal predecessor of Schaeffler Verwaltung Zwei GmbH, which was in place until early December 2014, and of the Supervisory Board of Schaeffler AG (formerly IBH), which was appointed in early December 2014, amounted to EUR 2 m (prior year: EUR 1 m).

The company did not pay any other benefits to its key management personnel.

Total remuneration paid to the Executive Management Board of Schaeffler Verwaltung Zwei GmbH and the members of the Board of Managing Directors of its legal predecessor for the performance of their duties in accordance with section 314 (1) (6a) (1) HGB was EUR 11 m in 2014 (prior year: EUR 13 m).

Total remuneration paid to the members of the Supervisory Board of the legal predecessor of Schaeffler Verwaltung Zwei GmbH for the performance of their duties in accordance with section 314 (1) (6a) (1) HGB was EUR 2 m in 2014 (prior year: EUR 1 m).

Former members of the Board of Managing Directors (and their surviving dependants) of the legal predecessor of Schaeffler Verwaltung Zwei GmbH received remuneration of EUR 2 m in 2014 (prior year: EUR 5 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of the legal predecessor of Schaeffler Verwaltung Zwei GmbH, before netting of related plan assets, amounted to EUR 3 m at December 31, 2014 (prior year: EUR 6 m).

Key management personnel of Schaeffler Verwaltung Zwei GmbH and close members of their family have acquired bonds issued in 2014 by Schaeffler Finance B.V. totaling EUR 2 m (prior year: EUR 3 m). Additionally, bonds issued in 2012 and 2013 with a value of EUR 1 m were repurchased from key management personnel and close members of their family. At December 31, 2014, key management personnel and close members of their family held bonds issued by Schaeffler Finance B.V. with a principal totaling EUR 6 m (prior year: EUR 6 m). Key management personnel and close members of their family received interest of EUR 0.3 m (prior year: EUR 0.3 m) on these bonds.

No advances or loans were granted to persons related to Schaeffler Verwaltung Zwei GmbH.

Related entities

The SVZ Group's related companies include the immediate and ultimate parent companies of Schaeffler Verwaltung Zwei GmbH. Schaeffler Verwaltung Zwei GmbH's immediate parent company is Schaeffler Verwaltungs GmbH. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG. These related companies are referred to as "parent IHO companies" below.

Related companies also include companies that are controlled by INA-Holding Schaeffler GmbH & Co. KG as well as associates and joint ventures of Schaeffler Verwaltung Zwei GmbH.

As transactions with subsidiaries have been eliminated upon consolidation, they need not be discussed any further. Transactions with associated companies and joint ventures are discussed to the extent they are significant.

In 2014 and 2013, SVZ Group companies had various business relationships with its related entities.

The following table summarizes income and expenses from transactions with parent IHO companies recognized in the SVZ Group's 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	
in € millions	**12/31/2014**	**12/31/2013**	**12/31/2014**	**12/31/2013**
Parent IHO companies	1	1	0	445
Joint ventures	632	2	0	0
Total	**633**	**3**	**0**	**445**

	Expenses		Income	
in € millions	**2014**	**2013**	**2014**	**2013**
Parent IHO companies	43	23	13	3
Joint ventures	0	0	2	0
Total	**43**	**23**	**15**	**3**

Continental AG paid a dividend of EUR 171 m to Schaeffler Beteiligungsholding GmbH & Co. KG in Mai 2014. As a result, Schaeffler Beteiligungsholding GmbH & Co. KG paid a dividend of EUR 168 m to Schaeffler Verwaltung Zwei GmbH.

The financial debt of EUR 6 m payable to Schaeffler Holding GmbH & Co. KG in the prior year was repaid in 2014. On December 31, 2013, Schaeffler Verwaltung Zwei GmbH had a shareholder loan with a carrying amount of EUR 437 m payable to Schaeffler Verwaltungs GmbH. The company declared dividends of EUR 250 m in respect of 2013 and EUR 610 m to be charged against reserves in March 2014 and December 2014, respectively, payable to its shareholder, Schaeffler Verwaltungs GmbH. Both dividends were not paid in cash; instead, they were added to the existing shareholder loan. In October 2014, the company's shareholder, Schaeffler Verwaltungs GmbH, waived EUR 101 m of this shareholder loan. The company's shareholder, Schaeffler Verwaltungs GmbH, contributed this shareholder loan, which amounted to EUR 1,071 m following repayments made during the year, to a subsidiary of the SVZ Group, Schaeffler AG, as part of a capital increase by way of a contribution in kind. This loan from Schaeffler Verwaltung Zwei GmbH to Schaeffler AG was eliminated upon consolidation.

Schaeffler Verwaltungs GmbH contributed another loan receivable of EUR 629 m, also as part of the increase of Schaeffler AG's capital by way of a contribution in kind. As a result, the SVZ Group has a loan receivable from the joint venture Schaeffler Beteiligungsholding GmbH & Co. KG, which is accounted for at equity in the consolidated financial statements. The loan is reported within other financial assets (see Note 4.7). The loan matures in December 2024 and bore interest at 4.0% p.a. in 2014.

The terms of this loan relating to the payment of interest stipulate that Schaeffler Beteiligungsholding GmbH & Co. KG has the option of capitalizing the interest accrued during any one interest period rather than paying such interest immediately. Interest on the entire loan balance, including the interest capitalized, is then calculated at the rate applicable to the original loan plus an interest premium, for a total rate of between 4.75% and 6.0%. Interest income earned on this loan amounted to EUR 1 m in 2014.

It was agreed that shares in Continental AG with a market value (reference XETRA, December 12, 2014) equal to twice the loan principal would be pledged as collateral for the loan within 30 working days after closing of the loan agreement. The Continental AG shares serving as collateral are held by Schaeffler Beteiligungsholding GmbH & Co. KG.

Business relationships with Continental Group companies exist in the form of the supply of vehicle components and tools, the rendering of development and other services, and leases of commercial real estate. The transactions with the Continental Group were entered into at arm's length conditions.

The following table summarizes all income and expenses from transactions with Continental Group companies recognized in the SVZ Group's 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	
in € millions	**12/31/2014**	**12/31/2013**	**12/31/2014**	**12/31/2013**
Continental Group companies	13	12	9	12

	Expenses		Income	
in € millions	**2014**	**2013**	**2014**	**2013**
Continental Group companies	60	49	98	97

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2014 and required to be disclosed by section 314 (1)(9) HGB total EUR 6.3 m (prior year: EUR 4.1 m) and consist of EUR 2.4 m (prior year: EUR 2.2 m) for financial statement audit services, EUR 1.4 m (prior year: EUR 1.0 m) for other attestation services, EUR 0.8 m (prior year: EUR 0.7 m) for tax advisory services, and EUR 1.7 m (prior year: EUR 0.2 m) for other services.

These fees were paid for services rendered to Schaeffler Verwaltung Zwei GmbH and its German subsidiaries. KPMG AG Wirtschaftspruefungsgesellschaft is considered the auditor.

5.7 Events after the reporting period

No material events expected to have a significant impact on the results of operations, financial position, or net assets of the SVZ Group occurred after December 31, 2014.

5.8 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler Verwaltung Zwei GmbH, which is based in Herzogenaurach.

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (54)			
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
IFT Ingenieurgesellschaft fuer Triebwerks-Technik mbH	Clausthal-Zellerfeld	DE	100.00
INA – Drives & Mechatronics GmbH & Co. KG (since January 01, 2015: INA – Drives & Mechatronics AG & Co. KG)	Suhl	DE	100.00
INA Automotive GmbH	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
Schaeffler AG	Herzogenaurach	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen GmbH & Co. KG (since March 01, 2014: Schaeffler Elfershausen AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Engineering GmbH	Werdohl	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 January 01, 2015: Schaeffler Immobilien AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente GmbH & Co. KG (since March 01, 2014: Schaeffler Motorenelemente AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Technologies GmbH & Co. KG (since January 01, 2015: 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 (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
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

Entity	Location	Country code	Group ownership interest in %
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Sheffield	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Sheffield	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.	Mumbai	IN	51.33
FAG Roller Bearings Private Ltd.	Mumbai	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	Changwon-si	KR	100.00
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Irapuato	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 Peru S.A.C.	Lima	PE	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

Entity	Location	Country code	Group ownership interest in %
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Manufacturing Rus OOO	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, spol. s.r.o.	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
Roland Corporate Housing LLC[1]	Cheraw	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.	Bien Hoa City	VN	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 (4)			
Contitech-INA Beteiligungsgesellschaft mbH[2]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG[2]	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG[2][3]	Herzogenaurach	DE	100.00
II. Foreign (2)			
Colinx, LLC	Greenville	US	20.00
Eurings Zrt.	Debrecen	HU	37.00

1) Accounted for under the equity method. Company is insignificant to the earnings, financial position, and net assets of the SVZ Group at the reporting date.

2) Jointly controlled entities accounted for under the equity method.

3) Schaeffler Beteiligungsholding GmbH & Co. KG holds 36,0% (prior year: 34,2%) of the shares of Continental AG, Hanover.

5.9 Preparation of consolidated financial statements

These consolidated financial statements were prepared by the Executive Management Board of Schaeffler Verwaltung Zwei GmbH on March 20, 2015.

Herzogenaurach, March 20, 2015

The Executive Management Board

Independent Auditors' Report*

To Schaeffler Verwaltung Zwei GmbH, Herzogenaurach:

We have audited the consolidated financial statements prepared by the Schaeffler Verwaltung Zwei GmbH (until October 22, 2014: Schaeffler AG), Herzogenaurach, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in shareholders' equity and the notes to the consolidated financial statements, and its report on the position of the Company and the Group for the business year from January 1, 2014 to December 31, 2014. 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 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 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 24, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Sailer
Wirtschaftsprüfer

Pritzer
Wirtschaftsprüfer

* This auditors' report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete consolidated financial statements, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in shareholders' equity and the notes to the consolidated financial statements, together with the combined management report of Schaeffler Verwaltung Zwei GmbH for the financial year from January 1, 2014 to December 31, 2014. The combined management report is not included in this Offering Memorandum. The above-mentioned auditors' report and consolidated financial statements are both translations of the respective German-language documents.

Audited consolidated financial statements of the Company as of and for the year ended December 31, 2013

1. Consolidated income statement

in € millions	Note	2013	2012	Change in %
Revenue	3.1	11,205	11,125	0.7
Cost of sales		(8,029)	(7,836)	2.5
Gross profit		**3,176**	**3,289**	**(3.4)**
Research and development expenses		(611)	(593)	3.0
Selling expenses		(761)	(759)	0.3
Administrative expenses		(476)	(465)	2.4
Other income	3.2	70	35	100
Other expenses	3.3	(416)	(94)	> 100
Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)		**982**	**1,413**	**(30.5)**
Financial income[1)]	3.5	217	23	> 100
Financial expenses[1)]	3.5	(659)	(703)	(6.3)
Financial result[1)]	**3.5**	**(442)**	**(680)**	**(35.0)**
Income from at equity-accounted investees	**2.3, 3.6**	**801**	**554**	**44.6**
Earnings before income taxes[1)]		**1,341**	**1,287**	**4.2**
Income taxes[1)]	3.7	(469)	(405)	15.8
Net income[1)]		**872**	**882**	**(1.1)**
Attributable to shareholders of the parent company[1)]		865	870	(0.6)
Attributable to non-controlling interests		7	12	(41.7)

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

2. Consolidated statement of comprehensive income

in € millions	2013 before taxes	2013 taxes	2013 after taxes	2012 before taxes	2012 taxes	2012 after taxes
Net income[1)]	**1,341**	**(469)**	**872**	**1,287**	**(405)**	**882**
Foreign currency translation differences for foreign operations	(183)	0	(183)	(39)	0	(39)
Net gain (loss) on hedge of net investment in foreign operations	35	0	35	2	0	2
Effective portion of changes in fair value of cash flow hedges	(5)	1	(4)	180	(51)	129
Net change in fair value of available-for-sale financial assets	(1)	0	(1)	1	0	1
Share of other comprehensive income (loss) of equity-accounted investees	(185)	0	(185)	(10)	1	(9)
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**(339)**	**1**	**(338)**	**134**	**(50)**	**84**
Defined benefit plan actuarial gains (losses)[1)]	25	(10)	15	(325)	92	(233)
Income (loss) of equity-accounted investees	96	(26)	70	(256)	72	(184)
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**121**	**(36)**	**85**	**(581)**	**164**	**(417)**
Total other comprehensive income (loss)	**(218)**	**(35)**	**(253)**	**(447)**	**114**	**(333)**
Total comprehensive income (loss) for the period	**1,123**	**(504)**	**619**	**840**	**(291)**	**549**
Total comprehensive income (loss) attributable to shareholders of the parent company	1,125	(504)	621	832	(291)	541
Total comprehensive income (loss) attributable to non-controlling interests	(2)	0	(2)	8	0	8
Total comprehensive income (loss) for the period	**1,123**	**(504)**	**619**	**840**	**(291)**	**549**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

See Notes 2.2, 4.11, and 4.15 to the consolidated financial statements for further detail.

3. Consolidated statement of financial position

in € millions	Note	December 31, 2013	2012	Change in %
ASSETS				
Intangible assets	4.1	538	554	(2.9)
Property, plant and equipment	4.2	3,369	3,515	(4.2)
Investments in equity-accounted investees	4.3	5,085	5,040	0.9
Other investments		14	14	0.0
Other financial assets	4.7	206	91	> 100
Other assets	4.7	59	59	0.0
Income tax receivables	4.7	12	17	(29.4)
Deferred tax assets	4.4	230	364	(36.8)
Total non-current assets		**9,513**	**9,654**	**(1.5)**
Inventories	4.5	1,536	1,495	2.7
Trade receivables	4.6	1,676	1,626	3.1
Other financial assets	4.7	119	106	12.3
Other assets	4.7	141	125	12.8
Income tax receivables	4.7	142	107	32.7
Cash and cash equivalents	4.8	300	433	(30.7)
Total current assets		**3,914**	**3,892**	**0.6**
Total assets		**13,427**	**13,546**	**(0.9)**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves[1]		2,643	2,027	30.4
Accumulated other comprehensive income (loss)[1]		(709)	(479)	48.0
Equity attributable to shareholders of the parent company		**2,434**	**2,048**	**18.8**
Non-controlling interests		57	60	(5.0)
Total shareholders' equity	**4.9**	**2,491**	**2,108**	**18.2**
Provisions for pensions and similar obligations	4.11	1,516	1,553	(2.4)
Provisions[1]	4.12	96	75	28.0
Financial debt	4.10	5,965	7,140	(16.5)
Income tax payables	4.14	340	267	27.3
Other financial liabilities	4.14	162	237	(31.6)
Other liabilities	4.14	5	3	66.7
Deferred tax liabilities	4.4	154	119	29.4
Total non-current liabilities		**8,238**	**9,394**	**(12.3)**
Provisions	4.12	599	223	> 100
Financial debt	4.10	225	121	86.0
Trade payables	4.13	1,014	794	27.7
Income tax payables	4.14	155	232	(33.2)
Other financial liabilities	4.14	419	401	4.5
Other liabilities	4.14	286	273	4.8
Total current liabilities		**2,698**	**2,044**	**32.0**
Total shareholders' equity and liabilities		**13,427**	**13,546**	**(0.9)**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

4. Consolidated statement of cash flows

in € millions	2013	2012	Change in %
Operating activities			
EBIT	982	1,413	(30.5)
Interest paid	(624)	(593)	5.2
Interest received	8	9	(11.1)
Income taxes paid	(385)	(226)	70.4
Dividends received	163	81	> 100
Depreciation, amortization and impairments	652	618	5.5
(Gains) losses on disposal of assets	1	(1)	–
Other non-cash items	(4)	(21)	(81.0)
Changes in:			
• Inventories	(101)	55	–
• Trade receivables	(109)	(27)	> 100
• Trade payables	230	(52)	–
• Provisions for pensions and similar obligations	(45)	(45)	0.0
• Other assets, liabilities and provisions	415	2	> 100
Cash flows from operating activities[1]	**1,183**	**1,213**	**(2.5)**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	15	29	(48.3)
Capital expenditures on intangible assets	(18)	(35)	(48.6)
Capital expenditures on property, plant and equipment	(554)	(825)	(32.8)
Investments in other financial investments	(4)	(3)	33.3
Other investing activities	7	2	> 100
Cash used in investing activities	**(554)**	**(832)**	**(33.4)**
Financing activities			
Dividends paid to non-controlling interests	(1)	(1)	0.0
Receipts from loans	27	395	(93.2)
Repayments of loans	(649)	(449)	44.5
Acquisitions in stages	0	(13)	(100)
Dividends paid to Schaeffler Verwaltungs GmbH	0	(79)	(100)
Other financing activities[2]	(115)	(194)	(40.7)
Cash used in financing activities	**(738)**	**(341)**	**> 100**
Net increase (decrease) in cash and cash equivalents	**(109)**	**40**	**–**
Effects of foreign exchange rate changes on cash and cash equivalents	(24)	(4)	> 100
Cash and cash equivalents as at beginning of period	433	397	9.1
Cash and cash equivalents as at end of period	**300**	**433**	**(30.7)**

1) Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2013 amount to EUR 1,807 m (prior year: EUR 1,806 m).

2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 85 m (prior year: EUR 227 m)

See Note 5.3 to the consolidated financial statements for further detail.

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 01, 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 01, 2012 after IAS 19 (rev. 2011) adjustments	**500**	**1,311**	**118**	**(131)**	**0**	**(137)**	**1,661**	**53**	**1,714**
Net income		872					872	12	884
Other comprehensive income (loss)			(43)	129	2	(420)	(332)	(4)	(336)
Change in accounting policy – IAS 19 (rev. 2011)		(2)				3	1		1
Total comprehensive income (loss) for the period	**0**	**870**	**(43)**	**129**	**2**	**(417)**	**541**	**8**	**549**
Transactions with shareholders									
Capital increase		131					131		131
Dividends		(300)					(300)	(1)	(301)
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**	**2,027**	**75**	**(2)**	**2**	**(554)**	**2,048**	**60**	**2,108**
Balance as at January 01, 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 01, 2013 after IAS 19 (rev. 2011) adjustments	**500**	**2,027**	**75**	**(2)**	**2**	**(554)**	**2,048**	**60**	**2,108**
Net income		865					865	7	872
Other comprehensive income (loss)			(324)	(4)	(1)	85	(244)	(9)	(253)
Total comprehensive income (loss) for the period	**0**	**865**	**(324)**	**(4)**	**(1)**	**85**	**621**	**(2)**	**619**
Transactions with shareholders									
Dividends		(250)					(250)	(1)	(251)
Capital contribution		15					15		15
Total amount of transactions with shareholders		**(235)**					**(235)**	**(1)**	**(236)**
Other items from equity-accounted investees recognized directly in shareholders' equity		(14)				14	0		0
Balance as at December 31, 2013	**500**	**2,643**	**(249)**	**(6)**	**1**	**(455)**	**2,434**	**57**	**2,491**

1) Including the effect of equity-accounted investees.

See Note 4.9 to the consolidated financial statements for further detail.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

	Automotive		Industrial		Other		Total	
	01/01 – 12/31		01/01 – 12/31		01/01 –12/31		01/01 – 12/31	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	8,165	7,658	3,040	3,406	0	61[1)]	11,205	11,125
Cost of sales	(5,947)	(5,552)	(2,082)	(2,223)	0	(61)[2)]	(8,029)	(7,836)
Gross profit	2,218	2,106	958	1,183	0	0	3,176	3,289
EBIT	736	997	246	416	0	0	982	1,413
• in % of revenue	9.0	13.0	8.1	12.2	–	–	8.8	12.7
Depreciation, amortization and impairments	(459)	(432)	(193)	(186)	0	0	(652)	(618)
Inventories[3)]	912	851	624	644	0	0	1,536	1,495
Trade receivables[3)]	1,196	1,127	480	499	0	0	1,676	1,626
Property, plant and equipment[3)]	2,375	2,431	994	1,084	0	0	3,369	3,515
Additions to intangible assets and property, plant and equipment	434	618	139	209	0	0	573	827

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 for further detail.

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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, 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.

1.2 Basis of preparation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2013 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with 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 IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were prepared based on the same standards.

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 Euros (EUR), the functional and presentation currency of the Schaeffler Group's parent company. Unless stated otherwise, all amounts are in millions of Euros (EUR m).

The statement of financial position is classified using the current/non-current distinction. 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.

As amounts (in millions of Euros) and percentages have been rounded, rounding differences may occur.

Measurement bases

Assets and liabilities are generally measured on the basis of historical cost. The following assets and liabilities represent an exception, since they are measured at fair value:

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

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 subject to 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 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 particularly 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 2013, 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.

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, income from at 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.

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, 2013	Closing rate December 31, 2013	Average rate 2013	Average rate 2012
U.S.A.	USD	1.38	1.32	1.33	1.29
Japan	JPY	144.72	113.61	129.66	102.62
Hungary	HUF	297.04	292.30	296.94	289.32
Romania	RON	4.47	4.44	4.42	4.46

Revenue recognition and cost of sales

Revenues from the Schaeffler Group's business activities 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 acquiring 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 expensed 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 of disposal 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. Finance costs are allocated over the lease term so as to produce a constant periodic interest rate 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.

Impairments

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 in light of 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 underlying increase in value can be objectively related 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 of disposal 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 of disposal.

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 then 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 of disposal.

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.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other financial assets, cash and cash equivalents, loans and receivables, and trade and other financial liabilities. 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 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 price quoted 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 financial assets within this category are carried at face value. Impairment losses on trade and other financial assets 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.

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 is recognized in 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 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 pretax profit or loss nor taxable profit (initial differences). The same also applies to 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 companies accounted for using the equity method 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

The Schaeffler Group provides post-employment benefits to its employees in the form of 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 expectations, including those related to 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.

The Schaeffler Group recognizes all actuarial gains and losses arising from defined benefit plans directly in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and included in financial income or financial expense on a net basis. As a result of the retrospective application of IAS 19 (rev. 2011), which became effective in the 2013 financial year, interest income for the prior year was reduced by EUR 30 m and the revised income on plan assets of EUR 26 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. Based on assumptions similar to those made in prior years, applying the net interest approach under IAS 19 (rev. 2011) has affected profit and loss for 2013 by approximately EUR 9 m.

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.

Non-current provisions are recognized at present value by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest expense arising from unwinding the discount on the provision and the impact of any changes in discount rates are presented within financial result.

1.4 New accounting pronouncements

In 2013, the following Standards and amendments to Standards adopted by the European Union (EU) as European law were required to be applied for the first time:

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment
IAS 1	Presentation of Financial Statements	07/01/2012	Presentation of other comprehensive income
IAS 12	Income Taxes	01/01/2013	Deferred taxes on investment property measured at fair value through profit or loss
IAS 19	Employee Benefits	01/01/2013	Changes resulting from IAS 19 rev. 2011
Annual Improvements 2009-2011		01/01/2013	Various improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34
IFRS 7	Financial Instruments: Disclosures	01/01/2013	Disclosures on financial assets and financial liabilities that are offset
IFRS 13	Fair Value Measurement	01/01/2013	Fair value measurement

The amendment to IAS 1 "Presentation of Financial Statements" changes the presentation in the statement of comprehensive income such that items that will be recycled to the consolidated income statement in subsequent periods are presented separately from those which will remain in other comprehensive income. Prior year information has been adjusted accordingly.

The amendments to IFRS 7 "Financial Instruments: Disclosures" result in additional disclosures about netting of financial assets and liabilities.

Schaeffler has adopted the accounting treatment required by IAS 19 (rev. 2011) starting in 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. The amendments contained in IAS 19 (rev. 2011) do not significantly affect the Schaeffler Group's net income.

IFRS 13 mainly expands the note disclosures related to fair value measurements and does not have any further effect on the Schaeffler Group's earnings or its financial position or net assets.

The amendments to IAS 12 "Income Taxes" and the Annual Improvements 2011 do not significantly affect the Schaeffler Group's financial reporting.

The Schaeffler Group is not yet required to apply the following Standards and amendments to Standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2013.

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
IAS 32	Financial Instruments: Presentation	01/01/2014	Offsetting financial assets and liabilities	none
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	01/01/2014	Amendments to disclosure of information about the recoverable amount of impaired assets that is based on fair value less costs of disposal	none
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	01/01/2014	Continuation of hedge accounting under certain circumstances	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
Transition Guidance (Amendments to IFRS 10, 11 and 12)		01/01/2014	Amendments to transition guidance	none
Investment Entities (Amendments to IFRS 10, 12 and IAS 27)		01/01/2014	Definition of and requirements for investment entities	none
IAS 27	Separate Financial Statements	01/01/2014	Guidance on separate financial statements; elimination of guidance on consolidation (IFRS 10)	none
IAS 28	Investments in Associates and Joint Ventures	01/01/2014	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12	none

The Schaeffler Group has adopted the amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" early. As a result of the adoption of this amendment, the Schaeffler Group has amended its recoverable amount disclosures for non-financial assets. No other Standards or amendments to Standards were applied early.

In addition, the IASB and the IFRS Interpretations Committee have issued new Standards, Interpretations, and amendments to existing Standards 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. None of these were adopted early.

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
IFRIC 21	Levies	01/01/2014	Accounting for levies imposed by governments	none
IAS 19	Defined Benefit Plans: Employee Contributions	07/01/2014	Amendments to accounting of contributions from employees or third parties	none
Annual Improvements to IFRS 2010-2012		07/01/2014	Various improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38	none to minor
Annual Improvements to IFRS 2011-2013		07/01/2014	Various improvements to IFRS 1, IFRS 3, IFRS 13, and IAS 40	none to minor
IFRS 9	Financial Instruments	–	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments and changes to related disclosures[1)]
IFRS 9	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	–	Amendments to hedge accounting and accounting for financial instruments	Hedge Accounting[1)]
Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)		–	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 2013, the Schaeffler Group includes, in addition to Schaeffler AG, 158 (prior year: 159) subsidiaries; 55 (prior year: 54) companies are domiciled in Germany and 103 (prior year: 105) in other countries.

No significant changes have occurred since December 31, 2012.

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, 2013, seven (prior year: nine) investments (including three joint ventures; prior year: three) are accounted for at equity.

See Note 5.8 for details of the Schaeffler Group's investments.

2.2 Investments in equity-accounted investees

Investments in equity-accounted investees consist almost entirely of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, which is accounted for at equity in the consolidated financial statements. The shares in Continental AG, Hanover, are held indirectly via this company. Schaeffler Beteiligungsholding GmbH & Co. KG holds 68,390,458 shares (prior year: 72,290,458 shares) or 34.19% (prior year: 36.14%) of the voting interest in Continental AG as at December 31, 2013.

Originally, the investment in Continental AG was held directly by Schaeffler AG. Schaeffler AG transferred these shares to Schaeffler Beteiligungsholding GmbH & Co. KG at their carrying amount on September 30, 2011 and has accounted for them as part of its equity-accounted investment in Schaeffler Beteiligungsholding GmbH & Co. KG since then.

Continental AG is a leading automotive supplier with worldwide operations. The following table summarizes key financial information about the Continental Group:

in € millions	2013	2012
Revenue (01/01 – 12/31)	33,331	32,736
Net income[1)2)] (01/01 – 12/31)	2,010	1,990
Assets[2)] (as at 12/31)	26,821	27,450
Liabilities[2)] (as at 12/31)	17,499	19,294

1) Including non-controlling interests.

2) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

2.3 Income from at equity-accounted investees

The income from at equity-accounted investees totaling EUR 801 m (prior year: EUR 554 m) results almost entirely from measuring the investment in Continental AG (held indirectly) 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, excluding impairment losses Continental AG has recognized on goodwill but including special items realized through the purchase price allocation and net of offsetting deferred tax effects, result in income after tax of EUR 611 m. The effect on Schaeffler AG's net income is as follows:

in € millions	2013	2012
Depreciation, amortization and impairments of fair value adjustments	(136)	(237)
Share of net income or loss of Continental AG	687	681
Goodwill impairment loss recognized by Continental AG	23	27
Effect before income taxes	**574**	**471**
Deferred taxes	34	66
Effect on income before special items[1)]	**608**	**537**
Special items[1)]		
• Adjustment of impairment losses on investments in associated companies	3	0
• Reversal of cash flow hedges existing at the time of the PPA	0	7
• Recognition of Continental AG pension obligations at fair value	0	9
Effect on income after special items[1)]	**611**	**553**

1) Realized through purchase price allocation (PPA).

In September 2013, the Schaeffler Group sold 3.9 million shares (representing a 1.95% interest) in Continental AG at a price of EUR 122.50 per share resulting in a gain on sale of EUR 187 m.

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 84 m (prior year: EUR 1 m).

In addition, an adjustment to reflect the use of uniform group wide valuation methods for pension obligations of EUR 26 m (prior year: EUR 184 m), changes in cash flow hedges of EUR 0 m (prior year: EUR 7 m), and the proportional elimination of accumulated other income (loss) of EUR 5 m (prior year: EUR 0 m) in connection with the disposal of shares in Continental AG also had a negative effect on other comprehensive income (loss).

In total, these items have decreased shareholders' equity by EUR 115 m net of tax (prior year: EUR 193 m).

In addition, Schaeffler's share of the impact of acquisitions in stages made by Continental AG has changed reserves by EUR 0 m (prior year: increase of EUR 15 m) without affecting net income.

Nature and extent of significant restrictions

Due to the improvement in its rating, Continental AG's ability to pay dividends was not restricted by debt covenants as at December 31, 2013.

Market capitalization

Based on a share price of EUR 159.40 per share (prior year: EUR 87.59 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (34.19%, prior year: 36.14%) was EUR 10,901 m (prior year: EUR 6,332 m) on December 31, 2013.

3. Notes to the consolidated income statement

3.1 Revenue

in € millions	2013	2012
Revenue from the sale of goods	10,996	10,957
Other revenue	209	168
Total	**11,205**	**11,125**

Revenue from the sale of goods consists of sales of goods to customers net of early payment discounts. Other revenue primarily includes EUR 113 m (prior year: EUR 88 m) in revenue from services (e.g. for research and development), as well as EUR 92 m (prior year: EUR 71 m) from the sale of tools and special machines.

3.2 Other Income

in € millions	2013	2012
Exchange gains	35	0
Reversal of provisions	1	1
Reduction of allowances	3	4
Gains on disposal of assets	3	5
Miscellaneous income	28	25
Total	**70**	**35**

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 gain in 2013 which arose primarily from settled foreign exchange contracts hedging the Schaeffler Group's exposure to the U.S. Dollar.

3.3 Other expenses

in € millions	2013	2012
Exchange losses	0	44
Increase in allowances	6	9
Losses on disposal of assets	4	4
Miscellaneous expenses	406	37
Total	**416**	**94**

The increase in miscellaneous expenses is primarily due to EUR 380 m in special items related to the ongoing EU antitrust proceedings. The proceedings relate to the investigations of possible violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe.

3.4 Personnel expense and headcount

The number of employees at December 31, 2013 was 78,559, 3.2% higher than the prior year level of 76,099. In 2013, the Schaeffler Group had an average of 77,359 employees (prior year: 75,893) and 532 temporary staff (prior year: 627).

Average number of employees by region[1)]	2013	2012
Europe	52,228	52,039
North America	7,656	7,087
South America	4,313	4,528
Asia/Pacific	13,162	12,239
Total	**77,359**	**75,893**

1) Presentation based on the regional structure in effect until December 31, 2013.

Average number of employees by functional area	2013	2012
Production	60,647	59,172
Research and development	6,039	6,098
Selling	6,023	6,047
General administration	4,650	4,576
Total	**77,359**	**75,893**

The Schaeffler Group's personnel expense can be analyzed as follows:

in € millions	2013	2012
Wages and salaries	2,836	2,664
Social security contributions	533	521
Pensions and similar benefit expenses	76	67
Total	**3,445**	**3,252**

The increase in personnel expense in 2013 is mainly attributable to pay increases arising from local collective agreements, the targeted expansion of capacity, primarily in production and in general administration, and expenses related to personnel-related structural measures.

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

The Schaeffler Group's financial result improved by EUR 238 m to EUR -442 m (prior year: EUR -680 m) in 2013.

Financial result comprises financial income of EUR 217 m (prior year: EUR 23 m) and financial expenses of EUR 659 m (prior year: EUR 703 m).

	2013		
in € millions	**Financial expenses**	**Financial income**	**Financial result**
Interest expense on financial debt[1]	(465)	0	(465)
Fair value changes and compensation payments on derivatives	(99)	114	15
Foreign exchange gains and losses	0	88	88
Amortization of cash flow hedge accounting reserve	2	0	2
Interest income and expense on pensions and partial retirement obligations	(50)	0	(50)
Other	(47)	15	(32)
Total	**(659)**	**217**	**(442)**

	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	(72)	0	(72)
Interest income and expense on pensions and partial retirement obligations[2]	(57)	0	(57)
Other	(35)	12	(23)
Total	**(703)**	**23**	**(680)**

1) Incl. transaction costs.

2) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

Interest expense on financial debt of EUR 465 m (prior year: EUR 523 m) for 2013 includes interest paid and accrued on the Group's external financing arrangements of EUR 388 m (prior year: EUR 453 m) and expenses of EUR 52 m (prior year: EUR 47 m) relating to transaction costs. Interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH is also included here. The decrease in interest expense compared to the prior year is primarily attributable to principal repayments and improvements in debt terms in connection with the refinancing transactions completed during the year.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of EUR 15 m (prior year: EUR 2 m). The amount consists largely of favorable changes in the value of embedded derivatives and unfavorable changes in the value of cross-currency derivatives.

Net foreign exchange gains on financial assets and liabilities amounted to EUR 88 m (prior year: losses of EUR 7 m) and resulted primarily from translating financial debt denominated in U.S. Dollar into the Group's reporting currency Euro (see Note 1.3). This financial debt is hedged using cross-currency derivatives, and the resulting offsetting impact is included in "Fair value changes and compensation payments on derivatives".

Additional income of EUR 2 m (prior year: expense of EUR 72 m) arose from amortizing the cash flow hedge accounting reserve related to interest rate hedging instruments. As this income is economically related to the interest expense on the Group's financial debt, it is also presented within interest expense.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 50 m (prior year: EUR 57 m). See Note 4.11 for further detail on pensions.

Other items generated net expenses of EUR 32 m (prior year: EUR 23 m).

3.6 Income from at equity-accounted investees

The 2013 income from at equity-accounted investees of EUR 801 m (prior year: EUR 554 m) relates almost entirely to the investment in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG.

See Note 4.3 for details of the change in investments in equity-accounted investees.

3.7 Income taxes

Income taxes consist of the following:

in € millions	2013	2012
Current income taxes	317	383
Deferred income taxes[1)]	152	22
Income taxes[1)]	**469**	**405**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

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 28.1% in 2013 (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 12.2% (prior year: 12.0%). Partnerships located in Germany are only subject to trade tax.

Current income tax benefit related to prior years amounts to EUR 23 m (prior year: expense of EUR 12 m) in 2013. In 2013, Schaeffler incurred EUR 49 m in deferred tax expense related to prior years (prior year: EUR 0 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 2013 is based on the Schaeffler Group's 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge.

in € millions	2013	2012
Net income before tax[1)]	1,341	1,287
Expected tax expense[1)]	**376**	**360**
Addition/reduction due to deviating local tax bases	7	10
Foreign/domestic tax rate differences	(6)	(5)
Change in tax rate and law	(1)	0
Non-recognition of deferred tax assets	38	(1)
Non-deductible expenses	247	196
Income (loss) from at equity-accounted investees	(224)	(154)
Taxes for previous years	26	12
Other	6	(13)
Reported tax expense[1)]	**469**	**405**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

Non-deductible expenses consist mainly of interest expense that is not tax deductible because of the interest deduction cap rules in Germany. As it is unlikely that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on these carryforwards. Non-deductible expenses also include special items related to the ongoing investigations of the EU antitrust authorities (see Notes 3.3 and 4.12) that are not tax deductible.

The income from at equity-accounted investees included in consolidated net income (see Notes 2.2 and 3.6) resulted in a reconciling item of EUR 224 m (prior year: EUR 154 m).

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 01, 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**
Balance as at January 01, 2013	**483**	**1,017**	**236**	**0**	**1,736**
Additions	0	10	8	0	18
Disposals	0	(17)	0	0	(17)
Transfers	0	0	0	0	0
Foreign currency translation	0	(2)	0	0	(2)
Balance as at December 31, 2013	**483**	**1,008**	**244**	**0**	**1,735**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2012	**0**	**986**	**167**	**0**	**1,153**
Depreciation	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**
Balance as at January 01, 2013	**0**	**993**	**189**	**0**	**1,182**
Depreciation	0	11	23	0	34
Disposals	0	(17)	0	0	(17)
Transfers	0	0	0	0	0
Foreign currency translation	0	(2)	0	0	(2)
Balance as at December 31, 2013	**0**	**985**	**212**	**0**	**1,197**
Net carrying amounts					
As at January 01, 2012	**483**	**16**	**54**	**0**	**553**
As at December 31, 2012	**483**	**24**	**47**	**0**	**554**
As at January 01, 2013	**483**	**24**	**47**	**0**	**554**
As at December 31, 2013	**483**	**23**	**32**	**0**	**538**

At the end of 2013, intangible assets purchased from third parties have a net carrying amount of EUR 23 m (prior year: EUR 24 m). Additions totaled EUR 10 m (prior year: EUR 22 m) in 2013.

Capitalized development costs included in internally generated intangible assets decreased to EUR 11 m (prior year: EUR 21 m) as a result of EUR 10 m (prior year: EUR 11 m) in amortization in 2013.

Internally generated intangible assets include EUR 21 m (prior year: EUR 26 m) in internally generated software, mainly relating to the implementation of ERP systems. In 2013, additions and transfers of EUR 8 m (prior year: EUR 15 m) are offset by amortization of EUR 13 m (prior year: EUR 11 m).

Amortization of internally generated intangible assets totaling EUR 34 m (prior year: EUR 36 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 10 m (prior year: EUR 12 m), research and development expenses EUR 5 m (prior year: EUR 5 m), selling expenses EUR 3 m (prior year: EUR 5 m), and administrative expenses EUR 16 m (prior year: EUR 14 m).

Internally generated intangible assets with a carrying amount of EUR 5 m (prior year: EUR 7 m) are not yet subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 611 m (prior year: EUR 593 m) were recognized in profit or loss in 2013.

Goodwill

The carrying amounts of goodwill allocated to 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.

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under Note 1.3. The key assumption underlying the forecast are sustainable growth rates for the Automotive segment which are higher than the assumed performance of the market as a whole. Similarly, the Schaeffler Group is expecting stable growth rates for the Industrial segment. The forecast takes into account programs aimed at sustainably increasing efficiency across all costs, enabling the Schaeffler Group to maintain its EBITDA margin (ratio of earnings before financial result, income from at equity-accounted investees, income taxes, depreciation, amortization, and impairment losses to revenue) at its current level in the coming years.

For purposes of determining the recoverable amount, cash flows beyond the detailed forecasting horizon of 2016 are based on an annual growth rate of 1.0% (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 14.64% (prior year: 15.03%) as the weighted average cost of capital for the Automotive segment and 14.68% (prior year: 15.25%) for the Industrial segment. This corresponds to a post-tax interest rate of 10.15% for the Automotive segment (prior year: 10.29%) and 10.11% for the Industrial segment (prior year: 10.43%).

Other valuation assumptions are gernerally identical across cash-generating units.

As the value in use of the cash-generating units exceeds their carrying amount both for 2013 and the prior year, they are not impaired. Even adjusting an assumption underlying the forecasted cash flows, e. g. by reducing forecasted EBIT by 15% or increasing the cost of capital by 5% does not result in an impairment loss.

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 01, 2012	**2,088**	**5,971**	**846**	**509**	**9,414**
Additions	71	428	73	220	792
Additions from first consolidation of subsidiaries	0	0	0	0	0
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**
Balance as at January 01, 2013	**2,202**	**6,510**	**884**	**376**	**9,972**
Additions	31	202	62	260	555
Additions from first consolidation of subsidiaries	3	4	5	1	13
Disposals	(10)	(125)	(54)	(4)	(193)
Transfers	20	205	9	(234)	0
Foreign currency translation	(37)	(146)	(15)	(10)	(208)
Balance as at December 31, 2013	**2,209**	**6,650**	**891**	**389**	**10,139**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2012	**996**	**4,394**	**682**	**14**	**6,086**
Depreciation	72	442	68	0	582
Additions from first consolidation of subsidiaries	0	0	0	0	0
Impairments	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**
Balance as at January 01, 2013	**1,061**	**4,689**	**707**	**0**	**6,457**
Depreciation	74	466	73	0	613
Additions from first consolidation of subsidiaries	1	2	3	0	6
Impairments	0	0	0	5	5
Impairment reversals	0	0	0	0	0
Disposals	(6)	(120)	(51)	0	(177)
Transfers	0	2	(2)	0	0
Foreign currency translation	(15)	(107)	(12)	0	(134)
Balance as at December 31, 2013	**1,115**	**4,932**	**718**	**5**	**6,770**
Net carrying amounts					
As at January 01, 2012	**1,092**	**1,577**	**164**	**495**	**3,328**
As at December 31, 2012	**1,141**	**1,821**	**177**	**376**	**3,515**
As at January 01, 2013	**1,141**	**1,821**	**177**	**376**	**3,515**
As at December 31, 2013	**1,094**	**1,718**	**173**	**384**	**3,369**

At EUR 555 m (prior year: EUR 792 m), additions to property, plant and equipment for 2013 were below the prior year level.

Investment in property, plant and equipment focused on Germany, China, Korea and India, Slovakia, Hungary, and 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. In the consolidated income statement, the reversal is included in cost of sales. In 2013, cost of sales includes an impairment loss of EUR 5 m related to a currently unused production building in Brazil.

At December 31, 2013, property, plant and equipment was not pledged as collateral for bank loans (prior year: EUR 9 m).

4.3 Investments in equity-accounted investees

	December 31,	
in € millions	**2013**	**2012**
Schaeffler Beteiligungsholding GmbH & Co. KG	5,081	5,037
Other	4	3
Total	**5,085**	**5,040**

The increase in the carrying amount of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG is almost entirely the result of accounting for the interest in Continental AG, which is held indirectly, using the equity method. The increase in the carrying amount of EUR 501 m from accounting for the investment at equity during the year was partially offset by decreases of EUR 294 m from the disposal of shares and EUR 163 m related to the Continental AG dividend.

In addition, please refer to the discussion in Note 2.2.

At December 31, 2013, the investment in Schaeffler Beteiligungsholding GmbH & Co. KG of EUR 5,081 m (prior year: EUR 5,037 m) was pledged as collateral for bank loans.

4.4 Deferred tax assets and liabilities

Total deferred tax assets and liabilities result from the following items:

	December 31,			
	2013		2012	
in € millions	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Intangible assets	1	(12)	2	(16)
Property, plant and equipment	78	(129)	70	(139)
Financial assets	4	(35)	1	(21)
Inventories	76	(5)	75	(5)
Trade receivables and other assets	53	(122)	41	(69)
Provisions for pensions and similar obligations	267	(87)	246	(43)
Other provisions and other liabilities	179	(204)	175	(96)
Loss carryforwards	16	0	24	0
Other	2	(6)	4	(4)
Deferred taxes (gross)	**676**	**(600)**	**638**	**(393)**
Netting	(446)	446	(274)	274
Deferred taxes, net	**230**	**(154)**	**364**	**(119)**

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 2013, the Schaeffler Group used an average trade tax rate of 12.2% (prior year: 12.0%) and a combined tax rate of 28.1% (prior year: 27.9%) including corporation tax, solidarity surcharge, and trade tax, and the applicable local tax rates were used for foreign entities.

In 2013, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 18 m (prior year: EUR 12 m). Recovery of deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2013, Schaeffler had gross loss carryforwards of EUR 158 m (prior year: EUR 152 m) for corporation tax and EUR 319 m (prior year: EUR 28 m) for trade tax, including EUR 107 m (prior year: EUR 89 m) in corporation tax losses and EUR 294 m (prior year: EUR 5 m) in trade tax losses for which no deferred taxes have been recognized.

In addition, the group had gross carryforwards under the interest deduction cap, net of prior year adjustments, of EUR 766 m (prior year: EUR 683 m) at the end of the reporting period. These carryforwards have not been recognized as defferred tax asset since it is not probable that these carryforwards will be utilized in the foreseeable future. As a result, a potential loss of the interest carryforwards as a result of an internal reorganization of the group structure in 2012 would not have a material impact. Interest expense of EUR 110 m was not tax deductible in 2013 because of the interest deduction cap. The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred taxes have been recognized on EUR 3,420 m (prior year: EUR 3,320 m) in undistributed profits of certain subsidiaries as distribution of these profits is not intended. Instead, these profits are continually reinvested.

At December 31, 2013, the cumulative amount of deferred taxes recognized in accumulated other comprehensive income is EUR 158 m (prior year: EUR 194 m) and mainly relates to derivatives and pensions and similar obligations.

4.5 Inventories

	December 31,	
in € millions	**2013**	**2012**
Raw materials and supplies	294	304
Work in progress	399	386
Finished goods and merchandise	840	801
Advance payments	3	4
Total	**1,536**	**1,495**

Inventories of EUR 7,877 m (prior year: EUR 7,698 m) were recognized in cost of sales in the consolidated income statement during the reporting period 2013.

In 2013, Schaeffler recognized a valuation allowance of EUR 217 m (prior year: EUR 209 m) on inventories. All identifiable risks were taken into account in determining the valuation allowance to write down inventories to net realizable value.

4.6 Trade receivables

	December 31,	
in € millions	**2013**	**2012**
Trade receivables	1,676	1,626

Trade receivables are classified as current.

Movements in impairment allowances on trade receivables can be reconciled as follows:

	December 31,	
in € millions	**2013**	**2012**
Impairment allowances as at January 01	**23**	**18**
Additions	6	9
Allowances used to cover write-offs	(3)	(1)
Reversals	(3)	(3)
Impairment allowances as at December 31	**23**	**23**

Trade receivables past due are summarized as follows:

		December 31,	
in € millions		**2013**	**2012**
Carrying amount		**1,676**	**1,626**
Not past due		**1,572**	**1,513**
	up to 60 days	91	101
	61-120 days	8	6
Past due	121-180 days	3	2
	181-360 days	1	2
	> 360 days	1	2

Trade receivables past due, both gross and net of impairment allowances of EUR 22 m (prior year: EUR 22 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, 2013					
Gross	92	11	5	4	14
Impairment allowance	1	3	2	3	13
Net	**91**	**8**	**3**	**1**	**1**
December 31, 2012					
Gross	102	9	5	6	13
Impairment allowance	1	3	3	4	11
Net	**101**	**6**	**2**	**2**	**2**

Impairment allowances of EUR 1 m (prior year: EUR 1 m) were recognized on trade receivables not yet past due.

At December 31, 2013, trade receivables of EUR 862 m (prior year: EUR 788 m) were pledged as collateral for bank loans.

Please refer to Note 5.5 for related party receivables.

4.7 Other financial assets, other assets, and income tax receivables

	December 31,	
in € millions	**2013**	**2012**
Other financial assets	325	197
Other assets	200	184
Income tax receivables	154	124

At December 31, 2013, income tax receivables amount to EUR 154 m (prior year: EUR 124 m), including non-current balances of EUR 12 m (prior year: EUR 17 m).

The following summary shows the current and non-current portions of other financial assets and other assets:

	December 31,					
	2013			2012		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial assets						
Loans receivable and financial receivables	7	0	7	17	0	17
Marketable securities	9	0	9	6	0	6
Derivative financial assets	189	60	249	67	47	114
Miscellaneous financial assets	1	59	60	1	59	60
Total	**206**	**119**	**325**	**91**	**106**	**197**
Other assets						
Pension asset	42	0	42	46	0	46
Tax receivables	1	116	117	2	87	89
Miscellaneous assets	16	25	41	11	38	49
Total	**59**	**141**	**200**	**59**	**125**	**184**

Non-current derivative financial assets consist of derivatives embedded in the SFA (Syndicated Senior Term Loan and Revolving Credit Facilities Agreement). The current portion of derivative financial assets represents fair values of derivatives the Schaeffler Group uses to economically hedge currency risk.

Current miscellaneous financial assets consist largely of amounts due from employees, claims for damages, and deposits paid.

Current and non-current miscellaneous assets mainly include downpayments made.

Default risk primarily affects other financial assets and is reflected in appropriate impairment allowances amounting to EUR 1 m (prior year: EUR 1 m) at December 31, 2013.

At December 31, 2013, other financial assets, other assets, and income tax receivables totaling EUR 89 m (prior year: EUR 82 m) were pledged as collateral for bank loans.

4.8 Cash and cash equivalents

At December 31, 2013, cash and cash equivalents amount to EUR 300 m (prior year: EUR 433 m) and primarily consist of bank balances.

At December 31, 2013, cash and cash equivalents of EUR 36 m (prior year: EUR 147 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	2013	2012
Share capital	500	500
Reserves[1]	2,643	2,027
Accumulated other comprehensive income (loss)[1]	(709)	(479)
Equity attributable to shareholders of the parent company	**2,434**	**2,048**
Non-controlling interests	57	60
Total shareholders' equity	**2,491**	**2,108**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

Schaeffler AG's share capital ("Grundkapital") remains at EUR 500,025,000 at December 31, 2013. It is divided into 500,025,000 registered no-par-value shares (prior year: 500,025,000 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 2013 resolved to pay a dividend of EUR 250 m (or EUR 0.50 per share) for the year 2012. In December 2013, Schaeffler Verwaltungs GmbH waived its right to receive EUR 15 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 235 m to EUR 437 m (see Note 4.10).

A dividend for 2013 of EUR 250 m will be proposed to the annual general meeting.

Accumulated 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**
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)**
Change in accounting policy – IAS 19 (rev. 2011)				3	3		3
Total other comprehensive income (loss), net of tax after IAS 19 (rev. 2011) adjustments	**(43)**	**129**	**2**	**(417)**	**(329)**	**(4)**	**(333)**
2013							
Foreign currency translation differences for foreign operations	(174)				(174)	(9)	(183)
Net gain on hedge of net investment in foreign operations	35				35		35
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		(13)			(13)		(13)
Net changes in fair value of cash flow hedging instruments reclassified to profit or loss, net of tax		9			9		9
Net changes in fair value of available-for-sale financial assets, net of tax			(1)		(1)		(1)
Defined benefit plan actuarial gains, net of tax				15	15		15
Effects of equity-accounted investees	(185)			70	(115)		(115)
Total other comprehensive income (loss), net of tax	**(324)**	**(4)**	**(1)**	**85**	**(244)**	**(9)**	**(253)**

1) Including the impact of equity-accounted investees.

The following is a discussion of the various reserves:

(1) 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.

(2) 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 includes EUR -13 m (prior year: EUR 37 m) in fair value changes of hedging instruments and EUR 9 m (prior year: EUR 92 m) that were reclassified to profit or loss when realized (gross: EUR 13 m, deferred tax: EUR -4 m; prior year: gross: EUR 128 m, deferred tax: EUR -36 m).

(3) 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.

(4) 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 of non-controlling interests relates to currency translation (EUR -9 m; prior year: EUR -4 m).

4.10 Current and non-current financial debt

	December 31,					
	2013			2012		
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	**6,190**	225	5,965	**7,261**	121	7,140

At December 31, 2013, the Schaeffler Group had financial debt of EUR 6,190 m (prior year: EUR 7,261 m), consisting of EUR 5,965 m (prior year: EUR 7,140 m) in non-current financial debt and EUR 225 m (prior year: EUR 121 m) in current financial debt, both accounted for at amortized cost.

The refinancing arrangements completed and bonds issued in 2013 significantly affected the Schaeffler Group's financial debt. At December 31, 2013, the company's debt consists of three loan tranches with a total principal equivalent to approximately EUR 2,260 m obtained from banks and institutional investors (Syndicated Senior Term Loan and Revolving Credit Facilities Agreement; SFA) as well as seven bond issues totaling the equivalent of approximately EUR 3,540 m.

The Syndicated Senior Term Loan and Revolving Credit Facilities Agreement (SFA) consists of the following tranches:

						December 31,		
		2013	2012	2013	2012	2013	2012	
Tranche	Currency	Face value in millions		Carrying amount in € millions			Coupon	Maturity
Senior Term Loan B1	EUR	–	504	–	501	–	Euribor + 4.75%	–
Senior Term Loan C[1]	EUR	299	525	292	510	Euribor + 3.75%[2]	Euribor + 5.00%	01/27/2017
Senior Term Loan C[3]	USD	1,699	1,500	1,213	1,120	Libor + 3.25%[4]	Libor + 4.75%	01/27/2017
Senior Term Loan D[5]	EUR	730	2,446	713	2,410	Euribor + 2.875%[6]	Euribor + 4.00%	06/30/2016
Revolving Credit Facility[7]	EUR	1,000	1,000	(9)	(10)	Euribor + 2.875%[6]	Euribor + 4.00%	06/30/2016

1) Since March 18, 2013, previously Senior Term Loan B2 EUR.

2) Euribor floor of 1.00% (December 31, 2012: 1.50%).

3) Since March 18, 2013, previously Senior Term Loan B2 USD.

4) Libor floor of 1.00% (December 31, 2012: 1.25%).

5) Since April 22, 2013, previously Senior Term Loan A.

6) Since November 21, 2013 (December 31, 2012: 4.00%).

7) EUR 49 m (December 31, 2012: EUR 57 m) were drawn down as at December 31, 2013, primarily in the form of letters of credit.

Schaeffler Finance B.V., Barneveld, Netherlands, has issued the following bonds:

		December 31,				
		2013	2013	2012		
ISIN	Currency	Face value in millions	Carrying amount in € millions		Coupon	Maturity
XS0741938624	EUR	800	788	785	7.75%	02/15/2017
US806261AC75	USD	600	428	446	7.75%	02/15/2017
XS0801261156	EUR	326	323	322	6.75%	07/01/2017
XS0923613060	EUR	600	595	–	4.25%	05/15/2018
XS0741939788	EUR	400	398	398	8.75%	02/15/2019
US806261AA10	USD	500	361	378	8.50%	02/15/2019
US806261AE32	USD	850	612	–	4.75%	05/15/2021

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 financial liabilities (Note 4.14) also include EUR 71 m (prior year: EUR 64 m) in bond interest accrued up to December 31, 2013.

In addition, financial debt also includes a shareholder loan granted by Schaeffler Verwaltungs GmbH to Schaeffler AG with a carrying amount of EUR 437 m (prior year: EUR 287 m) as well as a loan due from INA Beteiligungsverwaltungs GmbH to Schaeffler Holding GmbH & Co. KG with a carrying amount of EUR 6 m (prior year: EUR 36 m).

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, 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. Details of such collateral are disclosed as required in the notes for the various assets concerned.

4.11 Provisions for pensions and similar obligations

The post-employment benefits provided by the Schaeffler Group to its employees include both defined benefit plans and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are reflected in the statement of financial position. Provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans

The Schaeffler Group grants its employees various types of pension benefits.

The defined benefit pension obligations largely cover beneficiaries in Germany and most of them are unfunded. These obligations include individual contractual pension commitments made to members of management as well as additional general pension promises. The type and amount of these promises are governed by the related pension schemes. Amounts are calculated based on years of service and salary levels.

The Schaeffler Group also has 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, but not before the employee has reached the age of 60, either in full or in installments. Deferred compensation is invested in specific funds with restricted access.

Additional 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 2013, approximately 89% (prior year: 88%) of pension obligations in the U.S. and the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom), respectively, and no further benefits are earned.

The company has also introduced pension plans in other countries based on local legal requirements.

Obligations similar to pensions reflect commitments of Canadian subsidiaries to provide medical benefits. The closed plans are being wound down and the remaining net obligations taken together are not material to the consolidated financial statements.

Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented in the statement of financial position as at December 31, 2013 as follows:

	December 31, 2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	1,398	38	5	75	1,516
Provisions for obligations similar to pensions	0	0	0	0	0
Provisions for pensions and similar obligations	**1,398**	**38**	**5**	**75**	**1,516**
Pension asset (plan assets net of related liabilities)	34	0	8	0	42
Net defined benefit obligation	**1,364**	**38**	**(3)**	**75**	**1,474**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					December 31, 2012
Provisions for pensions (liabilities net of related plan assets)	1,386	70	2	95	1,553
Provisions for obligations similar to pensions	0	0	0	0	0
Provisions for pensions and similar obligations	**1,386**	**70**	**2**	**95**	**1,553**
Pension asset (plan assets net of related liabilities)	31	0	15	0	46
Net defined benefit obligation	**1,355**	**70**	**(13)**	**95**	**1,507**

The defined benefit obligation and plan assets as at December 31, 2013 amounts to the following:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					December 31, 2013
Present value of defined benefit obligation (active members)	693	62	0	177	932
Present value of defined benefit obligation (deferred members)	115	31	102	8	256
Present value of defined benefit obligation (pensioners)	750	72	51	37	910
Present value of defined benefit obligations (total)	**1,558**	**165**	**153**	**222**	**2,098**
Fair value of plan assets	194	127	156	150	627
Change due to asset ceiling	0	0	0	(3)	(3)
Net pension obligation recognized in the statement of financial position	**1,364**	**38**	**(3)**	**75**	**1,474**
Other employee benefits similar to pensions	0	0	0	0	0
Net defined benefit obligation	**1,364**	**38**	**(3)**	**75**	**1,474**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
				December 31, 2012	
Present value of defined benefit obligation (active members)	688	75	0	179	942
Present value of defined benefit obligation (deferred members)	82	38	94	7	221
Present value of defined benefit obligation (pensioners)	754	77	52	41	924
Present value of defined benefit obligations (total)	**1,524**	**190**	**146**	**227**	**2,087**
Fair value of plan assets	169	120	159	132	580
Change due to asset ceiling	0	0	0	0	0
Net pension obligation recognized in the statement of financial position	**1,355**	**70**	**(13)**	**95**	**1,507**
Other employee benefits similar to pensions	0	0	0	0	0
Net defined benefit obligation	**1,355**	**70**	**(13)**	**95**	**1,507**

The net defined benefit liability as at December 31, 2013 can be reconciled as follows:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability/asset as at January 01, 2012	**1,038**	**58**	**(1)**	**77**	**1,172**
Benefits paid	(58)	(1)	0	(6)	(65)
Service cost	20	1	0	15	36
Net interest on net defined benefit liability[1]	49	2	0	4	55
Employer contributions	0	(9)	(5)	(4)	(18)
Employee contributions	0	1	0	0	1
Transfers in/out	0	1	0	0	1
Remeasurement of net defined benefit liability[1]	306	18	(7)	8	325
Changes in foreign exchange rates	0	(1)	0	1	0
Net defined benefit liability/asset as at December 31, 2012	**1,355**	**70**	**(13)**	**95**	**1,507**
Net defined benefit liability/asset as at January 01, 2013	**1,355**	**70**	**(13)**	**95**	**1,507**
Benefits paid	(58)	0	0	(7)	(65)
Service cost	32	0	0	13	45
Net interest on net defined benefit liability[1]	45	2	(1)	4	50
Employer contributions	(9)	(3)	0	(23)	(35)
Employee contributions	0	0	0	0	0
Transfers in/out	0	2	0	0	2
Remeasurement of net defined benefit liability[1]	(2)	(30)	11	(4)	(25)
Changes in foreign exchange rates	1	(3)	0	(3)	(5)
Net defined benefit liability/asset as at December 31, 2013	**1,364**	**38**	**(3)**	**75**	**1,474**

1) Prior year amount restated for initial application of IAS 19 (rev. 2011): Net interest on net defined benefit liability for 2012 has been reduced by EUR 4 m and remeasurement of net defined benefit liability for 2012 has been increased by EUR 4 m.

Funding requirements for defined benefit plans are generally met from operating cash flow, taking into account any local legal funding requirements regarding the pension obligation.

Movements in defined benefit obligation

The opening and closing balances of the present value of the defined benefit obligation can be reconciled as follows:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01, 2012	**1,188**	**166**	**137**	**190**	**1,681**
Benefits paid	(61)	(8)	(4)	(14)	(87)
Current service cost	20	1	0	12	33
Past service cost	0	0	0	3	3
Interest cost	57	7	7	9	80
Employee contributions	8	1	0	1	10
Gains (-)/losses – changes in financial assumptions	310	18	9	24	361
Gains (-)/losses – changes in demographic assumptions	0	8	6	(1)	13
Gains (-)/losses – experience adjustments	1	0	(12)	(1)	(12)
Changes in foreign exchange rates	1	(3)	3	4	5
Present value of defined benefit obligations as at December 31, 2012	**1,524**	**190**	**146**	**227**	**2,087**
Present value of defined benefit obligations as at January 01, 2013	**1,524**	**190**	**146**	**227**	**2,087**
Benefits paid	(61)	(7)	(4)	(14)	(86)
Current service cost	31	0	0	13	44
Past service cost	1	0	0	0	1
Interest cost	52	7	6	8	73
Employee contributions	9	1	0	1	11
Gains (-)/losses – changes in financial assumptions	1	(23)	8	(8)	(22)
Gains (-)/losses – changes in demographic assumptions	0	5	0	0	5
Gains (-)/losses – experience adjustments	1	0	0	5	6
Changes in foreign exchange rates	0	(8)	(3)	(10)	(21)
Present value of defined benefit obligations as at December 31, 2013	**1,558**	**165**	**153**	**222**	**2,098**

Movements in and types of plan assets

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01, 2012	**150**	**108**	**138**	**113**	**509**
Benefits paid	(3)	(7)	(4)	(8)	(22)
Interest income on plan assets	8	5	7	5	25
Employee contributions	8	0	0	1	9
Employer contributions	0	9	5	4	18
Transfers in/out	0	(1)	0	0	(1)
Return on plan assets excluding interest income[1)]	5	8	10	14	37
Impact of asset ceiling	0	0	0	0	0
Changes in foreign exchange rates	1	(2)	3	3	5
Fair value of plan assets as at December 31, 2012	**169**	**120**	**159**	**132**	**580**
Fair value of plan assets as at January 01, 2013	**169**	**120**	**159**	**132**	**580**
Benefits paid	(3)	(7)	(4)	(7)	(21)
Interest income on plan assets	7	5	7	4	23
Employee contributions	9	1	0	1	11
Employer contributions	9	3	0	23	35
Transfers in/out	0	(2)	0	0	(2)
Return on plan assets excluding interest income[1)]	4	12	(3)	4	17
Impact of asset ceiling	0	0	0	(3)	(3)
Changes in foreign exchange rates	(1)	(5)	(3)	(7)	(16)
Fair value of plan assets as at December 31, 2013	**194**	**127**	**156**	**147**	**624**

1) Prior year amount restated for initial application of IAS 19 (rev. 2011): Interest income has been reduced by EUR 4 m and return on plan assets excluding interest income has been increased by EUR 4 m.

In 2013, for the first time, the recognized plan assets of a Canadian pension plan were limited to the amount of the defined benefit obligation, representing the present value of the economic benefits of the plan assets to the Schaeffler Group as at the reporting date (asset ceiling). As a result, plan assets of this plan were reduced by EUR 3 m in 2013.

The actual return on plan assets for 2013 amounts to EUR 40 m (prior year: EUR 62 m). The Schaeffler Group expects to make contributions to plan assets of EUR 21 m (prior year: EUR 25 m) in 2014.

Plan assets before application of the asset ceiling consist of the following:

	December 31, 2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Equity instruments	87	77	41	24	229
Debt instruments	31	46	56	69	202
Real estate	0	4	0	12	16
Cash	21	0	59	2	82
(Reimbursement) insurance policies	55	0	0	43	98
Other (incl. reimbursement insurance)	0	0	0	0	0
Total	**194**	**127**	**156**	**150**	**627**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					December 31, 2012
Equity instruments	52	71	33	39	195
Debt instruments	48	45	126	37	256
Real estate	0	4	0	12	16
Cash	23	0	0	3	26
(Reimbursement) insurance policies	46	0	0	40	86
Other (incl. reimbursement insurance)	0	0	0	1	1
Total	**169**	**120**	**159**	**132**	**580**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset liability studies are prepared at regular intervals for the funded defined benefit plans in the United Kingdom and in the U.S., and the investment policy of each fund is based on the applicable study and any local legal requirements.

Comprehensive income

The following summarizes the various amounts recognized in comprehensive income for defined benefit plans:

	2013					2012				
in € millions	**Germany**	**U.S.A.**	**United Kingdom**	**Other countries**	**Total**	**Germany**	**U.S.A.**	**United Kingdom**	**Other countries**	**Total**
Current service cost	31	0	0	13	44	20	1	0	12	33
Past service cost	1	0	0	0	1	0	0	0	3	3
• plan amendments	1	0	0	0	1	0	0	0	3	3
Service cost	**32**	**0**	**0**	**13**	**45**	**20**	**1**	**0**	**15**	**36**
Interest cost	52	7	6	8	73	57	7	7	9	80
Interest income[1)]	(7)	(5)	(7)	(4)	(23)	(8)	(5)	(7)	(5)	(25)
Net interest on net defined benefit liability/asset	**45**	**2**	**(1)**	**4**	**50**	**49**	**2**	**0**	**4**	**55**
Gains (-)/losses – changes in financial assumptions	1	(23)	8	(8)	(22)	310	18	9	24	361
Gains (-)/losses – changes in demographic assumptions	0	5	0	0	5	0	8	6	(1)	13
Gains (-)/losses – experience adjustments	1	0	0	5	6	1	0	(12)	(1)	(12)
Return on plan assets excluding interest income[1)]	(4)	(12)	3	(4)	(17)	(5)	(8)	(10)	(14)	(37)
Impact of asset ceiling	0	0	0	3	3	0	0	0	0	0
Remeasurements of net defined benefit liability/asset	**(2)**	**(30)**	**11**	**(4)**	**(25)**	**306**	**18**	**(7)**	**8**	**325**
Total comprehensive income on defined benefit obligations	**75**	**(28)**	**10**	**13**	**70**	**375**	**21**	**(7)**	**27**	**416**

1) Prior year amount restated for initial application of IAS 19 (rev. 2011): Net interest on net defined benefit liability for 2012 has been reduced by EUR 4 m and remeasurement of net defined benefit liability for 2012 has been increased by EUR 4 m.

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

in € millions	2013 Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	17	0	0	7	24
Research and development expenses	5	0	0	1	6
Selling expenses	3	0	0	1	4
Administrative expenses	7	0	0	4	11
Included in EBIT	**32**	**0**	**0**	**13**	**45**
Interest expense	52	7	6	8	73
Interest income on plan assets	(7)	(5)	(7)	(4)	(23)
Included in financial result	**45**	**2**	**(1)**	**4**	**50**
Total	**77**	**2**	**(1)**	**17**	**95**

in € millions	2012 Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	10	0	0	10	20
Research and development expenses	4	0	0	1	5
Selling expenses	1	0	0	3	4
Administrative expenses	5	1	0	1	7
Included in EBIT	**20**	**1**	**0**	**15**	**36**
Interest expense	57	7	7	9	80
Interest income on plan assets	(8)	(5)	(7)	(5)	(25)
Included in financial result	**49**	**2**	**0**	**4**	**55**
Total	**69**	**3**	**0**	**19**	**91**

Duration

The weighted average duration of defined benefit obligations is 15.4 years (prior year: 16.1 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 15.6 years (prior year: 16.0 years), 11.0 years (prior year: 14.2 years), and 23.6 years (prior year: 23.0 years), respectively.

Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

The principal actuarial assumptions for the Schaeffler Group are as follows:

	2013 Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	3.5%	4.8%	4.5%	3.8%	**3.7%**
Future salary increases	3.3%	n.a.[1)]	n.a.[1)]	3.3%	**3.3%**
Future pension increases	1.8%	1.3%	3.2%	1.1%	**1.9%**

					2012
	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	3.5%	3.8%	4.5%	3.4%	**3.6%**
Future salary increases	3.3%	n.a.[1)]	n.a.[1)]	3.3%	**3.3%**
Future pension increases	1.8%	2.5%	3.0%	1.2%	**1.8%**

1) The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Mortality assumptions are based on published statistics and country-specific mortality tables. The "RICHTTAFELN 2005 G" mortality tables developed by Professor Dr Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which include appropriate assumptions to take into account future increases in life expectancy in particular.

Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions. The calculation does not take into account correlations between the various assumptions.

In accordance with IAS 19.173, prior year amounts are omitted, as this information is disclosed for the first time.

						2013
		Change in present value of defined benefit obligation				
in € millions		Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	(209)	(18)	(32)	(22)	**(281)**
	Minus 1.0%	270	22	44	36	**372**
Future salary increases	Plus 1.0%	147	n.a.[1)]	n.a.[1)]	16	**163**
	Minus 1.0%	(131)	n.a.[1)]	n.a.[1)]	(10)	**(141)**
Future pension increases	Plus 1.0%	25	0	19	12	**56**
	Minus 1.0%	(30)	0	(16)	(34)	**(80)**

1) The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Another key parameter in the measurement of the Schaeffler Group's pension obligations is life expectancy. An increase in life expectancy in the most significant countries by one year would lead to an increase in the present value of the corresponding obligation by EUR 67 m in Germany, EUR 10 m in the U.S., and EUR 5 m in the United Kingdom.

Risk

The Schaeffler Group is exposed to various risks regarding its defined benefit obligations. In addition to actuarial risk, these primarily include financial risk related to plan assets.

The return on plan assets is assumed to be the same as the discount rates, which are determined based on AA-rated corporate bonds. If actual returns are less than the discount rates assumed, the net defined benefit obligation increases.

Relatively low interest rate levels during the in 2012 reporting period have brought the present value of the defined benefit obligation to a relatively high level. A further decline in interest rates would lower the applicable discount rates, which in turn would result in an additional increase in the pension obligation.

The majority of the plans is exposed to inflation risk, since these are final-pay plans and, therefore, they are directly affected by salary trends. An increase in salaries would thus drive up the net defined benefit obligation.

Where plan benefits include the payment of a life-long pension, an increase in life expectancy can result in an increase in the net defined benefit obligation.

Defined contribution pension plans

In 2013, Schaeffler incurred EUR 12 m (prior year: EUR 12 m) in expenses related to defined contribution plans. At EUR 8 m (prior year: EUR 8 m), the majority of this amount relates to plans in the U.S.

4.12 Provisions

in € millions	Employee benefits	Restruc-turing	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 01, 2012	**135**	**1**	**63**	**23**	**14**	**51**	**287**
Change in accounting policy – IAS 19 (rev. 2011)	(1)	0	0	0	0	0	(1)
Balance as at January 01, 2012 after IAS 19 (rev. 2011) adjustments	**134**	**1**	**63**	**23**	**14**	**51**	**286**
Additions	71	0	68	20	8	37	204
Utilizations	(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	**104**	**1**	**91**	**37**	**16**	**49**	**298**
Balance as at January 01, 2013	**104**	**1**	**91**	**37**	**16**	**49**	**298**
Additions	76	0	44	14	4	404	542
Utilizations	(49)	(1)	(43)	(3)	(4)	(19)	(119)
Reversals	(1)	0	(11)	(5)	(2)	(2)	(21)
Interest expense	1	0	0	0	0	0	1
Foreign currency translation	0	0	(1)	(1)	(2)	(2)	(6)
Balance as at December 31, 2013	**131**	**0**	**80**	**42**	**12**	**430**	**695**

Provisions consist of the following current and non-current portions:

	December 31,					
			2013			2012
in € millions	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Employee benefits[1)]	82	49	131	58	46	104
Restructuring	0	0	0	0	1	1
Warranties	0	80	80	2	89	91
Other taxes	0	42	42	0	37	37
Liability and litigation risks	0	12	12	0	16	16
Other	14	416	430	15	34	49
Total	**96**	**599**	**695**	**75**	**223**	**298**

1) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

Employee benefits: Provisions for employee benefits consist primarily of EUR 39 m in provisions for personnel-related structural measures at the company's Schweinfurt and Wuppertal locations and EUR 55 m (prior year: EUR 71 m) in provisions for partial retirement and long-term flextime accounts, net of the related plan assets.

Obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are calculated based on the "RICHTTAFELN 2005 G" mortality tables developed by Professor Dr Klaus Heubeck and published by HEUBECK-RICHT-TAFELN-GmbH. The discount rate used 0.75% (prior year: 0.75%) at December 31, 2013, and future salary increases for employees currently in the working phase are 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).

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. Warranty provisions of EUR 36 m (prior year: EUR 43 m) relate to significant warranty claims in the Industrial division. An expected reimbursement of EUR 24 m (prior year: EUR 10 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 consist primarily of provisions for the ongoing investigations of the EU antitrust authorities in connection with possible agreements violating antitrust law in the automotive industry. As the EU antitrust authorities are expected to issue a decision in 2014, the resulting risk of a potential penalty was reflected in a provision of EUR 380 m recognized in December 2013.

In addition, this category includes 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, 2013, the Schaeffler Group has trade payables of EUR 1,014 m (prior year: EUR 794 m), all of which are current. The amount includes EUR 57 m (prior year: EUR 40 m) in notes payable at December 31, 2013. The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15.

4.14 Other financial liabilities, other liabilities and income tax payables

	December 31,	
in € millions	**2013**	**2012**
Other financial liabilities	581	638
Other liabilities	291	276
Income tax payables	495	499

At December 31, 2013, income tax payables amount to EUR 495 m (prior year: EUR 499 m), including non-current balances of EUR 340 m (prior year: EUR 267 m).

Other financial liabilities and other liabilites consist of the following:

	December 31,					
	2013			2012		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial liabilities						
Amounts payable to staff	0	189	189	0	176	176
Derivative financial liabilities	152	15	167	224	16	240
Miscellaneous financial liabilities	10	215	225	13	209	222
Total	**162**	**419**	**581**	**237**	**401**	**638**
Other liabilities						
Social security contributions payable	3	38	41	3	36	39
Advance payments received	0	31	31	0	26	26
Other tax payables	0	81	81	0	83	83
Miscellaneous liabilities	2	136	138	0	128	128
Total	**5**	**286**	**291**	**3**	**273**	**276**

Amounts payable to staff consist primarily of profit sharing accruals.

Derivative financial liabilities include forward exchange contracts and cross-currency swaps used to economically hedge the Schaeffler Group's currency risk. The decrease is mainly due to the early termination of interest rate derivatives in order to adjust the Schaeffler Group's interest rate hedging portfolio to the current requirements related to the Group's financing arrangements.

Miscellaneous financial liabilities primarily include accrued selling costs (customer bonuses, rebates, early-payment discounts) and interest.

Social security contributions payable consist mainly of unpaid contributions to social security schemes, while miscellaneous liabilities primarily contain accrued vacation and overtime accounts.

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 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.

		December 31,			
		2013		2012	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,676	1,676	1,626	1,626
Other investments[1)]	AfS	14	–	14	–
Other financial assets					
• Marketable securities	AfS	9	9	6	6
• Other loans receivable[2)]	LaR	68	68	103	103
• Derivatives designated as hedging instruments	n.a.	42	42	30	30
• Derivatives not designated as hedging instruments	HfT	207	207	84	84
Cash and cash equivalents	LaR	300	300	433	433
Financial liabilities, by class					
Financial debt	FLAC	6,190	6,761	7,261	7,727
Trade payables	FLAC	1,014	1,014	794	794
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	104	104	213	213
• Derivatives not designated as hedging instruments	HfT	63	63	27	27
• Other financial liabilities[2)]	FLAC	414	414	170	170
Summary by category					
Available-for-sale financial assets (AfS)		23	–	20	–
Financial assets held for trading (HfT)		207	–	84	–
Loans and receivables (LaR)		2,044	–	2,162	–
Financial liabilities at amortized cost (FLAC)		7,618	–	8,225	–
Financial liabilities held for trading (HfT)		63	–	27	–

1) Investments accounted for at cost.

2) Includes other finanical 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 2013, 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 risk in cash flow hedges. The Schaeffler Group uses cross-currency swaps as hedging instruments here. Forward exchange contracts are also used to hedge currency risk. Interest rate risk is hedged using interest rate caps and swaps. The fair value of derivatives is calculated using recognized valuation models with all significant inputs observable in the market.

The carrying amounts of trade payables and other financial liabilities are assumed to represent their fair value.

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 provided for the term of the SFA and may be enforced if the creditors are entitled to call the debt, for instance if financial covenants are not met.

Financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes 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). 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 determined using 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, cross-currency swaps and interest rate caps, this level also includes the company's financial debt and 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. 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.
- 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.

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

in € millions	Level 1	Level 2	Total
December 31, 2013			
Marketable securities	9		9
Derivatives designated as hedging instruments		42	42
Derivatives not designated as hedging instruments		207	207
Total financial assets	**9**	**249**	**258**
Financial debt		6,761	6,761
Derivatives designated as hedging instruments		104	104
Derivatives not designated as hedging instruments		63	63
Total financial liabilities	**0**	**6,928**	**6,928**
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**
Financial debt		7,727	7,727
Derivatives designated as hedging instruments		213	213
Derivatives not designated as hedging instruments		27	27
Total financial liabilities	**0**	**7,967**	**7,967**

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

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**	**Foreign currency translation**	**2013**	**2012**
Available-for-sale financial assets	1				1	1
Financial assets and liabilities held for trading	(189)	280			91	113
Loans and receivables	7		4	(17)	(6)	(1)
Financial liabilities at amortized cost	(465)			102	(363)	(521)
Total	**(646)**	**280**	**4**	**85**	**(277)**	**(408)**

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 91 m (prior year: EUR 113 m) relates entirely to derivatives. EUR 38 m (prior year: EUR 106 m) of this net gain is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in gains of EUR 113 m (prior year: EUR 128 m).

Net foreign exchange gains on loans and receivables and financial liabilities accounted for at amortized cost amount to EUR 85 m (prior year: EUR 7 m). The impairment loss on financial assets classified as loans and receivables consists of an impairment reversal of EUR 3 m (prior year: EUR 4 m) and an impairment loss of EUR 6 m (prior year: EUR 9 m) and relates entirely to the trade receivables class. Impairment reversals on financial assets in the other loans receivable class amounted to EUR 6 m (prior year: impairment loss of EUR 13 m).

Derivative financial instruments and hedging activities

Overview

Due to its global business activities and the resulting financing requirements, the Schaeffler Group is exposed to the following risks:

(1) Liquidity risk

(2) Counterparty risk

(3) Market risk (interest rate, currency, 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 regularly reports 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.

Using derivative financial instruments to manage risk is one component of Schaeffler's risk management system. Nominal values and fair values of derivative financial instruments as at the reporting date were as follows:

	December 31,			
	2013		2012	
in € millions	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,353	60	1,643	47
thereof: hedge accounting	787	42	1,202	30
Interest rate hedging				
Interest rate cap	400	0	2,488	0
thereof: hedge accounting	0	0	0	0
Financial liabilities				
Currency hedging				
Forward exchange contracts	712	15	665	16
thereof: hedge accounting	310	4	138	7
Cross currency swap	2,020	152	1,293	44
thereof: hedge accounting	1,070	100	609	26
Interest rate hedging				
Interest rate swap	0	0	3,500	179
thereof: hedge accounting	0	0	3,500	179

Please refer to the "Report on opportunities and risks" for further details of 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 come 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 chief financial officer.

The Schaeffler Group ensures it can 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, 2013					
Non-derivative financial liabilities	**7,618**	**9,291**	**1,941**	**5,528**	**1,822**
• Financial debt	6,190	7,863	521	5,520	1,822
• Trade payables	1,014	1,014	1,014		
• Other financial liabilities	414	414	406	8	0
Derivative financial liabilities	**167**	**149**	**25**	**95**	**29**
Total	**7,785**	**9,440**	**1,966**	**5,623**	**1,851**
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 financial liabilities	170	170	157	7	6
Derivative financial liabilities	**7,967**	**252**	**144**	**108**	
Total	**16,192**	**10,230**	**1,891**	**7,453**	**886**

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 287.5 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.

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.

Please refer to Note 1.3 for further details of the treatment of impairments on loans and receivables.

The maximum counterparty risk at the reporting date, excluding collateral, is represented by the carrying amount of the corresponding financial asset (see Table No. 075).

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.

Trade receivables in the Automotive division are subject to a concentration of risk with respect to several OEMs (see Note 5.4).

(3) Market risk

Market risk is 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 resulting transactions are carried out in accordance with 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:

	Carrying amount	
	December 31,	
in € millions	**2013**	**2012**
Variable interest instruments	**2,212**	**4,555**
● Financial debt	2,212	4,555
Fixed interest instruments	**3,978**	**2,706**
● Financial debt	3,978	2,706

The Schaeffler Group enters into interest rate caps and swaps to minimize its exposure to changes in interest rates on the variable interest debt under the SFA. At year-end, Schaeffler has interest rate caps on hand.

During the year, the company settled interest rate swaps with a nominal amount of EUR 3,500 m used to economically hedge variable interest debt early and terminated the cash flow hedge relationship. The related changes in fair value recognized in other comprehensive income without affecting net income up to November 21, 2013 amount to EUR 6 m and are amortized to net income over the remaining term of the hedged item, which ends on June 30, 2014.

As a result, interest income of EUR 1 m has been recognized in 2013.

The equity reserve of EUR -286 m accumulated up to November 20, 2009 for a terminated cash flow hedge relationship is being amortized to profit or loss using the effective interest method. In 2013, this resulted in interest expense of EUR 37 m (prior year: EUR 72 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	**2013**	**2012**
Balance as at January 01	**2**	**(122)**
Additions	(33)	52
Reclassified to income statement		
● to financial income	0	0
● to financial expense	36	72
Balance as at December 31	**5**	**2**

Sensitivity to interest rates

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0%. With regard to variable interest instruments, a shift in the yield curve of 100 Bp as at December 31, 2013 would affect (increase/decrease) net income and shareholder's equity as follows.

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2013				
Variable interest instruments	(8)	1		
Interest rate derivatives not designated as hedging instruments	(30)	55		
Total	**(38)**	**56**	**0**	**0**
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)**

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. The impact of interest rate derivatives not designated as hedging instruments on net income would be EUR -30 m and EUR 55 m, respectively, including the impact of embedded derivatives of EUR -31 m and EUR 55 m, respectively, as well as the impact of interest rate derivatives of EUR 1 m and EUR 0 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.

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, 2013				
Estimated currency risk from operations	1,026	44	(115)	(167)
Forward exchange contracts	(608)	(40)	86	177
Remaining currency risk from operations	**418**	**4**	**(29)**	**10**
December 31, 2012				
Estimated currency risk from operations	942	85	(110)	(194)
Forward exchange contracts	(762)	(78)	81	149
Remaining currency risk from operations	**180**	**7**	**(29)**	**(45)**

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 exposure in these countries arises on the U.S. Dollar and amounts to an estimated EUR -225 m (prior year: EUR -174 m).

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using forward exchange contracts.

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.

Portions of the company's external financial debt denominated in a currency other than the functional currency are hedged using cross-currency swaps with a nominal amount of USD 2,650 m. Changes in the fair value of these cross-currency swaps, which are not subject to hedge accounting, (nominal amount of USD 1,250 m; prior year: USD 900 m) were recognized directly in profit or loss in 2013.

Currency risk arising from intra-group foreign currency loans is fully hedged economically and does not result in any significant additional currency risk exposure.

Cash Flow hedges

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 from operations changed as follows:

in € millions	2013	2012
Balance as at January 01	**23**	**(56)**
Additions	(9)	23
Reclassified to income statement		
• to other income	23	0
• to other expense	0	56
Balance as at December 31	**37**	**23**

The Schaeffler Group also applies cash flow hedge accounting to the foreign currency hedge of its bonds issued in U.S. Dollar using cross-currency swaps with a nominal amount of USD 1,400 m (prior year: USD 800 m). As a result, accumulated other comprehensive income as at December 31, 2013 includes accumulated losses of EUR 23 m (prior year: EUR 25 m) representing the effective portion of fair value changes on designated financial instruments. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2014 to 2021.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk from financing activities changed as follows:

in € millions	2013	2012
Balance as at January 01	**(24)**	**0**
Additions	(74)	(26)
Reclassified to income statement		
• to financial income	0	0
• to financial expense	51	2
Balance as at December 31	**(47)**	**(24)**

Net investment hedge

The Schaeffler Group hedges the foreign exchange risk of part of its investment in its U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollars (principal of USD 999 m; prior year: 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 42 m (prior year: EUR 2 m) on designated financial debt as at December 31, 2013. 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.

Sensitivity to foreign exchange rates

The sensitivity analysis for currency risk from operations is based on a hypothetical 10% weakening of the Euro against each of the significant foreign currencies as of December 31, 2013. 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,
		2013		2012
in € millions	**Net income (loss)**	**Shareholders' equity**	**Net income (loss)**	**Shareholders' equity**
USD	14	(61)	3	(86)
JPY	(3)	0	(3)	(6)
HUF	0	8	(6)	9
RON	0	18	(16)	16

Conversely, a 10% rise in the Euro against the significant foreign currencies as at December 31, 2013 would have had the same but opposite effect, again holding all other variables constant.

The sensitivity analysis for currency risk from financing activities is based on a hypothetical 10% weakening of the Euro against the U.S. Dollar as at December 31, 2013. 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,			
	2013		2012	
in € millions	**Net income (loss)**	**Shareholders' equity**	**Net income (loss)**	**Shareholders' equity**
Foreign exchange gains and losses on financial debt . . .	(192)	(72)	(142)	(75)
Foreign exchange gains and losses on derivatives	192	21	144	23
Total	**0**	**(51)**	**2**	**(52)**

Other price risk: Other price risk 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.

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.

Offsetting financial assets and financial liabilities

As at December 31, 2013, the Schaeffler Group holds derivative financial assets and liabilities which are not required to be offset in accordance with IAS 32.42, but which are subject to an enforceable master netting arrangement or similar agreement that may result in their net settlement upon insolvency.

The following summary presents these financial assets and liabilities in accordance with IFRS 7.13C:

	December 31,	
in € millions	**2013**	**2012**
Financial assets		
Gross amount of financial assets	249	114
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	249	114
Amounts subject to master netting arrangements		
Derivatives	(56)	(45)
Net amount of financial assets	193	69
Financial liabilities		
Gross amount of financial liabilities	167	240
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	167	240
Amounts subject to master netting arrangements		
Derivatives	(56)	(45)
Net amount of financial liabilities	111	195

4.16 Capital structure

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) rose by EUR 383 m to EUR 2,491 m in 2013 (prior year: EUR 2,108 m). The equity ratio (ratio of shareholders' equity to total assets) was 18.6% (prior year: 15.6%) at December 31, 2013.

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 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 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 Schaeffler Group has complied with the financial covenants as required by its financing agreements both in 2013 and in 2012, and, based on its forecast, also expects to comply with these covenants in subsequent years.

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, income from at equity-accounted investees, income taxes, depreciation, amortization, and impairment losses), which is calculated as follows:

	December 31,	
in € millions	**2013**	**2012**
Current financial debt	225	121
Non-current financial debt	5,965	7,140
Total financial debt	**6,190**	**7,261**
Shareholder loans	443	323
Total financial debt excluding shareholder loans	**5,747**	**6,938**
Cash and cash equivalents	300	433
Total liquidity	**300**	**433**
Total net financial debt	**5,890**	**6,828**
Net financial debt excluding shareholder loans	**5,447**	**6,505**
Earnings before financial result, income from at equity-accounted investees, income taxes, depreciation and amortization (EBITDA)[1)]	**1,634**	**2,031**
Net financial debt excluding shareholder loans to EBITDA ratio[2)]	**3.3**	**3.2**

1) EBITDA 2013 incl. special items (provision for EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m).

2) Financial debt to EBITDA ratio 2013 – excluding special items (see footnote 1) see Note 2.4 to the group management report for further detail.

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	**2013**	**2012**
Less than one year	48	46
Between one and five years	53	52
More than five years	5	3
Total	**106**	**101**

The obligations consist primarily of rental agreements for real estate, leases of company vehicles, and contracts for IT and logistics services.

In 2013, expenses of EUR 71 m (prior year: EUR 68 m) related to operating rental and lease agreements were recognized in profit or loss.

5. Other disclosures

5.1 Commitments

At December 31, 2013, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 177 m (prior year: EUR 164 m). These commitments are expected to be settled as follows:

	December 31,	
in € millions	**2013**	**2012**
Less than one year	164	117
Between one and five years	13	47
Total	**177**	**164**

5.2 Contingent liabilities

	December 31,	
in € millions	**2013**	**2012**
Supplementary payment under Renewable Energy Sources Act	6	0
Other	13	37
Total	**19**	**37**

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.

Since 2011, several antitrust authorities have been investigating 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. During the year, the investigations of the EU antitrust authorities have become sufficiently concrete for the Schaeffler Group to recognize a provision in its consolidated financial statements in December 2013 (see Note 4.12). The risk remains that, along with the EU antitrust authorities, other antitrust authorities will also impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. and in Canada 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 currency translation.

At December 31, 2013, cash and cash equivalents amount to EUR 300 m (prior year: EUR 433 m), including EUR 151 m (prior year: EUR 154 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 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. The financing transactions completed in April 2013 to refinance the company's SFA – such as placing bonds with institutional investors and replacing existing loans with new loan agreements – were also largely non-cash in nature. Only transaction costs paid for these arrangements are included in cash flows from operating activities.

As a result of the dividend paid by Continental AG, Schaeffler Beteiligungsholding GmbH & Co. KG paid a dividend of EUR 162 m (prior year: EUR 80 m) (see Note 4.3) to Schaeffler AG. In the statement of cash flows, the dividend is shown in cash flows from operating activities under dividends received. The dividend received was used to repay bank debt as required by the SFA which is shown as a cash outflow from financing activities.

Special items of EUR 380 m related to the ongoing EU antitrust proceedings have reduced EBIT and increased other provisions. Thus, they have not affected cash flows from operating activities increased in 2013; the related cash outflow is expected in 2014.

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 division and Industrial division as described below, each focusing on a specific worldwide group of customers. 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 primarily manufacturers of passenger cars and commercial vehicles (OEM), automotive suppliers (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, power transmission, wind power, construction machinery/tractors, consumer goods, heavy industries, rail way and power generation and in the industrial aftermarket 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.

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 amortization, depreciation, and impairments are reported based on the current allocation of customers to segments. The allocation of customers to divisions 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. Gains on transactions between operating segments are not included.

Reconciliation to earnings before income taxes in € millions	2013	2012
EBIT Automotive[1]	736	997
EBIT Industrial[1]	246	416
EBIT	**982**	**1,413**
Financial result[2]	(442)	(680)
Income from at equity-accounted investees	**801**	**554**
Earnings before income taxes[2]	**1,341**	**1,287**

1) Prior year information presented based on 2013 segment structure.

2) Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4. for details.

The reportable segments Automotive division and Industrial division are managed on a global basis and operate production and distribution facilities in the geographical areas Europe, North America, South America, and Asia/Pacific.

Significant customers

In 2013, Schaeffler generated revenue of EUR 1,397 m (prior year: EUR 1,358 m) from one key customer, representing approximately 12.5% (prior year: 12.2%) of total group revenue and approximately 17.1% (prior year: 17.7%) of Automotive segment revenue.

Information about geographical areas

	Revenue[1]		Non-current assets[2]	
			December 31,	
in € millions	2013	2012	2013	2012
Europe	6,226	6,228	2,525	2,681
● thereof Germany	2,794	2,926	1,541	1,640
North America	1,833	1,759	398	382
South America	526	561	107	156
Asia/Pacific	2,620	2,577	877	850
● thereof Greater China	1,190	1,098	545	491
Total	**11,205**	**11,125**	**3,907**	**4,069**

1) Revenue by customer location. Prior year information presented based on 2013 segment structure.

2) Non-current assets consist of property, plant and equipment and intangible assets.

5.5 Related parties

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler are related parties of the Schaeffler Group.

The Schaeffler Group does not have any significant direct business relations with Maria-Elisabeth and Georg F. W. Schaeffler.

The Schaeffler Group's related companies include the immediate and ultimate parent companies of Schaeffler AG. Schaeffler AG's immediate parent company is Schaeffler Verwaltungs GmbH. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG (IHO). These related companies are referred to as "parent IHO companies" below. Related companies also include companies other than Schaeffler AG that are controlled by Schaeffler AG's parent companies.

In 2013 and 2012, 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. Shareholder loans consist of the loans from Schaeffler Verwaltungs GmbH discussed in Note 4.10.

Schaeffler AG's annual general meeting in March 2013 resolved to pay a dividend of EUR 250 m (or EUR 0.50 per share) for the year 2012 (see Note 4.9).

The following table summarizes income and expenses from transactions with the parent IHO companies recognized in the Schaeffler Group's 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	**2013**	**2012**	**2013**	**2012**
Parent IHO companies	1	0	446	324

	Expenses		Income	
in € millions	**12/31/2013**	**12/31/2012**	**12/31/2013**	**12/31/2012**
Parent IHO companies	23	21	3	108

The Continental AG Group companies are also related to the Schaeffler Group.

Related-party business relationships with Continental Group companies exist 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. 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. This investor agreement was terminated on May 13, 2013 effective in May 2014.

The following table summarizes income and expenses from transactions with Continental Group companies 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	**2013**	**2012**	**2013**	**2012**
Continental Group companies	12	10	12	4

	Expenses		Income	
in € millions	**2013**	**2012**	**2013**	**2012**
Continental Group companies	49	34	97	91

Related parties of the Schaeffler Group include the members of the Schaeffler Group's executive board: Klaus Rosenfeld, Dr Juergen M. Geissinger (until October 04, 2013), Wolfgang Dangel (until December 31, 2013), Professor Dr Peter Gutzmer, Oliver Jung, Kurt Mirlach, Robert Schullan, Norbert Indlekofer, Professor Dr Peter Pleus, and Dr Gerhard Schuff (until September 30, 2013).

The Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler AG, who, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: Juergen Baensch (since July 11, 2013), 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 (until July 11, 2013), Tobias Rienth, Stefanie Schmidt, Dirk Spindler, Robin Stalker, Salvatore Vicari, Juergen Wechsler, Dr Otto Wiesheu, and Juergen Worrich.

Members of the supervisory board of Schaeffler AG and of the executive board of the Schaeffler Group and parties related to them have acquired bonds issued in 2013 by Schaeffler Finance B.V. totaling EUR 3 m (prior year: EUR 5 m) in 2013 and have received EUR 0,3 m (prior year: EUR 0,2 m) in interest on these bonds. At December 31, 2013, members of the supervisory board of Schaeffler AG and of the executive board of the Schaeffler Group held bonds issued by Schaeffler Finance B.V. with a principal totaling EUR 6 m (prior year: EUR 5 m).

No advances or loans were granted to members of the Schaeffler Group's executive board or Schaeffler AG's supervisory board.

Total remuneration of the Schaeffler Group's executive board for the year was EUR 26 m (prior year: EUR 23 m).

Short-term employee benefits of EUR 18 m (prior year: EUR 21 m) were paid to members of the Schaeffler Group's executive board.

Total remuneration paid to the statutory board of directors of Schaeffler AG established under stock corporation law in return for the performance of their duties in accordance with section 314 (6(a) (1) HGB was EUR 13 m in 2013 (prior year: EUR 13 m).

Post-employment benefit expenses of EUR 3 m (prior year: EUR 2 m) were recognized for members of the Schaeffler Group's executive board.

Termination benefit expenses of EUR 5 m (prior year: EUR 0 m) were recognized for members leaving the Schaeffler Group's executive board in 2013.

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 5 m in 2013 (prior year: EUR 0 m), representing the termination benefits paid to members who left the Schaeffler AG executive board in 2013.

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, 2013 (prior year: EUR 3 m).

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2013 and required to be disclosed by section 314 (1)(9) HGB total EUR 4,099 thousand (prior year: EUR 4,354 thousand) and consist of EUR 2,140 thousand (prior year: EUR 1,660 thousand) for financial statement audit services, EUR 1,036 thousand (prior year: EUR 885 thousand) for other attestation services, EUR 690 thousand (prior year: EUR 346 thousand) for tax advisory services, and EUR 233 thousand (prior year: EUR 1,463 thousand) for other services.

These fees were paid for services rendered to Schaeffler AG and its German subsidiaries. KPMG AG Wirtschaftsprüfungsgesellschaft is considered the auditor.

5.7 Events after the reporting period

No material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after December 31, 2013.

5.8 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 (55)			
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
IFT Ingenieurgesellschaft fuer Triebwerks-Technik mbH	Clausthal-Zellerfeld	DE	100.00
INA – Drives & Mechatronics AG & Co. KG (since March 01, 2014: INA – Drives & Mechatronics GmbH & 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

Entity	Location	Country code	Group ownership interest in %
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG (since March 01, 2014: Schaeffler Elfershausen GmbH & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Engineering GmbH	Werdohl	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	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente AG & Co. KG (since March 01, 2014: Schaeffler Motorenelemente GmbH & 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 Fuenf GmbH & Co. KG (since January 01, 2014: Schaeffler Technologies GmbH & Co. KG)	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 (103)			
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
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00

Entity	Location	Country code	Group ownership interest in %
RODISA, S.L.	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 (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
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
FAG Bearings India Ltd.	Mumbai	IN	51.33
FAG Roller Bearings Private Ltd.	Mumbai	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 OOO	Ulyanovsk	RU	100.00

Entity	Location	Country code	Group ownership interest in %
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, spol. s.r.o.	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-Aftermarket Services, LLC	Valley City	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
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.	Bien Hoa 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 (4)			
Contitech-INA Beteiligungsgesellschaft mbH[1)]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG[1)]	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG[1)2)]	Herzogenaurach	DE	100.00
II. Foreign (3)			
Colinx, LLC	Greenville	US	20.00
Eurings Zrt.	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 34.19% of the voting interest in Continental AG, Hanover.

5.9 Preparation of consolidated financial statements

The executive board of Schaeffler AG prepared the consolidated financial statements on March 10, 2014 and released them for submission to the supervisory board of Schaeffler AG. The supervisory board of Schaeffler AG is responsible for examining and approving the consolidated financial statements.

Herzogenaurach, March 10, 2014

The Executive Board

Independent Auditors' Report*

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by the 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 01, 2013 to December 31, 2013. 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 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 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 12, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Becker	Sailer
Wirtschaftsprüfer	Wirtschaftsprüfer

* This auditors' report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete consolidated financial statements, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in shareholders' equity and the notes to the consolidated financial statements, together with the group management report of Schaeffler AG for the financial year from January 1, 2013 to December 31, 2013. The group management report is not included in this Offering Memorandum. The above-mentioned auditors' report and consolidated financial statements are both translations of the respective German-language documents.

Audited annual financial statements of Schaeffler Finance B.V. as of and for the year ended 31 December 2014

1. Balance Sheet as at December 31, 2014

(before appropriation of the profit)

in € thousands	Note	12/31/2014	12/31/2013
ASSETS			
Tangible fixed assets	1	3	4
Financial fixed assets	2	4,641,726	3,572,545
Total non-current assets		**4,641,729**	**3,572,549**
Loans to affiliated companies	3	6,275	3,650
Other current assets	4	55,193	71,453
Cash and cash equivalents	5	78	161
Total current assets		**61,546**	**75,264**
Total assets		**4,703,275**	**3,647,813**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Issued and paid up share capital	6.1	18	18
Share premium reserve	6.2	1,982	1,982
Other reserves		68,681	11,350
Unappropriated result		(55,800)	57,331
Total shareholders' equity		**14,881**	**70,681**
Interest-bearing loans and borrowings	7	4,633,566	3,506,272
Total non-current liabilities		**4,633,566**	**3,506,272**
Trade payables		6	5
Taxes and social charges	8	198	1
Other liabilities	9	54,624	70,854
Total current liabilities		**54,828**	**70,860**
Total shareholders' equity and liabilities		**4,703,275**	**3,647,813**

2. Profit & Loss account for the year 2014

in € thousands	Note	2014	2013
Interest income and similar income	10	378,660	285,958
Interest expense and similar expenses	11	(433,626)	(228,065)
Net interest result		**(54,966)**	**57,893**
Depreciation tangible fixed assets		(1)	(1)
Administrative expenses	12	(95)	(76)
Result before corporate income tax		**(55,062)**	**57,816**
Corporate income tax	13	(738)	(485)
Net result		**(55,800)**	**57,331**

3. Cash flow statement for the period ended December 31, 2014

in € thousands	2014	2013
Operating Activities		
Net result	(55,800)	57,331
Depreciation/amortization	1	1
Changes in:		
Working capital	(2,397)	(1,392)
Cash flows from operating activities	**(58,196)**	**55,940**
Investing activities		
Investments on balance in financial fixed assets	(1,069,181)	(1,233,217)
Cash flows from investing activities	**(1,069,181)**	**(1,233,217)**
Financing activities		
Proceeds on balance from interest-bearing loans and borrowings	1,127,294	1,177,381
Cash flows from financing activities	**1,127,294**	**1,177,381**
Net increase in cash and cash equivalents	**(83)**	**104**
Cash and cash equivalents as of January 1	161	57
Cash and cash equivalents as of December 31	**78**	**161**

4. Notes

4.1 General

Relationship with parent company and principal activities

Schaeffler Finance B.V. is a company domiciled in the Netherlands. Schaeffler AG is the sole shareholder of the company. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG.

The company was incorporated and started its activities on October 14, 2011. The articles of association of the company were notarially executed on October 14, 2011.

The company has been established to act as a financing company for the Schaeffler Group in regard to its funding needs through borrowing, lending and fund raising.

Besides the two Managing Directors there was no staff in 2014 and 2013.

Basis of preparation

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code.

The financial statements are presented in Euro, the company's functional currency.

The applied accounting policies are based on the historical cost convention.

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

4.2 Accounting policies

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is recorded in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognized in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognized when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

The revenue and expenses are allocated to the period to which they relate.

Use of estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates.

The estimates and the underlying assumptions are constantly assessed. Changes in estimates are recognised in the period in which the estimate has been changed and in future periods for which the change has consequences.

Principles for the translation of foreign currency

Foreign currency transactions

Transactions denominated in foreign currency are translated into the relevant functional currency of the group companies at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into Euros at the applicable exchange rates applying on the transaction date. Translation gains and losses are taken to the profit and loss account.

The following exchange rate was applied on December 31, 2014: 1 EUR = 1.2141 USD (December 31, 2013: 1.3791 USD).

Financial instruments

Financial instruments include investments in bonds, trade and other receivables, cash items, loans and other financing commitments, and trade and other payables. This financial statement contains the following financial instruments: financial instruments held for trading (financial assets and liabilities), loans and receivables, bonds, other liabilities and derivatives.

Financial instruments also include derivative financial instruments (derivatives) embedded in contracts. Derivatives embedded in contracts shall be separated from the host contract and accounted for as a separate financial instrument if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value with changes in fair value recognised through profit and loss.

Financial instruments, including derivatives separated from their host contracts, are initially recognised at fair value. If instruments are not measured at fair value through profit and loss, then any directly attributable transaction costs are included in the initial measurement.

Financial instruments embedded in contracts that are not accounted for separately from the host contract are recognised in accordance with the host contract.

After initial recognition, financial instruments are valued in the manner described below.

Loans granted and receivables

Loans granted and receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses.

Other financial commitments

Financial commitments that are not held for trading are carried at amortised cost on the basis of the effective interest rate method.

Derivatives

Derivatives are measured at fair value with recognition of all changes in value in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each item of the tangible fixed assets.

The following rates of depreciation are applied:

Tangible fixed assets: 20 – 25%

Financial fixed assets

Loans to Schaeffler AG

These loans are measured at amortised cost using the effective interest method, less impairment losses.

Prepayment option bonds

This prepayment option is stated at fair value. The value of the prepayment option is regularly evaluated and is based on the risk free interest rates, the contractually accorded discount curves, the credit risks, the interest rate as well as the credit spread volatility (as market parameters) on the performance of the bonds.

Impairment

Assets with a long life should be tested for impairment in the case of changes or circumstances arising that lead to an indication that the carrying amount of the asset will not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows which the asset is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, impairment is charged to the difference between the carrying amount and the recoverable amount.

Receivables

The accounting policies applied for the valuation of trade and other receivables are described under the heading 'Financial instruments'.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Non-current liabilities

Interest-bearing loans and borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings on an effective interest basis as per inception date.

Current liabilities

The valuation of current liabilities is explained under the heading 'Financial instruments'.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income taxes payable for the reporting period.

Corporate income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current income tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred income tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The taxable profit of the company is based on an Advance Pricing Agreement. As a consequence, the taxable result can deviate substantially from the commercial result.

Determination of fair values

The fair value of bonds and long-term loans to affiliated companies (Schaeffler AG) is based on the listed market price of the bonds and the market value of the future cash flows of the long-term loans. The fair value of these bonds as at December 31, 2014 is EUR 4,781,294 thousand (December 31, 2013: EUR 3,946,899 thousand) while the fair value of the long-term loans as at December 31, 2014 amounts to EUR 4,795,121 thousand (December 31, 2013: EUR 3,957,586 thousand). The net proceeds from each bond issue by Schaeffler Finance B.V. are only applied towards the purposes of lending to Schaeffler AG. The interest rate of each long-term loan is 0.0645% higher than the interest rate on the bonds (interest margin). The other conditions on the long-term loans are equal to those on the bonds.

The difference in fair value is mainly caused due to timing difference in interest received and paid and discount factors.

The fair value of the other assets and liabilities as at December 31, 2014 is equal to the valuation in the balance sheet.

The carrying and fair value of the assets and liabilities as at December 31 is specified in the following overview.

	2014			2013		
in € thousands	**Carrying value**	**Fair value**	**Unrecognised gain / loss**	**Carrying value**	**Fair value**	**Unrecognised gain / loss**
Loans to Schaeffler AG	4,629,930	4,795,121	165,191	3,500,525	3,957,586	457,061
Prepayment option bonds	11,796	11,796	–	72,020	72,020	–
Fixed assets	3	3	–	4	4	–
Current Assets	61,468	61,468	–	75,103	75,103	–
Cash and cash equivalents	78	78	–	161	161	–
Interest- bearing loans and borrowings	4,633,566	4,781,294	(147,728)	3,506,272	3,946,899	(440,627)
Current liabilities	54,828	54,828	–	70,860	70,860	–

Cash flow statement

The cash flow statement is prepared using the indirect method. Cash flows in foreign currency are translated into Euro using the weighted average exchange rates at the dates of the transactions.

4.3 Financial risk management

Overview

The company has exposure to the following risks from its use of financial instruments

- Counterparty risk
- Liquidity risk
- Market risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

The Management Board has overall responsibility for the establishment and oversight of the company's risk management framework. The company's risk management policies are established to identify and analyse the risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

Counterparty risk

Counterparty risk is the risk of financial loss to the company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from investment securities.

The company's exposure to counterparty risk is influenced mainly by the individual characteristics of Schaeffler AG. The net proceeds from each bond issue by Schaeffler Finance B.V. were only used for lending to Schaeffler AG. The interest rate on each loan is 0.0645% higher than the interest rate on the bonds (interest margin). The other conditions on the intercompany loans to Schaeffler AG are equal to those on the bonds. Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of bondholders with respect to the payment of capital and interest of the secured bonds issued by Schaeffler Finance B.V.

The payments of capital and interest of the unsecured bond issues by Schaeffler Finance B.V. is guaranteed by Schaeffler Verwaltung Zwei GmbH only.

The ratings of Schaeffler Group have not changed in course of the fiscal year 2014. Moody's moved the company rating for Schaeffler Group from Schaeffler Verwaltung Zwei GmbH to Schaeffler AG and confirmed the rating of Ba3 with a stable outlook. The company rating for Schaeffler Group by Standard & Poor's is still with Schaeffler Verwaltung Zwei GmbH and rated BB- with a stable outlook. The ratings for the secured bonds issued by Schaeffler Finance B.V. are rated Ba2 (Moody's) and BB- (Standard & Poor's). The ratings for the unsecured bond are B1 (Moody's) and B (Standard & Poor's).

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Risk is mitigated by matching the maturities of the non-current assets and the long-term debts. The prepayment option on the bonds is also a measure to mitigate the liquidity risk.

The secured bond issues of Schaeffler Finance B.V. are irrevocably guaranteed by Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH. The unsecured bond issue of Schaeffler Finance B.V. is guaranteed by Schaeffler Verwaltung Zwei GmbH only.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Within the Schaeffler Group the finance organization closely monitors, actively manages and reports market risks to the chief financial officer.

Interest rate risk

The interest rates and other interest conditions on the intercompany loans to Schaeffler AG are equal to the interest-bearing loans and borrowings, before addition of an agreed interest margin.

Currency risk

The net proceeds from each issue of interest-bearing loans and borrowings by the company will only be used for the purpose of lending to Schaeffler AG. Therefore the company is not exposed to currency risk on investment and borrowings that are denominated in a currency other than the functional currency of the Schaeffler Group.

Capital management

The policy of Schaeffler AG is to maintain a strong capital base and satisfactory long-term credit ratings so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the company's approach to capital management during the year.

The company is no subject to externally imposed capital requirements.

4.4 Notes to the Balance Sheet

Non-current assets

1 Tangible fixed assets

	in € thousands 2014	in € thousands 2013
January 1		
Acquisition cost	6	6
Accumulated depreciation	(2)	(1)
Book value	4	5
Changes		
Depreciation for the year	(1)	(1)
Book value	(1)	(1)
December 31		
Purchase value	6	6
Accumulated depreciation	(3)	(2)
Book value	3	4

2 Financial fixed assets

	in € thousands 2014	in € thousands 2013
Loans to Schaeffler AG	4,629,930	3,500,525
Prepayment option bonds	11,796	72,020
Total	4,641,726	3,572,545

2.1 Loans to Schaeffler AG

	in € thousands 2014	in € thousands 2013
a. EUR-loan 2012/2017	791,494	788,007
b. USD-loan 2012/2017	488,938	428,544
c. EUR-loan 2012/2017	–	321,945
d. EUR-loan 2012/2019	–	396,156
e. USD-loan 2012/2019	–	359,080
f. EUR-loan 2013/2018	596,371	595,426
g. USD-loan 2013/2021	695,088	611,367
h. EUR-loan 2014/2019	495,230	–
i. EUR-loan 2014/2019	495,254	–
j. USD-loan 2014/2021	569,900	–
k. EUR-loan 2014/2022	497,655	–
Total	4,629,930	3,500,525

a. EUR-loan 2012/2017

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured EUR-bond 2012/2017 (nominal EUR 800 million) by way of loan to Schaeffler AG on February 9, 2012. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (EUR 17,752 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 3,487 thousand (2013: EUR 3,120 thousand) is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (7.8145% per annum) and has a term of 5 years. The effective interest rate is 8.539%. Redemption of the EUR 800 million is due latest on February 15, 2017.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

b. USD-loan 2012/2017

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured USD-bond 2012/2017 (nominal USD 600 million) by way of loan to Schaeffler AG on February 9, 2012. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (USD 13,314 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 USD 2,615 thousand (2013: USD 2,340 thousand) is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (7.8145% per annum) and has a term of 5 years. The effective interest rate is 8.539%. Redemption of the USD 600 million is due latest on February 15, 2017.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the USD-bond issued by Schaeffler Finance B.V.

c. EUR-loan 2012/2017

Schaeffler Finance B.V. has exercised the prepayment option of the bond and therefore the 2012/2017 EUR-loan (nominal EUR 325.979 million) has been redeemed as of May 14, 2014.

d. EUR-loan 2012/2019

Schaeffler Finance B.V. has exercised the prepayment option of the bond and therefore the 2012/2019 EUR-loan (nominal EUR 400 million) has been redeemed as of May 14, 2014.

e. USD-loan 2012/2019

Schaeffler Finance B.V. has exercised the prepayment option of the bond and therefore the 2012/2019 USD-loan (nominal USD 500 million) has been redeemed as of May 14, 2014.

f. EUR-loan 2013/2018

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured EUR-bond 2013/2018 (nominal EUR 600 million) by way of loan to Schaeffler AG on April 29, 2013. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (EUR 5,100 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 945 thousand (2013: EUR 526 thousand) is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (4.3145% per annum) and has a term of 5 years. The effective interest rate is 4.555%. Redemption of the EUR 600 million is due latest on May 15, 2018.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

g. USD-loan 2013/2021

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured USD-bond 2013/2021 (nominal USD 850 million) by way of loan to Schaeffler AG on April 29, 2013. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (USD 7,225 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 USD 770 thousand (2013: USD 361 thousand) is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (4.8145% per annum) and has a term of 8 years. The effective interest rate is 5.005%. Redemption of the USD 850 million is due latest on May 15, 2021.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

h. EUR-loan 2014/2019

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured EUR-bond 2014/2019 (nominal EUR 500 million) by way of loan to Schaeffler AG on May 14, 2014. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (EUR 5,395 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 625 thousand is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (2.8145% per annum) and has a term of 5 years. The effective interest rate is 3.072%. Redemption of the EUR 500 million is due latest on May 15, 2019.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

i. EUR-loan 2014/2019

Schaeffler Finance B.V. has passed on the proceeds from the issue of the unsecured EUR-bond 2014/2019 (nominal EUR 500 million) by way of loan to Schaeffler AG on May 14, 2014. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (EUR 5,355 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 609 thousand is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (3.3145% per annum) and has a term of 5 years. The effective interest rate is 3.582%. Redemption of the EUR 500 million is due latest on May 15, 2019.

The payment of capital and interest of the unsecured bond issued by Schaeffler Finance B.V. is guaranteed by Schaeffler Verwaltung Zwei GmbH only.

j. USD-loan 2014/2021

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured USD-bond 2014/2021 (nominal USD 700 million) by way of loan to Schaeffler AG on May 14, 2014. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (USD 8,729 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 USD 645 thousand is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (4.3145% per annum) and has a term of 7 years. The effective interest rate is 4.575%. Redemption of the USD 700 million is due latest on May 15, 2021.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

k. EUR-loan 2014/2022

Schaeffler Finance B.V. has passed on the proceeds from the issue of the secured EUR-bond 2014/2022 (nominal EUR 500 million) by way of loan to Schaeffler AG on May 14, 2014. The payment of the loan has taken place after deduction of disagio and management and underwriting fees (EUR 2,500 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 155 thousand is therefore credited to the profit & loss account and presented as interest income.

The loan bears interest at a fixed rate (3.5645% per annum) and has a term of 8 years. The effective interest rate is 3.670%. Redemption of the EUR 500 million is due latest on May 15, 2022.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

General

If and in as far as Schaeffler Finance B.V. is obliged to make any repayments on the bonds, or voluntarily in whole or in part repays the bonds, Schaeffler Finance B.V. has the right to request any prepayment of the corresponding loan in an amount equal to the pro rata portion of the aggregate principal amount of the bonds being repurchased or redeemed. The value of this prepayment option as at 31 December 2014 is EUR nil (31 December 2013: nil).

2.2 Prepayment option bonds

	in € thousands	in € thousands
	2014	2013
January 1	72,020	16,739
Initial value issued bonds	3,264	1,126
Value redeemed bonds	(65,915)	–
Change valuation financial year	2,427	54,155
December 31	11,796	72,020

The company may redeem the secured EUR-bonds 2012/2017 and the secured USD-bonds 2012/2017 in whole or in part at any time at a redemption price equal to 100% of the principal amount plus the applicable premium as of the date of the redemption plus accrued and unpaid interest until February 15, 2017. Prior to February 15, 2016, the company may also redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

The company may redeem the secured EUR-bonds 2013/2018 in whole or in part at any time on or after May 15, 2015 at specified redemption prices. Prior to May 15, 2015, the company may redeem the EUR-bonds 2013/2018, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium.

In addition, prior to May 15, 2015, the company may redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

The company may redeem the secured USD-bonds 2013/2021 in whole or in part at any time on or after May 15, 2016 at specified redemption prices. Prior to May 15, 2016, the company may redeem the USD-bonds 2013/2021, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium.

In addition, prior to May 15, 2016, the company may redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

The company may redeem the secured EUR-bonds 2014/2019 in whole or in part at any time on or after May 15, 2016 at specified redemption prices. Prior to May 15, 2016, the company may redeem the EUR-bonds 2014/2019, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium.

In addition, prior to May 15, 2016, the company may redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

The company may redeem the unsecured EUR-bonds 2014/2019 in whole or in part at any time on or after May 15, 2016 at specified redemption prices. Prior to May 15, 2016, the company may redeem the EUR-bonds 2014/2019, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium.

In addition, prior to May 15, 2016, the company may redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

The company may redeem the secured USD-bonds 2014/2021 in whole or in part at any time on or after May 15, 2017 at specified redemption prices. Prior to May 15, 2017, the company may redeem the USD-bonds 2014/2021, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium.

In addition, prior to May 15, 2017, the company may redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

The company may redeem the secured EUR-bonds 2014/2022 in whole or in part at any time on or after May 15, 2017 at specified redemption prices. Prior to May 15, 2017, the company may redeem the EUR-bonds 2014/2022, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium.

In addition, prior to May 15, 2017, the company may redeem at her option up to 40% of the bonds using the proceeds of certain equity offerings.

Current assets

3 Loans to affiliated companies

	in € thousands	in € thousands
	December 31, 2014	December 31, 2013
Loan to Schaeffler AG	6,275	3,650

The interest on this short-term loan is based on EURIBOR +/- 0.378% (2013: +/- 0.618%). No securities are provided. The maturity date is February, 16 2015.

4 Other current assets

Corporate income tax	–	5
Interest receivable on long-term loans to Schaeffler AG	55,193	71,448
Total	55,193	71,453

5 Cash and cash equivalents

Cash and cash equivalents	78	161

The balance of EUR 78 thousand is at free disposal of the company and available at the Deutsche Bank AG.

6 Shareholders' equity

in € thousands	Issued and paid up share capital	Share premium reserve	Other reserves	Unappropriated result	2014 Total	2013 Total
Balance as at January 1	18	1,982	11,350	57,331	70,681	13,350
Changes:						
Result last year	–	–	57,331	(57,331)	–	–
Share premium	–	–	–	–	–	–
Retained profit	–	–	–	(55,800)	(55,800)	57,331
Balance as at December 31	**18**	**1,982**	**68,681**	**(55,800)**	**14,881**	**70,681**

6.1 Issued and paid up share capital

The company's authorised capital, amounting to EUR 90 thousand, consists of 90.000 ordinary shares of EUR 1 each, of which 18,000 ordinary shares have been issued.

On 27 January 2012 Schaeffler AG entered into a new syndicated facilities agreement of EUR 8.0 billion, which was subsequently partially replaced and refinanced by the issuance of senior secured bonds in February and July 2012. As part of this refinancing a right of pledge over all shares in Schaeffler Finance B.V. was granted to Deutsche Bank Luxembourg S.A. in its capacity as general security trustee in order to secure Schaeffler's obligations under the aforementioned agreement and the senior secured bonds. With effect from 14 December 2012 Schaeffler AG amended certain commercial terms of the syndicated facilities agreement from January 2012 by entering into a revised syndicated facilities agreement ("Amendment by Refinancing"). In this context the right of pledge of the shares in Schaeffler Finance B.V. was renewed to reflect the terms of the revised agreement. On 27 October 2014, Schaeffler AG entered again in a revised syndicated facilities agreement. The pledge over all shares in Schaeffler Finance B.V. was not affected by such refinancing.

6.2 Share premium reserve

In February 2012 the equity of the company was increased by EUR 1,982 thousand to meet the requirements of the Advance Pricing Agreement with the Dutch tax authorities. This increase qualifies as share premium.

Non-current liabilities

7 Interest-bearing loans & borrowings (bonds)

	in € thousands	in € thousands
	December 31, 2014	December 31, 2013
a. EUR-bond 2012/2017	791,352	787,888
b. USD-bond 2012/2017	488,843	428,468
c. EUR-bond 2012/2017	–	322,697
d. EUR-bond 2012/2019	–	398,101
e. USD-bond 2012/2019	–	361,335
f. EUR-bond 2013/2018	596,395	595,453
g. USD-bond 2013/2021	696,057	612,330
h. EUR-bond 2014/2019	495,659	–
i. EUR-bond 2014/2019	495,750	–
j. USD-bond 2014/2021	570,724	–
k. EUR-bond 2014/2022	498,786	–
Total	4,633,566	3,506,272

a. EUR-bond 2012/2017

Schaeffler Finance B.V. has issued on 9 February 2012 8,000 EUR-bonds in the amount of EUR 100 thousand each. The proceeds of the secured EUR-bond have been deducted by disagio and management and underwriting fees (EUR 17,752 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 3,464 thousand (2013: EUR 2,907 thousand) is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The EUR-bond bears interest at a fixed rate (7.75% per annum) and has a term of 5 years. The effective interest rate is 8.467%. Redemption is due latest on February 15, 2017 as the EUR-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

b. USD-bond 2012/2017

Schaeffler Finance B.V. has issued on 9 February 2012 3,000 USD-bonds in the amount of USD 200 thousand each. The proceeds of the secured USD-bond have been deducted by disagio and management and underwriting fees (USD 13,314 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 USD 2,603 thousand (2013: USD 2,177 thousand) is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The USD-bond bears interest at a fixed rate (7.75% per annum) and has a term of 5 years. The effective interest rate is 8.467%. Redemption is due latest on February 15, 2017 as the USD-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the USD-bond issued by Schaeffler Finance B.V.

c. EUR-bond 2012/2017

Schaeffler Finance B.V. has exercised the prepayment option and therefore the EUR-bond 2012/2017 (nominal EUR 325,979 million) has been redeemed on May 14, 2014.

d. EUR-bond 2012/2019

Schaeffler Finance B.V. has exercised the prepayment option and therefore the EUR-bond 2012/2019 (nominal EUR 400 million) has been redeemed on May 14, 2014.

e. USD-bond 2012/2019

Schaeffler Finance B.V. has exercised the prepayment option and therefore the USD-bond 2012/2019 (nominal USD 500 million) has been redeemed on May 14, 2014.

f. EUR-bond 2013/2018

Schaeffler Finance B.V. has issued on 29 April 2013 6,000 EUR-bonds in the amount of EUR 100 thousand each. The proceeds of the secured EUR-bond have been deducted by management and underwriting fees (EUR 5,100 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 942 thousand (2013: EUR 523 thousand) is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The EUR-bond bears interest at a fixed rate (4.25% per annum) and has a term of 5 years. The effective interest rate is 4.487%. Redemption is due latest on May 15, 2018 as the EUR-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

g. USD-bond 2013/2021

Schaeffler Finance B.V. has issued on 29 April 2013 4,250 USD-bonds in the amount of USD 200 thousand each. The proceeds of the secured USD-bond have been deducted by disagio and management and underwriting fees (USD 7,225 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 USD 618 thousand (2013: USD 265 thousand) is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The USD-bond bears interest at a fixed rate (4.75% per annum) and has a term of 8 years. The effective interest rate is 4.912%. Redemption is due latest on May 15, 2021 as the USD-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the USD-bond issued by Schaeffler Finance B.V.

h. EUR-bond 2014/2019

Schaeffler Finance B.V. has issued on May 14, 2014 5,000 EUR-bonds in the amount of EUR 100 thousand each. The proceeds of the secured EUR-bond have been deducted by management and underwriting fees (EUR 5,395 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 522 thousand is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The EUR-bond bears interest at a fixed rate (2.75% per annum) and has a term of 5 years. The effective interest rate is 2.982%. Redemption is due latest on May 15, 2019 as the EUR-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

i. EUR-bond 2014/2019

Schaeffler Finance B.V. has issued on May 14, 2014 5,000 EUR-bonds in the amount of EUR 100 thousand each. The proceeds of the unsecured EUR-bond have been deducted by management and underwriting fees (EUR 5,355 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 493 thousand is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The EUR-bond bears interest at a fixed rate (3.25% per annum) and has a term of 5 years. The effective interest rate is 3.488%. Redemption is due latest on May 15, 2019 as the EUR-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

The payment of capital and interest of the unsecured bond issued by Schaeffler Finance B.V. is guaranteed by Schaeffler Verwaltung Zwei GmbH only.

j. USD-bond 2014/2021

Schaeffler Finance B.V. has issued on May 14, 2014 3,500 USD-bonds in the amount of USD 200 thousand each. The proceeds of the secured USD-bond have been deducted by management and underwriting fees (USD 8,729 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 USD 389 thousand is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The USD-bond bears interest at a fixed rate (4.25% per annum) and has a term of 7 years. The effective interest rate is 4.480%. Redemption is due latest on May 15, 2021 as the USD-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the USD-bond issued by Schaeffler Finance B.V.

k. EUR-bond 2014/2022

Schaeffler Finance B.V. has issued on May 14, 2014 5,000 EUR-bonds in the amount of EUR 100 thousand each. The proceeds of the secured EUR-bond have been deducted by management and underwriting fees (EUR 2,500 thousand). These amounts will be amortised on the basis of the remaining term of the loan. For 2014 EUR 20 thousand is therefore debited to the profit & loss account and presented as interest expenses. Additionally, the initial value of the prepayment option as mentioned in 2.2. (Financial fixed assets) has been deducted.

The EUR-bond bears interest at a fixed rate (3.50% per annum) and has a term of 8 years. The effective interest rate is 3.567%. Redemption is due latest on May 15, 2022 as the EUR-bond contract includes a prepayment option. The prepayment option gives the issuing party the right to end the contract earlier and execute the redemption before the end of the term.

Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH have provided an irrevocable and unconditional guarantee for the benefit of the bondholder with respect to payment of capital and interest of the EUR-bond issued by Schaeffler Finance B.V.

Terms and debt repayment schedule

				2017	2018	2019	2021	2022
in € thousands	Effective interest rate	Fixed interest rate	Nominal value	Repayment	Repayment	Repayment	Repayment	Repayment
EUR-bond 02/2012 (2012/2017)	8.467%	7.750%	EUR 800,000	EUR 800,000	–	–	–	–
USD-bond 02/2012 (2012/2017)	8.467%	7.750%	USD 600,000	USD 600,000	–	–	–	–
EUR-bond 04/2013 (2013/2018)	4.487%	4.250%	EUR 600,000	–	EUR 600,000	–	–	–
USD-bond 04/2013 (2013/2021)	4.912%	4.750%	USD 850,000	–	–	–	USD 850,000	–
EUR-bond 05/2014 (2014/2019)	2.982%	2,750%	EUR 500,000	–	–	EUR 500,000	–	–
EUR-bond 05/2014 (2014/2019)	3.488%	3,250%	EUR 500,000	–	–	EUR 500,000	–	–
USD-bond 05/2014 (2014/2021)	4.480%	4.250%	USD 700,000	–	–	–	USD 700,000	–
EUR-bond 05/2014 (2014/2022)	3.567%	3,500%	EUR 500,000	–	–	–	–	EUR 500,000

Current liabilities

8 Taxes and social charges

	in € thousands	in € thousands
	December 31, 2014	December 31, 2013
Corporate income tax	197	–
Wage tax and social charges	1	1
Total	198	1

9 Other current liabilities

	in € thousands	in € thousands
	December 31, 2014	December 31, 2013
Interest payable on issued bonds	54,599	70,835
Accrued expenses	25	19
Total	54,624	70,854

4.5 Notes to the Profit and Loss Statement

10 Interest income and similar income

	in € thousands	in € thousands
	2014	2013
Interest on loans Schaeffler AG (non-current assets)*	376,129	231,593
Interest on loan Schaeffler AG (current assets)	24	15
Increase value prepayment options (bonds)	2,427	54,155
Exchange rate differences	80	195
Total	378,660	285,958

* The interest on loans Schaeffler AG (2014) includes interest concerning the early redemption of loans (EUR 114,376 thousand).

11 Interest expense and similar expenses

Interest on issued bonds*	367,711	228,065
Decrease value prepayment options redeemed bonds	65,915	–
Total	433,626	228,065

* The interest on issued bonds (2014) includes interest concerning the early redemption of bonds (EUR 114,233 thousand).

12 Administrative expenses

Salaries (management board)	24	24
Social charges	2	2
Rent (office)	10	10
Advisory costs	40	38
Other expenses	19	2
Total	95	76

During the financial year 2014 the company employed an average of 2 employees (2013: 2).

The audit fees charged by KPMG Accountants N.V. to the company as referred to in Section 2:382a(1) and (2) of the Netherlands Civil Code are EUR 24 thousand (2013: EUR 19 thousand).

13 Corporate income tax

The applicable tax rate is 20-25% (2013: 20-25%). The tax expense recognised in the profit and loss account for 2014 amounts to EUR 738 thousand, or 24.7% of the fiscal result before tax (2013: 24,5%), and comprises the following components:

Current tax for the financial year	738	485

There are no losses, which can be offset against future profits. Final income tax assessments have been imposed up to and including 2013.

14 Transactions with related parties

Transactions with related parties include relationships between Schaeffler Finance B.V., companies of the Schaeffler Group and the company's directors.

Schaeffler Finance B.V. obtains funds from the market by issuing corporate bonds. The net proceeds of these bonds are lent on in the form of intercompany loans.

The issued secured bonds (total EUR 4.14 billion as at 31 December 2014) are unconditionally and irrevocably guaranteed by Schaeffler Verwaltung Zwei GmbH and selected subsidiaries of Schaeffler Verwaltung Zwei GmbH. The unsecured bond (EUR 0.50 billion as at 31 December 2014) is unconditionally and irrevocably guaranteed by Schaeffler Verwaltung Zwei GmbH only.

Due to the company's general policy to match funding in terms of maturities and interest rate risks, the funds obtained are lent onward at similar conditions. The interest rate of each loan to Schaeffler AG is 0.0645% higher than the interest on the bonds. The other conditions on the long-term loans to Schaeffler AG are equal to those on the bonds. As a consequence the terms in respect of currencies, maturities and interest rate on the in- and outbound financial instruments correspond.

The members of the Managing Board received a remuneration of EUR 24 thousand in 2014 (2013: EUR 24).

Barneveld, March 6, 2015

The Management Board

D. Heinrich C. Bol

Independent Auditors' Report

To:
Schaeffler Finance B.V.
Gildeweg 31
Barneveld
Netherlands

We have audited the accompanying financial statements of Schaeffler Finance B.V., Barneveld/ Netherlands ("the Company"), which comprise the statement of financial position as at December 31, 2014, the profit and loss account and cash flow statement for the year then ended, and notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Title 9, Book 2 of the Netherlands Civil Code and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Schaeffler Finance B.V., Barneveld/Netherlands as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with Title 9, Book 2 of the Netherlands Civil Code.

Munich, March 18, 2015

KPMG AG Wirtschaftsprüfungsgesellschaft

Christian Sailer	Michael Pritzer
Wirtschaftsprüfer	Wirtschaftsprüfer

ISSUER
Schaeffler Finance B.V.
Gildeweg 31
3771 NB Barneveld
The Netherlands

PARENT GUARANTOR
Schaeffler Verwaltung Zwei GmbH
Industriestrasse 1-3
91074 Herzogenaurach
Germany

LEGAL ADVISORS TO THE ISSUER AND PARENT GUARANTOR

As to
U.S. law
Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

As to
German law
Allen & Overy LLP
Bockenheimer Landstrasse 2
60306 Frankfurt am Main
Germany

As to
Dutch law
Allen & Overy LLP
Apollolaan 15
1077 AB Amsterdam
The Netherlands

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to
U.S. law
Latham & Watkins (London) LLP
99 Bishopsgate
London EC2M 3XF
United Kingdom

As to
German law
Latham & Watkins LLP
Reuterweg 20
60323 Frankfurt am Main
Germany

As to
Dutch law
De Brauw Blackstone Westbroek N.V.
Claude Debussylaan 80
1070 AB Amesterdam
The Netherlands

INDEPENDENT AUDITORS TO THE ISSUER AND PARENT GUARANTOR
KPMG AG Wirtschaftsprüfungsgesellschaft
Ganghoferstrasse 29
80339 Munich
Germany

U.S. REGISTRAR,
TRANSFER AGENT AND PAYING AGENT
Deutsche Bank Trust Company Americas
60 Wall Street
MSNYC60-1630
New York, NY 10005
United States of America

LUXEMBOURG REGISTRAR,
TRANSFER AGENT AND PAYING AGENT
Deutsche Bank Luxembourg S.A.
2, boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

PRINCIPAL PAYING AGENT
Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LUXEMBOURG LISTING AGENT
Deutsche Bank Luxembourg S.A.
2, boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

SECURITY TRUSTEE
Deutsche Bank Luxembourg S.A.
2, boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

TRUSTEE
Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LEGAL ADVISOR TO THE TRUSTEE
Clifford Chance LLP
10 Upper Bank Street
London E145JJ
United Kingdom

OFFERING MEMORANDUM

SCHAEFFLER

Schaeffler Finance B.V.

€400,000,000 2.50% Senior Secured Notes due 2020
€600,000,000 3.25% Senior Secured Notes due 2025
$600,000,000 4.75% Senior Secured Notes due 2023

Lead Bookrunners

BofA Merrill Lynch	**Deutsche Bank**	**Barclays**	**BayernLB**	**BNP PARIBAS**
Citigroup	**Commerzbank**	**HSBC**	**J.P. Morgan**	**UniCredit**