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

IHO HOLDING

IHO Verwaltungs GmbH

€750,000,000 2.750% / 3.500% Senior Secured PIK Toggle Notes due 2021
€750,000,000 3.250% / 4.000% Senior Secured PIK Toggle Notes due 2023
€750,000,000 3.750% / 4.500% Senior Secured PIK Toggle Notes due 2026
$500,000,000 4.125% / 4.875% Senior Secured PIK Toggle Notes due 2021
$500,000,000 4.500% / 5.250% Senior Secured PIK Toggle Notes due 2023
$500,000,000 4.750% / 5.500% Senior Secured PIK Toggle Notes due 2026

IHO Verwaltungs GmbH (currently named Schaeffler Verwaltung Zwei GmbH), a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of the Federal Republic of Germany (the "**Issuer**"), is offering (the "**Offering**") €750,000,000 in aggregate principal amount of its 2.750% / 3.500% Senior Secured PIK Toggle Notes due 2021 (the "**2021 Euro Notes**"), €750,000,000 in aggregate principal amount of its 3.250% / 4.000% Senior Secured PIK Toggle Notes due 2023, (the "**2023 Euro Notes**"), €750,000,000 in aggregate principal amount of its 3.750% / 4.500% Secured PIK Toggle Notes due 2026 (the "**2026 Euro Notes**" and, together with the 2021 Euro Notes and the 2023 Euro Notes, the "**Euro Notes**"), $500,000,000 in aggregate principal amount of its 4.125% / 4.875% Senior Secured PIK Toggle Notes due 2021 (the "**2021 Dollar Notes**"), $500,000,000 in aggregate principal amount of its 4.500% / 5.250% Senior Secured PIK Toggle Notes due 2023 (the "**2023 Dollar Notes**") and $500,000,000 in aggregate principal amount of its 4.750% / 5.500% Senior Secured PIK Toggle Notes due 2026 (the "**2026 Dollar Notes**" and, together with the 2021 Dollar Notes and the 2023 Dollar Notes, the "**Dollar Notes**;" the Dollar Notes and the Euro Notes together, the "**Notes**"). The Issuer will pay interest on the Notes semi-annually in arrears on May 15 and November 15 of each year, commencing May 15, 2017. The first two and the final interest payments on the Notes will be made in cash. For each other interest payment the Issuer will be required to pay interest on the Notes entirely in cash ("**Cash Interest**"), unless the conditions described in this offering memorandum (the "**Offering Memorandum**") are satisfied, in which case the Issuer will be entitled to pay, to the extent described herein, interest for such interest period by increasing the principal amount of the Notes or by issuing Notes ("**Additional PIK Notes**") in a principal amount equal to such interest (in each case, "**PIK Interest**"). Cash interest on the 2021 Euro Notes will accrue at the rate of 2.750% per annum (the "**2021 Euro Cash Interest Rate**"), cash interest on the 2023 Euro Notes will accrue at the rate of 3.250% per annum (the "**2023 Euro Cash Interest Rate**"), cash interest on the 2026 Euro Notes will accrue at the rate of 3.750% per annum (the "**2026 Euro Cash Interest Rate**"), cash interest on the 2021 Dollar Notes will accrue at the rate of 4.125% per annum (the "**2021 Dollar Cash Interest Rate**"), cash interest on the 2023 Dollar Notes will accrue at the rate of 4.500% per annum (the "**2023 Dollar Cash Interest Rate**") and cash interest on the 2026 Dollar Notes will accrue at the rate of 4.750% per annum (the "**2026 Dollar Cash Interest Rate**" and each of the 2021 Euro Cash Interest Rate, the 2023 Euro Cash Interest Rate, the 2026 Euro Cash Interest Rate, the 2021 Dollar Cash Interest Rate, the 2023 Dollar Cash Interest Rate and the 2026 Dollar Cash Interest Rate, as applicable, the "**Cash Interest Rate**"). PIK Interest will accrue at the respective Cash Interest Rate plus 0.75% per annum. If the Issuer pays all eligible interest in PIK Interest, it will increase the principal amount of the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes or issue Additional PIK Notes in relation to the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes, as applicable, in a principal amount up to a maximum of €847 million, €933 million, €1,095 million, $592 million, $665 million and $793 million, respectively. Upon the payment of PIK Interest, a notice shall be published on the website of the Luxembourg Stock Exchange in the form of Appendix 1.

The 2021 Euro Notes will mature on September 15, 2021, the 2023 Euro Notes will mature on September 15, 2023, the 2026 Euro Notes will mature on September 15, 2026, the 2021 Dollar Notes will mature on September 15, 2021, the 2023 Dollar Notes will mature on September 15, 2023 and the 2026 Dollar Notes will mature on September 15, 2026. The Issuer may redeem the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes in whole or in part at any time on or after September 15, 2018, September 15, 2019, September 15, 2021, September 15, 2018, September 15, 2019 and September 15, 2021, respectively, at the redemption prices specified herein. Prior to September 15, 2018, September 15, 2019, September 15, 2021, September 15, 2018, September 15, 2019 and September 15, 2021, the Issuer will be entitled, at its option, to redeem all or a portion of the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 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 September 15, 2018, September 15, 2019, September 15, 2021, September 15, 2018, September 15, 2019 and September 15, 2019, the Issuer may redeem at its option up to 40% of the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 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* with all other indebtedness of the Issuer that is not subordinated to the Notes, including the Issuer Facilities Agreement (as defined below). Upon issuance, the Notes (together with the Issuer's obligations under certain credit facilities and hedging liabilities described in this Offering Memorandum) will be secured by pledges over (i) 333,000,001 common shares in Schaeffler AG (representing 66.7% of the voting shares (*Stammaktien*) and 50% *plus* one share of the total share capital of Schaeffler AG) held by the Issuer, and (ii) 41,937,694 common shares in Continental AG held by the Issuer (representing a number of common shares in Continental AG equal to the aggregate principal amount of the Notes (euro-equivalent as of August 31, 2016) *plus* €800 million, divided by the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Continental Share Value**") on August 31, 2016, multiplied by 1.75), in each case as described in this Offering Memorandum (the "**Collateral**"). As of the Issue Date, the Notes will not be guaranteed by any of the Issuer's subsidiaries and will be structurally subordinated to all existing and future indebtedness of any of the Issuer's subsidiaries (in particular, Schaeffler AG and its subsidiaries). The Notes 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 the property and assets securing such indebtedness.

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The restrictive covenants in the indenture that will govern the Notes (the "**Indenture**") will only apply to the Issuer and not to Schaeffler AG and its subsidiaries or any future subsidiaries that are designated as Unrestricted Subsidiaries (as defined in the Indenture). See "*Risk Factors—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral*."

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

Investing in the Notes involves risks. See "*Risk Factors*" beginning on page 38.

The Notes have not been and will not 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 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 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 law on prospectus securities dated July 10, 2005, 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 list the Notes on the Official List of the Luxembourg Stock Exchange (the "**LuxSE**") and to admit the Notes to trading 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.

The Notes are expected to be issued in the form of one or more global notes in registered form and delivered in book-entry form through the Depository Trust Company ("**DTC**"), Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**") on or about September 22, 2016 (the "**Issue Date**").

Issue Price for the 2021 Euro Notes: 100% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2023 Euro Notes: 100% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2026 Euro Notes: 100% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2021 Dollar Notes: 100% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2023 Dollar Notes: 100% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2026 Dollar Notes: 100% plus accrued interest, if any, from the Issue Date.

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank **Citigroup**

Joint Bookrunners

BofA Merrill Lynch **HSBC**

Offering Memorandum dated September 22, 2016.

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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., Citigroup Global Markets Limited, Merrill Lynch International, Merrill Lynch, Pierce, Fenner & Smith Incorporated or HSBC Bank plc (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 acknowledgements, 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 to 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 or incorporated by reference in this Offering Memorandum and any other information provided by the Issuer in connection with the issuance of the Notes. None of the Initial Purchasers accepts any responsibility or liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer 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 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 our business, 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 is extracted 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 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 CITIGROUP GLOBAL MARKETS INC. 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 U.S. Investors

Each purchaser of Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Memorandum under "*Transfer Restrictions*." The Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transfer. Prospective purchasers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Notes, see "*Transfer Restrictions*." The Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

Notice to Canadian Investors

This Offering Memorandum constitutes an "exempt offering document" as defined in and for the purposes of applicable Canadian securities laws. No prospectus has been filed with any securities commission or similar regulatory authority in Canada in connection with the offer and sale of the Notes. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this Offering Memorandum or on the merits of the Notes and any representation to the contrary is an offense.

Canadian investors are advised that this document has been prepared in reliance on section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"). Pursuant to section 3A.3 of NI 33-105, this document is exempt from the requirement that the Issuer and the Initial Purchasers provide Canadian investors with certain conflicts of interest disclosure pertaining to "connected issuer" and/or "related issuer" relationships that may exist between the Issuer and the Initial Purchasers as would otherwise be required pursuant to sub-section 2.1(1) of NI 33-105.

Resale Restrictions

The offer and sale of the Notes in Canada is being made on a private placement basis only and is exempt from the requirement that the Issuer prepares and files a prospectus under applicable Canadian securities laws. Any resale of Notes acquired by a Canadian investor in this offering must be made in accordance with applicable Canadian securities laws, which may vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with Canadian prospectus requirements, a statutory exemption from the prospectus requirements, in a transaction exempt from the prospectus requirements or otherwise under a discretionary exemption from the prospectus requirements granted by the applicable local Canadian securities regulatory authority. These resale restrictions may under certain circumstances apply to resales of the Notes outside of Canada.

Representations of Purchasers

Each Canadian investor who purchases the Notes will be deemed to have represented to the Issuer that the investor (i) is purchasing as principal, or is deemed to be purchasing as principal in

accordance with applicable Canadian securities laws, for investment only and not with a view to resale or redistribution; (ii) is an “accredited investor” as such term is defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions* (“**NI 45-106**”) or, in Ontario, as such term is defined in section 73.3(1) of the *Securities Act* (Ontario); and (iii) is a “permitted client” as such term is defined in section 1.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

Taxation and Eligibility for Investment

Any discussion of taxation and related matters contained in this Offering Memorandum does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a Canadian investor when deciding to purchase the Notes and, in particular, does not address any Canadian tax considerations. No representation or warranty is hereby made as to the tax consequences to a resident, or deemed resident, of Canada of an investment in the Notes or with respect to the eligibility of the Notes for investment by such investor under relevant Canadian federal and provincial legislation and regulations.

Rights of Action for Damages or Rescission

Securities legislation in certain of the Canadian jurisdictions provides certain purchasers of securities pursuant to an offering memorandum, including where the distribution involves an “eligible foreign security” as such term is defined in Ontario Securities Commission Rule 45-501 *Ontario Prospectus and Registration Exemptions* and in Multilateral Instrument 45-107 *Listing Representation and Statutory Rights of Action Disclosure Exemptions*, as applicable, with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum, or other offering document that constitutes an offering memorandum, and any amendment thereto, contains a “misrepresentation” as defined under applicable Canadian securities laws. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed under, and are subject to limitations and defenses under, applicable Canadian securities legislation. In addition, these remedies are in addition to and without derogation from any other right or remedy available at law to the investor.

Language of Documents

Upon receipt of this Offering Memorandum, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Notes described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu’il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

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 EEA 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 of the Notes is not being made and will not be made 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 EEA, 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 Article 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 our management. 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 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:

- the performance of the global economy in general and developments in the Eurozone, the United States and China in particular, that could affect the demand for automobiles and industrial components;
- increased competition as well as downward pressure on prices and profitability;
- risks associated with the strategic expansion into emerging markets;
- instability in the social, political and economic conditions in the countries in which we operate;
- increases in raw material and energy prices;
- the need for unexpected capital expenditures;
- changes in laws and regulations, including taxation, and increases in regulatory burdens in the jurisdictions in which we operate, including those pertaining to operational, health, safety and environmental standards;
- the risk of accidents, natural disasters or other adverse incidents in the operation of the plants we administer or operate;
- 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.

None of Schaeffler AG, the Issuer or the Initial Purchasers assume any 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. None of Schaeffler AG, the Issuer or the Initial Purchasers assume any 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, "**Issuer**" and "**IHO Verwaltungs**" each refers to IHO Verwaltungs GmbH (currently named Schaeffler Verwaltung Zwei GmbH) with its registered office in Herzogenaurach, Germany. "**Schaeffler AG**"

refers to Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung ("**IBH**")) with its registered office in Herzogenaurach, Germany, and Schaeffler AG and its subsidiaries are collectively referred to as the "**Schaeffler Group**." "**Continental AG**" refers to Continental AG with its registered office in Hanover, Germany, and Continental AG and its subsidiaries are collectively referred to as the "**Continental Group**." "**Schaeffler Beteiligungsholding**" refers to Schaeffler Beteiligungsholding GmbH & Co. KG, which was merged into the Issuer effective December 31, 2015. "**IHO Beteiligungs**" refers to IHO Beteiligungs GmbH (currently named Schaeffler Verwaltungs GmbH), and IHO Beteiligungs and its finance subsidiary Schaeffler Holding Finance B.V. are collectively referred to as the "**IHO Beteiligungs Group**." "**We**," "**us**," and "**our**" refer to the Issuer and/or the Schaeffler Group, as the context requires.

By shareholder resolution dated September 5, 2016, it was resolved to rename (i) Schaeffler Verwaltung Zwei GmbH to IHO Verwaltungs GmbH, (ii) Schaeffler Verwaltungs GmbH to IHO Beteiligungs GmbH and (iii) Schaeffler Holding GmbH & Co. KG to IHO Holding GmbH & Co. KG. The renaming is subject to entry of the name changes in the commercial register and other formalities and is expected to become effective in September or October 2016.

References to management, directors and executive officers are to the management, directors and executive officers of Schaeffler AG or the Issuer, 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 consolidated financial statements of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014 included in this Offering Memorandum, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**EU**") ("**IFRS**") and have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**"). KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the German Commercial Code ("**HGB**"), in particular section 322 HGB, with respect to Schaeffler AG's audited consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014. The unaudited consolidated condensed financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016, included in this Offering Memorandum, were prepared in accordance with IFRS applicable to interim financial reporting and have been reviewed by KPMG. KPMG has issued a review report in accordance with the applicable provisions of the German Securities Trading Act ("**WpHG**"), in particular section 37 w para. 5 WpHG, with respect to Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016.

Schaeffler AG published its first audited consolidated financial statements as of and for the fiscal year ended December 31, 2014. The comparative figures for 2013 included in these financial statements were prepared by way of a carve-out, restating the Schaeffler Group's operations retrospectively as if the group structure as of December 31, 2014 had already been in place for the fiscal year ended December 31, 2013. It should be noted that the consolidated financial statements prepared by Schaeffler AG are not comparable with the consolidated financial statements previously published by the Issuer when it operated under the legal name Schaeffler AG due to the difference in the scope of consolidation.

The 2013 figures shown in this Offering Memorandum have been derived from the 2013 comparative figures included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014. These figures, which reflect the presentation of financial information of Schaeffler AG in 2014, differ from the 2013 figures derived from the audited

consolidated financial statements of IBH (Schaeffler AG's legal predecessor) as of and for the fiscal year ended December 31, 2013, as the allocation of customers to Schaeffler AG's segments was modified in 2014 and the figures for 2013 were adjusted accordingly. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Key Factors affecting Comparability—Customer Allocation to Segments*."

The 2014 figures shown in this Offering Memorandum have been derived from the 2014 comparative figures included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015. These figures, which reflect the presentation of financial information of Schaeffler AG in 2015, differ from the 2014 figures derived from Schaeffler AG's audited consolidated financial statements as of and for the fiscal year ended December 31, 2014, as the allocation of customers to Schaeffler AG's segments and the allocation of procurement and quality assurance expenses were modified in 2015 and the figures for 2014 were adjusted accordingly. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Key Factors affecting Comparability—Customer Allocation to Segments*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Key Factors affecting Comparability—Allocation of Procurement and Quality Assurance Expenses.*"

The figures for the six-month period ended June 30, 2015 shown in this Offering Memorandum have been derived from the comparative figures for the six-month period ended June 30, 2015 included in the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016. These figures, which reflect the presentation of financial information of Schaeffler AG in the six-month period ended June 30, 2016, differ from the figures for the six-month period ended June 30, 2015 derived from Schaeffler AG's unaudited consolidated financial statements as of and for the six-month period ended June 30, 2015, as the allocation of customers to Schaeffler AG's segments and the allocation of customer payments for development services were modified in 2016 and the figures for the six-month period ended June 30, 2015 were adjusted accordingly. For more information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Key Factors affecting Comparability—Customer Allocation to Segments*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Key Factors affecting Comparability—Allocation of Customer Payments for Development Services.*"

The unconsolidated financial statements of the Issuer as of and for the fiscal year ended December 31, 2015, included in this Offering Memorandum, have been prepared on the basis of German generally accepted accounting principles ("**German GAAP**") in accordance with the HGB and have been audited by KPMG. The Issuer is not required to prepare consolidated financial statements or any interim financial statements. KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to the Issuer's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2015.

The historical financial information presented for the twelve-month period ended June 30, 2016 has been calculated by adding amounts for the six-month period ended June 30, 2016 to the amounts for the full year ended December 31, 2015 and subtracting the amounts for the six-month period ended June 30, 2015. The financial information for the twelve-month period ended June 30, 2016 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

IFRS and German GAAP differ in certain material respects from generally accepted accounting principles in the United States ("**U.S. GAAP**"). As a result, the results of operations and financial condition derived from the financial statements that are included in this Offering Memorandum may differ substantially from the results of operations and financial condition derived from financial statements prepared in accordance with U.S. GAAP. None of Schaeffler AG or the Issuer has

prepared a reconciliation of its financial information to U.S. GAAP or a summary of significant accounting differences in the accounting and valuation methods between IFRS or German GAAP on the one hand, and U.S. GAAP on the other hand, nor has any of them otherwise reviewed the impact the application of U.S. GAAP would have on its financial reporting. Accordingly, in making an investment decision, investors must rely on their own examination of the financial information of Schaeffler AG and the Issuer.

In this Offering Memorandum, references to "**2015**," "**2014**" and "**2013**" refer to the years ended December 31, 2015, 2014 and 2013, 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.

All of the financial data presented in this Offering Memorandum is shown in millions of euro (in € million), except as otherwise stated. A dash ("–") signifies that the relevant figure is not available, while a zero ("0") signifies that the relevant figure is available but has been rounded to zero. Where financial data is labeled "audited," this means that such data has been taken from the audited financial statements mentioned above. The label "unaudited" is to indicate financial data that has not been taken from the audited financial statements mentioned above but has been taken or derived from the unaudited consolidated condensed financial statements of Schaeffler AG mentioned above or our internal reporting system or has been calculated based on information contained in the audited financial statements mentioned above, the unaudited consolidated condensed financial statements of Schaeffler AG mentioned above or our internal reporting system.

Pro Forma Financial Information

In addition to the financial information described above, this Offering Memorandum includes unaudited *pro forma* financial information for the Issuer and the Schaeffler Group as of and for the twelve-month period ended June 30, 2016, which has been adjusted to reflect certain effects of the Transactions (as defined under "*Summary—The Transactions*") and the Schaeffler Group Refinancing (as defined under "*Summary—Schaeffler Group—Recent Developments—Schaeffler Group Refinancing*") and certain other adjustments on the financial information for the Issuer and the consolidated financial information for the Schaeffler Group, respectively, as if the Transactions had occurred on (i) July 1, 2015, for the purposes of the calculation of income statement and cash flow statement items or (ii) June 30, 2016, for the purposes of the calculation of balance sheet items. The unaudited *pro forma* financial information included herein has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive or any generally accepted accounting standards. The unaudited *pro forma* adjustments are based upon available information and certain assumptions that we believe to be reasonable. Neither the assumptions underlying the *pro forma* adjustments nor the resulting unaudited *pro forma* financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

The unaudited *pro forma* financial information is for illustrative purposes only and should not be considered indicative of actual results that would have been achieved had the Transactions and the Schaeffler Group Refinancing been completed on the dates indicated and do not indicate our future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the unaudited *pro forma* financial information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the unaudited *pro forma* financial information.

The unaudited *pro forma* financial information should be read in conjunction with the information contained in "*Certain Financial Information of the Issuer*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group*" and the financial statements contained in this Offering Memorandum, including the related notes thereto, beginning on page F–1.

Non-GAAP Financial Measures

This Offering Memorandum contains non-GAAP measures and ratios, including EBITDA, net interest paid, capital expenditures, free cash flow, working capital, net financial debt and certain leverage, coverage and Loan-to-Value ("**LTV**") ratios, that are not required by, or presented in accordance with, any generally accepted accounting principles ("**GAAP**"), including IFRS or German GAAP. We present non-GAAP 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-GAAP measures as used by the Schaeffler Group and the Issuer are included elsewhere in this Offering Memorandum. The non-GAAP 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 the relevant GAAP. Non-GAAP measures and ratios such as EBITDA, net interest paid, capital expenditures, free cash flow, working capital, net financial debt and leverage, coverage and LTV ratios are not measurements of our performance or liquidity under any GAAP and should not be considered as alternatives to profit for the year or any other performance measures derived in accordance with IFRS or German GAAP 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 at 1:00 p.m. New York time on September 6, 2016 was $1.1228 per €1.00.

U.S. dollars per €1.00 **Year**	**Period end**	**Average**	**High**	**Low**
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
2015	1.0866	1.1100	1.2099	1.0492

U.S. dollars per €1.00 **Month**	**Period end**	**Average**	**High**	**Low**
March 2016	1.1381	1.1135	1.1381	1.0853
April 2016	1.1440	1.1344	1.1440	1.1223
May 2016	1.1139	1.1306	1.1527	1.1134
June 2016	1.1073	1.1238	1.1399	1.1038
July 2016	1.1157	1.1061	1.1157	1.0967
August 2016	1.1158	1.1205	1.1354	1.1086
September 2016 (through September 6, 2016)	1.1228	1.1186	1.1228	1.1153

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:

- IHS Markit Ltd., automotive database, dated June 2016 ("**IHS Automotive (June 2016)**"); and
- The Freedonia Group Inc., "World Bearings Report," published September 2014 ("**The Freedonia Group Inc., World Bearings Report (September 2014)**").

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 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.

The Issuer is a holding and finance company and does not conduct any business operations of its own. The main assets of the Issuer are 500,000,000 common shares in Schaeffler AG (representing 100% of the voting shares and 75.1% of the total share capital of Schaeffler AG) and 71,990,458 common shares in Continental AG (representing 36.0% of the total share capital of Continental AG). The operating business as described throughout this Offering Memorandum relates to the Schaeffler Group.

The Issuer

The Issuer is a holding and finance company underpinned by two main assets, a 75.1% stake (representing 100% of the voting rights) in Schaeffler AG and a 36.0% stake in Continental AG. Both Schaeffler AG and Continental AG are market-leading global manufacturing companies headquartered in Germany and listed on the Frankfurt Stock Exchange. As of August 31, 2016, Schaeffler AG had a market capitalization (including voting and non-voting shares) of €8,798 million (based on the volume weighted average price per non-voting share of Schaeffler AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Schaeffler AG Share Value**")), and Continental AG had a market capitalization of €36,701 million (based on the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Continental Share Value**")). We believe that the Issuer's "two pillar" model represents strategic value, benefiting from exposure to its two complementary underlying assets and from the Schaeffler family's history of value creation. The stable and profitable operations of its underlying assets have provided the Issuer with strong recurring cash flows. In the twelve-month period ended June 30, 2016, the Issuer received aggregate dividends in the amount of €515 million, comprising €245 million from Schaeffler AG and €270 million from Continental AG.

Schaeffler Group

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 development of the markets we serve, which we are helping to shape through our "Mobility for tomorrow" strategic concept, our focus on the megatrends driving our business that revolves around "eco-friendly drives," "urban mobility," "interurban mobility" and the "energy chain."

We are one of the largest family-controlled technology companies in the world, with around 85,000 employees and a network of manufacturing locations, R&D facilities and distribution companies in approximately 170 locations in 50 countries (as of June 30, 2016). Our 74 manufacturing locations form the foundation of our operations.

In the fiscal year ended December 31, 2015, we had revenues of €13.2 billion (€6.7 billion in the six-month period ended June 30, 2016) and EBITDA of €2.1 billion (€1.2 billion in the six-month period

ended June 30, 2016). We believe that we are among the top three manufacturers in each of our core sectors worldwide and we have a large presence in rapidly growing emerging markets, such as China (the Greater China region accounted for 14% of our consolidated revenue during the six-month period ended June 30, 2016 and 12% of our employees as of June 30, 2016) and the rest of Asia. We believe that our industry-leading technology platform, high product quality, long-standing and diversified customer relationships, broad distribution channels, global production footprint and extensive product and service offering position us well for future growth.

We operate through two divisions:

- ***Automotive Division:*** Our Automotive Division generated 76% of our revenue and 80% of our EBIT in the fiscal year ended December 31, 2015 (77% and 86%, respectively, in the six-month period ended June 30, 2016). We supply more than 65,000 products to approximately 8,000 customers globally. We develop and manufacture state-of-the-art products for engine, transmission and chassis systems. As a partner of 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 more fuel-efficient 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 extensive technical expertise for the entire drive train.
- ***Industrial Division:*** Our Industrial Division accounted for 24% of our revenue and 20% of our EBIT in the fiscal year ended December 31, 2015 (23% and 14%, respectively, in the six-month period ended June 30, 2016). We supply approximately 85,000 products to approximately 14,000 customers in a variety of different industrial sectors. 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 an extensive aftermarket offering (*i.e.*, sale of spare parts and provision of services) for both of our divisions, which includes the distribution of spare parts and services to customers worldwide. Our aftermarket services provide essential sales support functions and generate attractive margins as well as stable and recurring revenues. In the fiscal year ended December 31, 2015, 22% of our consolidated revenue was generated from our aftermarket business (21% in the six-month period ended June 30, 2016).

We distribute our products under three globally recognized brands, LuK, INA and FAG, providing high-quality products to both automotive and industrial markets through a number of distribution channels. Our LuK brand covers, among other things, 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. Our business activities are divided into four regions: Europe (Western Europe, Southern Europe, Central and Eastern Europe, the Middle East, Africa and India), the Americas (the United States, Canada Mexico and South America), Greater China (China, Hong Kong and Taiwan) and Asia/Pacific (Japan, South Korea and Southeast Asia). In addition to the traditional core markets in Europe (53% of our consolidated revenue in the fiscal year ended

December 31, 2015 and 55% in the six-month period ended June 30, 2016) and the Americas (22% of our consolidated revenue in the fiscal year ended December 31, 2015 and 21% in the six-month period ended June 30, 2016), our business is increasingly significant in key growth markets, such as Greater China and Asia/Pacific, which together accounted for 25% of our consolidated revenue in the fiscal year ended December 31, 2015 and 24% in the six-month period ended June 30, 2016. Following our integrated "in the region, for the region" approach, we have built a global manufacturing footprint with each of our plants having a strong regional foothold. As of June 30, 2016, we operated 48 plants in Europe, 14 in the Americas, seven in Greater China and five in Asia/Pacific. All our plants are certified under international standards for quality and environmental protection.

Competitive Strengths

We believe that the following competitive strengths have been the primary drivers of our success in the past and will continue to set us apart from our competitors in the future:

German Precision Engineering and Manufacturing Company with Leading Global Positions across Portfolio Based on Quality, Technology and Innovation

We have a long tradition of precision engineering and manufacturing expertise, particularly in the area of high-precision mechanical components and systems. This expertise has enabled us to gain leading positions across our core sectors, and we believe that each of our businesses in these sectors is positioned among the top three globally in its market in terms of market share measured by revenue. Based on our research, we believe our Automotive Division is a leader in the engine, transmission and chassis systems sector, with top positions in particular in engine valve train components, dual mass flywheels and ball screw drives for electrical power steering. Additionally, we believe our Industrial Division holds the top three market positions across a broad range of the industries it serves, and that we hold the number two position in the global bearings market. We support OEMs throughout their full product lifecycle, from taking part in the early stages of product development to providing critical engineering application know-how, and are therefore regarded as a key partner.

Quality and reliability are the key attributes of our products and services, as many of our products are mission-critical to the performance, durability and safety of the equipment in which they are installed. Providing superior product quality to our customers is therefore key to our business model and paramount to our success. A holistic quality management system in all of our locations, including all manufacturing plants worldwide, ensures compliance with our high quality 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, and we believe that we achieve failure rates that are significantly lower than the industry average.

Our technology leadership is also one of our key competitive advantages, and our product innovations have formed the backbone of our success for many decades. The strong innovative ability provided by our leading technology platform, which includes approximately 7,000 R&D staff and 17 R&D centers worldwide, is illustrated by the continuous increase in the number of our patent applications in recent years. With 2,334 patent applications in 2015, 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 June 30, 2016, we held around 24,000 patents and patent applications.

Our commitment to the highest industry quality standards and technological prowess are underlined by the numerous awards and certifications our products and services have received, including

multiple awards from major automobile manufacturers such as Volvo, Ford, Nissan, Toyota and General Motors and a total of 24 quality awards in 2015, as well as the German Innovation Award 2016.

Strong Long-Term Growth Track Record of 5% Annually Driven by Global Expansion and Increased Product Content with Attractive Market Outlook

Key long-term growth drivers in our core markets are trends towards urbanization, fuel efficiency, renewable energy, safety and comfort, globalization and emission reductions. In particular, European legislation limiting CO_2 emissions causes OEMs to focus on the optimization of efficiency, friction reduction and value train variability for conventional drive trains. We believe that these reflect our core competencies and therefore expect to be able to increase our content per vehicle and to be able to achieve above market growth.

Our successful response to the above trends to date has contributed to strong long-term growth across our portfolio, with our Automotive Division's sales volumes in the fiscal year ended December 31, 2015 having increased at significantly greater rates than underlying automotive production. The consistency of our above market growth is demonstrated by the fact that our consolidated revenue increased by a compound annual growth rate of around 5% between the fiscal year ended December 31, 2006 and the fiscal year ended December 31, 2015.

Our growth track record has been driven by our global expansion and successful business model, which has enabled us in many cases to increase the percentage of the value of our end customer's product that is composed of products supplied by us. Given the leading market positions held by both our Automotive Division and our Industrial Division, we believe that we are well placed to benefit from the growth drivers in the markets that we serve. In particular, we expect to benefit from the robust growth outlook for automotive production and global bearings, see "*Industry—Markets—Automotive—OEM—Historical and Forecast Market Development*" and "*Industry—Markets—Industrial—OEM—Historical and Forecast Development*." As a result, we believe that we are well-positioned to maintain above average market growth and profitability in the future and to benefit from the trends in our industry, see "*—Strategy—Strategic Objectives—Focus on Innovative Components and Systems to drive Global Industry Trends*."

Our global expansion has provided us with a network of manufacturing facilities, R&D facilities and distribution companies in approximately 170 locations in 50 countries. We have had a presence at many of our worldwide locations for many years, and we are continuing to expand, with plans to open additional facilities or expand existing locations in all of our regions. As a result of our global presence, which has enabled us to locate plants and other facilities in close proximity to our customers and so benefit from relatively inexpensive just-in-time logistics, we are very well positioned in key growth markets, in particular in the Greater China and Asia/Pacific regions, and have been present for decades in high-growth countries, such as China, South Korea and India, where automotive production is expected to increase in the medium-term.

We also regard our markets as particularly attractive because of our customers' demand for high-quality engineered solutions and suppliers with extensive industry and engineering expertise. Consistently increasing technological requirements lead to growing demand for our technologically-advanced products, as they are more and more integrated into the respective end-applications. We believe that we are well positioned to meet these demands. Globally, we have been able to increase our content per vehicle (*i.e.*, the Schaeffler Group's annual automotive revenues, excluding aftermarket revenues, truck revenues and other revenues (*e.g.*, tooling, R&D charges) as well as currency translations, divided by the respective number of light vehicles produced per year) with a CAGR of approximately 6% from 2010 to 2015. With regard to our regions, we have been able to increase our content per vehicle with a CAGR of 3%, 11%, 16% and 8% from 2010 to 2015 in our Europe, Americas, Greater China and Asia/Pacific regions, respectively. Additionally, as our products

are critical to the overall performance, safety and durability of the end-product and generally represent only a small percentage of the overall costs of the end-product, the primary criteria for purchasing decisions by our customers are quality and technological excellence rather than price alone.

Very Strong Market Position through Unmatched Production Competence, Global Manufacturing Footprint and Worldwide R&D Capabilities, Supported by Continuous Investment and R&D Spend

Our production competence, innovative design capability and superior quality are key competitive advantages.

Our manufacturing facilities and processes are among the most efficient in the industry, allowing us to supply approximately 65,000 products and system solutions through our Automotive Division and approximately 85,000 products and system solutions through our Industrial Division. 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. In addition, we believe that our outstanding know-how in materials, such as steel, our know-how in surface technology and 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 design and manufacture a number of our tools in-house and this provides us with unique know-how regarding high-precision manufacturing processes. Furthermore, we perform all quality-related work in-house, which is designed to ensure that our products maintain a consistently high standard of quality, as demonstrated by the numerous quality awards we have won from our customers. We operate more than 20 technology centers which focus on creating proprietary products and systems and provide unique manufacturing know-how to our manufacturing locations.

Our production competence and superior product quality are reinforced by our global manufacturing footprint, which forms the foundation of our operations and includes 74 facilities in over 20 countries. Moreover, our integrated "in the region, for the region" approach has enabled us to build a geographically diversified global footprint while ensuring that each of our plants and facilities has a strong regional foothold and is 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 international trade flows while making us less susceptible to market risks in any single country or region. We also benefit from low-cost production (*e.g.*, 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.

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, and we continuously invest in our products, services and processes to ensure that we remain a market leader. Our worldwide R&D capabilities include the approximately 7,000 R&D staff and 17 R&D centers worldwide that are developing new products, customer product applications, technologies, processes and methods for market-driven solutions. Over the last three years, our capital expenditures have averaged approximately 7% of our consolidated revenue. These capital expenditures were primarily made for the start of new production, expanding capacity and localizations in order to ensure future growth and customer proximity. Similarly, in each of the fiscal years ended December 31, 2013, 2014 and 2015, we spent approximately 5% of our consolidated revenue on R&D to continuously improve our products and to position us at the forefront of our industry in terms of innovation and quality of design, with the amount of our R&D expenditure increasing from €611 million in the fiscal year ended December 31, 2013 to €720 million in the fiscal year ended December 31, 2015.

Attractive and Resilient Business Portfolio Delivering Above Average Profitability and Strong Cash Returns

Our attractive business portfolio ensures that 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 products and system solutions to both OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in a variety of different sectors, selling approximately 85,000 products and system solutions for a diverse range of applications ranging from wind turbines to aerospace engines and tool machines.

Our customer base is also diversified. Our products are sold to OEMs, Tier 1 and Tier 2 suppliers, aftermarket distributors and service providers in a variety of different sectors. 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. Our key customers include top-tier OEMs in the global automotive industry as well as leading industrial OEMs. As of June 30, 2016, we sold our products to approximately 8,000 automotive customers and 14,000 industrial customers in approximately 150 countries worldwide. During the six-month period ended June 30, 2016, the Automotive Division's top ten customers represented 60% of its revenues and the Industrial Division's top ten customers represented 17% of its revenues. We believe this diversification mitigates counterparty risk and is broader than that of our peers.

Our products are often part of platforms that are in service for several years, thereby requiring continuous aftermarket support and providing a resilient revenue stream. In the fiscal year ended December 31, 2015, aftermarket revenue from replacement parts and services represented 21% of our consolidated revenue.

This high degree of diversification and the stability of our aftermarket business support the resilience of our revenues and profitability. Each of our end-markets is influenced by different economic factors, making us less vulnerable to adverse changes in the macroeconomic environment or fluctuations of a particular economic parameter in any of our market segments.

As a result of this diversification and our focus on our leading positions 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, we have been able to preserve cash in downturns while maintaining a high level of profitability through effective management of working capital and capital expenditures as well as cost reductions. Our EBIT margin amounted to 11% in the fiscal year ended December 31, 2015, above the average margins achieved by our key competitors in the bearings and automotive supplier industries. Additionally, over the last five fiscal years we have achieved an average EBITDA margin of 18%. As a result, we generated on average cash flow from operating activities of €1.1 billion per year during that same period.

Strong Management Combining Deep Industrial Expertise with Superior Capital Markets Track Record

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 also demonstrated its ability to achieve long-term profitable growth and establish the Schaeffler Group as one of the technology, quality and innovation leaders in the industry.

Our well-established investor relations and treasury functions have significant capital markets experience and a superior financing track record that includes many successful bond issuances since

January 2012. Most recently in October 2015, our management successfully conducted Schaeffler AG's IPO and listing on the Frankfurt Stock Exchange.

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.

"Mobility for tomorrow" Strategic Concept

We have developed our "Mobility for tomorrow" strategic concept based on the trends driving our business, including urbanization, population growth, increasing technological complexity and digitalization, a focus on renewable energy and the availability of resources, and globalization and product affordability. Under this concept, we focus on four areas: "eco-friendly drives," "urban mobility," "interurban mobility" and "energy chain" across all of our divisions, regions and functions. We actively participate in shaping these focus areas with our own R&D activities and provide our customers and business partners with an attractive product range from a position as an innovation and technology leader.

Over the last few years, we have worked on further developing the "Mobility for tomorrow" strategic concept and on backing it with strategic initiatives that will be operationalized in the "Agenda 4 plus 1," which documents our 20 flagship initiatives for the next five years focusing on five key elements: customer focus, operational excellence, financial flexibility, leadership and talent management as well as long-term competitiveness and value creation. We are explicitly following an integrated approach, pooling our expertise across divisions, regions and functions. The wide acceptance with which our strategic concept was met by our customers, business partners, senior management and employees around the world confirms to us that we have chosen a promising route with our "Mobility for tomorrow" strategic concept.

Eco-friendly Drives

Given the increasing focus on energy efficiency and emissions, 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 and able to meet increasingly stringent regulatory requirements. With our broad range of products, we follow a multi-faceted strategy, serving all areas from improving and optimizing 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 "E-Wheel Drive" wheel hub 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, which are mainly attributable to a limitation of 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 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 to solutions for solar and hydro power.

Strategic Objectives

The "Mobility for tomorrow" strategic concept comprises four key areas and related sub-strategies regarding business fields, regions, and functions, and is designed to help us achieve our strategic objectives. Our growth strategy is based on targeted investments in R&D as well as improvements of our production system. Maintaining an adequate debt-to-EBITDA ratio and generating appropriate positive cash flows 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.

We also intend to leverage our efficient production capabilities in order to expand our share in the market for high-volume standard parts such as standard bearings.

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 market trends in the automotive and industrial sectors. The nature of these trends is primarily social, such as urbanization and population growth, technological, such as increasing complexity and digitalization, environmental, such as renewable energy and scarcity of resources, and economic, such as globalization and affordability. To capitalize on these trends, we are developing from a components and mechanical systems supplier to a mechatronic systems supplier.

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 continuously working to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient. To further enhance our electric mobility products and services, we plan to invest approximately €500 million in R&D from now to 2020 and double the number of employees in R&D and manufacturing related to mechatronics, hybrid technologies and electric mobility. We are also shifting R&D spending from hardware design to mechatronics and software driven solutions.

Focus on Rapidly Growing Markets

We continue to expand our international presence in growth markets, particularly in the Greater China region which has become a growth driver for both our divisions. Approximately 22% of all additions to intangible assets and property, plant and equipment in the six-month period ended June 30, 2016 were made in the Greater China region. We expect the share of our sales with local Chinese OEMs to increase faster than with non-Chinese OEMs and, as a consequence, our content per car with Chinese OEMs is expected to increase more rapidly. In line with our "in the region, for the region" approach, we are opening or expanding local plants. For example, we started the construction of a new greenfield manufacturing site in Thailand in February 2015 and in the Czech Republic in November 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 range of solutions. We plan to further diversify our product range across various markets in order to minimize dependence on individual markets. This approach also involves expanding our expertise in offering system solutions and services.

Focus on Aftermarket Business

In addition, our products are usually part of platforms that are in service for several years, thereby requiring continuous aftermarket support. As the size of our installed base increases and ages, demand for replacement parts increases. As a result, because of the increasing size of our installed base, the high service levels associated with most of the equipment in which our products are installed, the switching costs faced by customers and our strong positioning in the replacement part market, we are well positioned to grow our revenues from the aftermarket business in the future. Our aim is therefore to expand our aftermarket business by increasingly targeting wholesalers and providers of repairs and maintenance services with respect to replacement parts. We are also aiming to grow our aftermarket operations in the Greater China and Asia/Pacific regions, which are currently more limited in scope than our aftermarket business in Europe and the Americas. In addition to reducing revenue volatility, expanding our aftermarket business will also help generate additional business opportunities (for instance in condition monitoring).

Increase Profitability by Realigning our Industrial Division

On August 10, 2015, the Board of Managing Directors decided to realign our Industrial Division. The realignment is aimed at improving the efficiency and competitive position of our industrial business for the long term in order to facilitate profitable growth. The realignment program is titled "CORE." The key elements of this program are realigning the organizational structure towards stronger

customer orientation and streamlining the leadership structure in order to improve efficiency and reduce costs. In addition, we aim to optimize the Industrial Division's product portfolio and speed up supply to the market.

Following the realignment, our Industrial Division OEM business is primarily managed based on regions due to its broad customer and business structure, and no longer based on treating global business divisions and their business units as profit centers as was the case until December 31, 2015. On this basis, our Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial Division business in their respective markets. Within the regions, the Industrial business is grouped into eight sector clusters: power transmission, industrial automation, wind, raw materials, aerospace, rail, offroad and two wheelers. The distribution business rounds out the Industrial Division's business.

The realignment also comprises changes aimed at more efficient cooperation of functional units, both within the Industrial Division and when interfacing with the functional units external to the Industrial Division. These changes will have to take into account that, unlike in the Automotive Division, only a relatively small proportion of products is developed within the Industrial Division and manufactured in production facilities managed directly by the Industrial Division. The majority of the products is supplied by the "Bearing & Components Technologies" unit as an internal supplier. The realignment is also designed to ensure that functional units cooperate more efficiently, particularly with respect to the interfaces between sales, product and application development and operations. As part of this program, we expect to reduce the Industrial Division workforce by up to 500 jobs in a socially acceptable manner, particularly in Germany and the rest of Europe.

In addition to these structural changes, measures taken to optimize the product portfolio and speed up supply to the market are aimed at improving the Industrial Division's competitive position and opening up opportunities for further growth. These measures include expanding the high-volume business with standard rolling bearings, especially in Asia. An example of this is the global product relaunch of "Generation C" ball bearings. Further advancing customer-specific engineering solutions and products and actively shaping technology trends such as digitization in engineering are also included in the "CORE" program. In addition, in order to meet global market requirements, the Industrial Division will gradually increase localization in its main growth markets and increase the speed of its reaction to the market by optimizing its supply chain. Existing projects to improve market supply and ability to deliver, such as new European distribution centers, will be continued. We believe that the "CORE" program will help us strengthen the Industrial Division in the context of our integrated business model, focus it on future challenges, and return to a path of lasting profitable growth. Our ambition is to increase the EBIT margin of our Industrial Division to 11-13% by 2020.

Our History

In 1946, brothers Dr. Wilhelm Schaeffler and Dr. Georg Schaeffler established INA (*Industrie-Nadellager*) in Herzogenaurach, Germany. LuK (*Lamellen- und Kupplungsbau*) GmbH was founded in 1965 in Bühl, Germany (in cooperation with INA), and later managed as a 50/50 joint venture. After the death of the founders (Dr. Wilhelm Schaeffler died in 1981 and Dr. Georg Schaeffler died in 1996), Maria-Elisabeth Schaeffler-Thumann, Dr. Georg Schaeffler's widow, and her son Georg F. W. Schaeffler took charge of the family business to continue their life's work. In 1999, the Schaeffler Group acquired from Valeo S.A. the 50% of LuK that it did not yet own. In 2001, INA acquired FAG (*FAG Kugelfischer Georg Schäfer AG*). Since 2002, INA, FAG and LuK have been the main brands owned by the Schaeffler Group.

In July 2008, the then existing Schaeffler group initiated an acquisition of Continental AG via a public tender offer, which was financed primarily by external debt. Following this acquisition, it focused on the gradual improvement of its debt profile. In 2011, the then existing Schaeffler group took a key step in this direction, when it significantly reduced its financial debt and achieved a considerable

improvement of the terms and conditions of its financing by selling some of its stake in Continental AG. In 2012, the then existing Schaeffler group also debuted on the capital markets by completing its first ever bond offering.

Following this debut, the Schaeffler Group also focused on its internal processes. The continuous optimization efforts that had been initiated after the acquisition of Continental AG culminated in several initiatives and changes in 2013 and 2014: the Schaeffler Group initiated its "Mobility for tomorrow" strategic concept, focusing on four areas: "eco-friendly drives," "urban mobility," "interurban mobility" and "energy chain." It modernized its leadership structure by implementing the multi-dimensional matrix organization that comprises the Board of Managing Directors and the executive board as well as realigning its regions. Furthermore, the Schaeffler Group was once again able to significantly reduce its indebtedness. In addition, it initiated the "ONE Schaeffler" program, which combines its most important improvement initiatives, in order to standardize structures and processes within the Schaeffler Group. All of these initiatives went hand in hand with a cultural change based on the Schaeffler Group's core principles: transparency, trust and teamwork. The initiatives of the "ONE Schaeffler" program were largely completed by the end of 2015. Certain initiatives were transferred to the "Agenda 4 plus 1," which documents our 20 flagship initiatives for the next five years focusing on five key elements: customer focus, operational excellence, financial flexibility, leadership and talent management as well as long-term competitiveness and value creation.

On October 8, 2015, Schaeffler AG conducted its initial public offering (the "**IPO**") and on October 9, 2015 became listed on the Frankfurt Stock Exchange under the ticker symbol SHA. Following the secondary offering of the shares of Schaeffler AG by IHO Beteiligungs on April 5, 2016 (the "**Secondary Offering**"), the Issuer holds 75.1% of Schaeffler AG's share capital (representing 100% of its voting rights), with the remaining 24.9% (all non-voting shares) held by public investors. Proceeds from the IPO and the Secondary Offering were largely used by Schaeffler AG and IHO Beteiligungs to partially repay their respective debts and delever the business.

Recent Developments

Schaeffler Group Refinancing

On July 18, 2016, Schaeffler AG entered into a new €2,300 million syndicated term loan and revolving credit facilities agreement (the "**New Schaeffler Group Facilities Agreement**"), with Schaeffler AG as borrower and certain of its subsidiaries as guarantors. The New Schaeffler Group Facilities Agreement refinanced the syndicated term loan and revolving credit facilities agreement consisting of term facilities in the amount of €750 million and $1,300 million and a revolving facility in the amount of €1,000 million (the "**Old Schaeffler Group Facilities Agreement**") entered into on October 27, 2014 with Schaeffler AG as borrower and certain of its subsidiaries as guarantors. For more information, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—New Schaeffler Group Facilities Agreement.*"

On July 29, 2016, Schaeffler AG partially drew its new €1,000 million term loan under the New Schaeffler Group Facilities Agreement to pay down its €417 million outstanding balance under the Old Schaeffler Group Facilities Agreement, together with cash on balance and €35 million in proceeds received from the close-out of cross-currency hedging arrangements Schaeffler AG entered into in connection with the Old Schaeffler Group Facilities Agreement. On August 18, 2016, Schaeffler AG used the remaining commitments under the €1,000 million term loan to redeem €600 million in aggregate principal amount of 4.25% senior secured notes due 2018 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 29, 2013 (the "**Redeemed Schaeffler Group April 2013 Notes**").

For purposes of this Offering Memorandum, the "**Schaeffler Group Refinancing**" refers to (i) the entry into the New Schaeffler Group Facilities Agreement and the draw-down of €1,000 million thereunder, (ii) the close-out of cross-currency hedging arrangements and the receipt of €35 million

thereunder and (iii) the application of cash on hand to (a) pay down €417 million outstanding under the Old Schaeffler Group Facilities Agreement, (b) redeem €600 million in aggregate principal amount of the Redeemed Schaeffler Group April 2013 Notes and (c) pay redemption costs and related fees and expenses.

The Transactions

Issuer Facilities Agreement

On September 7, 2016, we entered into an €800 million syndicated term loan and revolving credit facilities agreement (the "**Issuer Facilities Agreement**"), with the Issuer as borrower. The Issuer Facilities Agreement consists of:

- a €600 million term facility (the "**Issuer Term Facility**"), accrued interest on which will be payable in cash and which matures on September 7, 2021; and
- a €200 million revolving credit facility (the "**Issuer Revolving Facility**" and, together with the Issuer Term Facility, the "**Issuer Facilities**"), accrued interest on which will be payable in cash and which matures on September 7, 2021.

The Issuer Facilities are secured by the same collateral that secures the Notes (the "**Collateral**") on a *pari passu* basis. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement*."

Following the Issue Date, we expect to draw €600 million under the Issuer Term Facility, which the Issuer will use, together with the net proceeds from the Offering, to fully repay amounts outstanding under three collateralized loan notes in the amount of €1,674 million (excluding accrued interest) were outstanding with the Issuer as the sole debtor and Schaeffler AG as lender (the "**Schaeffler AG Loan Notes**"). Schaeffler AG will apply this repayment towards the redemption (the "**Schaeffler Group Notes Redemption**") of the outstanding $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 issued by Schaeffler Finance B.V. (the "**Outstanding Schaeffler Group April 2013 Notes**") and the repayment of other outstanding indebtedness. See "*Use of Proceeds*" and "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*." As of the Issue Date, the Issuer Revolving Facility is expected to be undrawn. See "*—Summary of our Corporate and Debt Structure*."

The Schaeffler Group Notes Redemption is expected to take place on October 7, 2016 (the "**Schaeffler Group Notes Redemption Date**"), subject to the successful completion of this Offering.

The Offering

On or about the Issue Date, the Issuer will use €2,260 million of the net proceeds from the Offering to make a distribution to IHO Beteiligungs by way of dividends (€1,380 million) and a notes proceeds loan (€880 million) (the "**Notes Proceeds Loan**"). IHO Beteiligungs will apply this distribution towards the redemption (the "**IHO Beteiligungs Group Notes Redemption**") of all outstanding notes issued by Schaeffler Holding Finance B.V. (the "**Outstanding IHO Beteiligungs Group Notes**") and the repayment of the €600 million outstanding balance under its facilities agreement (the "**Existing IHO Beteiligungs Group Facilities Agreement**"). The Issuer will use the remaining net proceeds from the Offering, together with drawings under the Issuer Term Facility, to fully repay amounts outstanding under the Schaeffler AG Loan Notes and to pay related fees and expenses. Schaeffler AG will apply this repayment towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness. See "*Use of Proceeds*" and "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

The IHO Beteiligungs Group Notes Redemption is expected to take place on October 7, 2016 (the "**IHO Beteiligungs Group Notes Redemption Date**"), subject to the successful completion of this

Offering. In anticipation of the IHO Beteiligungs Group Notes Redemption, Schaeffler Holding Finance B.V. will on or about the Issue Date effect a satisfaction and discharge of the indentures governing the Outstanding IHO Beteiligungs Group Notes by depositing sufficient funds with the relevant trustee. See "—*Summary of our Corporate and Debt Structure*."

The Transactions

For purposes of this Offering Memorandum, the "**Transactions**" refers to (i) the entry into the Issuer Facilities Agreement and the draw-down of €600 million thereunder and (ii) the issuance of the Notes offered hereby and the receipt of gross proceeds of €3,597 million-equivalent therefrom to (a) distribute €2,260 million to IHO Beteiligungs by way of dividends and the Notes Proceeds Loan, which IHO Beteiligungs will apply towards the IHO Beteiligungs Group Notes Redemption and the repayment of the Existing IHO Beteiligungs Group Facilities Agreement, (b) fully repay the Schaeffler AG Loan Notes in an aggregate amount of €1,674 million, which Schaeffler AG will apply towards the Schaeffler Group Notes Redemption, and (c) pay related fees and expenses.

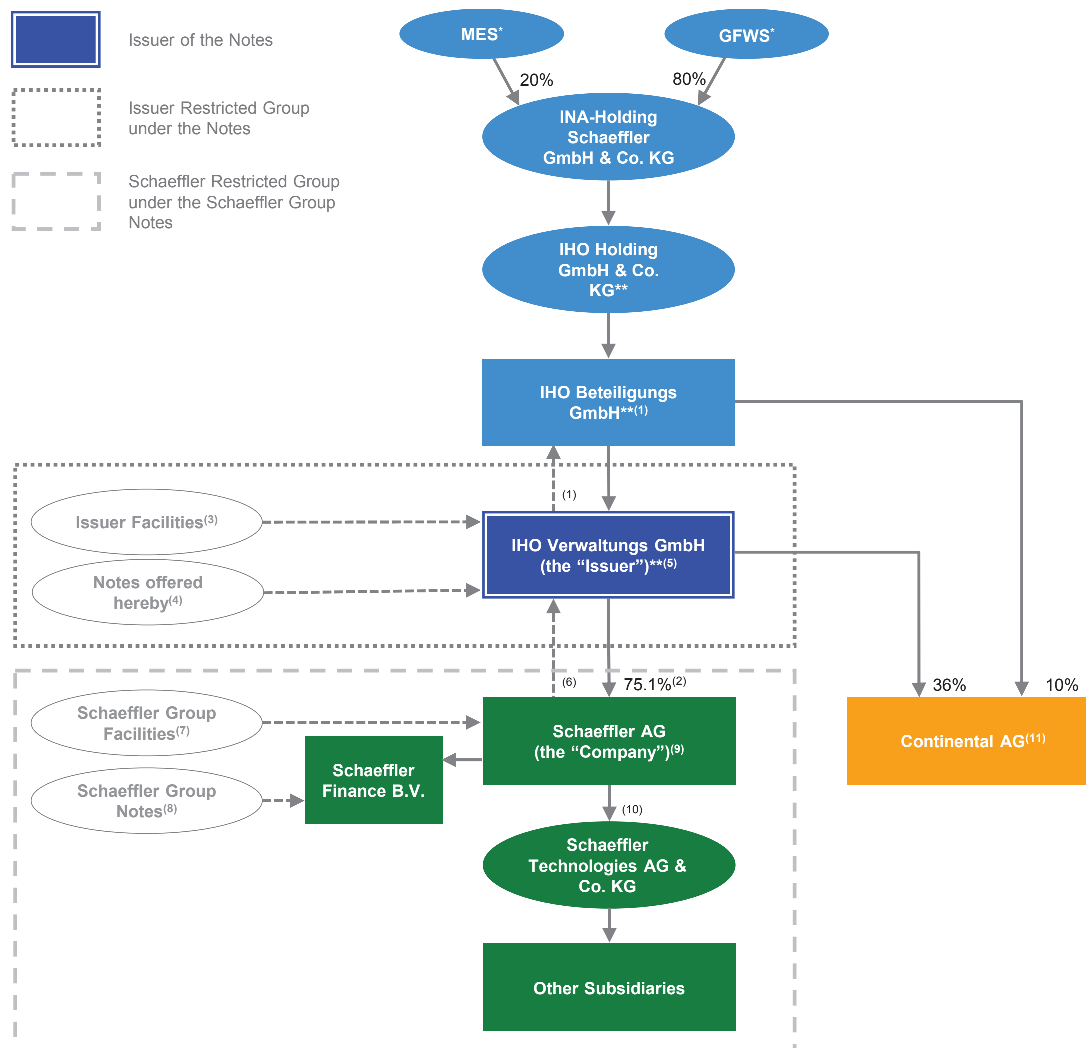
The Restricted Group

As of the Issue Date, the restrictive covenants in the indenture that will govern the Notes (the "**Indenture**") will only apply to the Issuer and not to any of its subsidiaries. Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries (as defined in the Indenture) of the Issuer. As a result, Schaeffler AG and its subsidiaries or any future subsidiaries that are designated as Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any collateral securing the Notes.

As a consequence, holders of the Notes ("**Note Holders**") will have no recourse to any Unrestricted Subsidiary (including Schaeffler AG and its subsidiaries), its assets or its properties if there is an event of default under the Indenture. Investments of a member of the restricted group in the unrestricted group, such as equity investments or provision of loans, are subject to certain restrictions under the Indenture. See "*Description of the Notes*" and "*Risk Factors—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral.*"

Summary of our Corporate and Debt Structure

The following diagram depicts, in simplified form, our corporate structure and certain debt obligations following the completion of the Transactions. All entities shown below are 100% owned unless otherwise indicated.



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

** By shareholder resolution dated September 5, 2016, it was resolved to rename (i) Schaeffler Verwaltung Zwei GmbH to IHO Verwaltungs GmbH, (ii) Schaeffler Verwaltungs GmbH to IHO Beteiligungs GmbH and (iii) Schaeffler Holding GmbH & Co. KG to IHO Holding GmbH & Co. KG. The renaming is subject to entry of the name changes in the commercial register and other formalities and is expected to become effective in September or October 2016.

(1) As of the date hereof, the IHO Beteiligungs Group has outstanding debt consisting of amounts drawn under the Existing IHO Beteiligungs Group Facilities Agreement (as defined below) and the Outstanding IHO Beteiligungs Group Notes (as defined below).

IHO Beteiligungs GmbH (currently named Schaeffler Verwaltungs GmbH) entered into an €800 million term loan and revolving credit facilities agreement on October 5, 2015 in connection with the IPO of Schaeffler AG (the "**Existing IHO Beteiligungs Group Facilities Agreement**"), which replaced its previous €700 million term loan and revolving credit facilities agreement (the "**Old IHO Beteiligungs Group Facilities Agreement**"). The Existing IHO Beteiligungs Group Facilities Agreement consists of a €600 million term facility and a €200 million revolving facility, both maturing on October 5, 2020, with IHO Beteiligungs as borrower. As of the date hereof, IHO Beteiligungs has €600 million outstanding under the Existing IHO Beteiligungs Group Facilities Agreement.

Following the partial notes redemption on May 13, 2016 pursuant to which the IHO Beteiligungs Group redeemed €640 million and $870 million in aggregate principal amount of its euro and dollar notes, respectively (the "**Redeemed IHO Beteiligungs Group Notes**"), the following IHO Beteiligungs Group notes remain outstanding as of the date hereof (the "**Outstanding IHO Beteiligungs Group Notes**"):

- €300 million (or 37.5%) in aggregate principal amount of its €800 million in aggregate principal amount of 6.875% / 7.625% senior secured PIK toggle notes due 2018 and $400 million (or 40.0%) in aggregate principal amount of its $1,000 million in aggregate

principal amount of 6.875% / 7.625% senior secured PIK toggle notes due 2018, in each case issued by Schaeffler Holding Finance B.V. pursuant to an indenture dated July 24, 2013; and

- €210 million (or 60.0%) in aggregate principal amount of its €350 million in aggregate principal amount of 5.750% / 6.500% senior secured PIK toggle notes due 2021, $405 million (or 60.0%) in aggregate principal amount of its $675 million in aggregate principal amount of 6.750% / 7.500% senior secured PIK toggle notes due 2022 and $475 million (or 100.0%) in aggregate principal amount of its 6.250% / 7.000% senior secured PIK toggle notes due 2019, in each case issued by Schaeffler Holding Finance B.V. pursuant to an indenture dated October 28, 2014.

On or about the Issue Date, the Issuer will distribute €2,260 million from the proceeds of the Offering to IHO Beteiligungs to redeem (the "**IHO Beteiligungs Group Notes Redemption**") the Outstanding IHO Beteiligungs Group Notes and to repay the €600 million drawn under the Existing IHO Beteiligungs Group Facilities Agreement, respectively. See "*Use of Proceeds*."

To effectuate the IHO Beteiligungs Group Notes Redemption, on September 7, 2016, Schaeffler Holding Finance B.V. called for redemption the Outstanding IHO Beteiligungs Group Notes. The IHO Beteiligungs Group Notes Redemption is expected to take place on October 7, 2016 (the "**IHO Beteiligungs Group Notes Redemption Date**"), subject to the successful completion of this Offering. In anticipation of the IHO Beteiligungs Group Notes Redemption, Schaeffler Holding Finance B.V. will on or about the Issue Date effect a satisfaction and discharge of the indentures governing the Outstanding IHO Beteiligungs Group Notes by depositing sufficient funds with the relevant trustee. Also see "*Use of Proceeds*."

(2) Prior to the IPO on October 8, 2015 and the Secondary Offering on April 5, 2016, the Issuer held 83.3% of Schaeffler AG's share capital and IHO Beteiligungs held 16.7% of Schaeffler AG's share capital. Following the IPO and the Secondary Offering, the Issuer holds 75.1% of Schaeffler AG's share capital (representing all of the voting rights), and the remaining 24.9% of Schaeffler AG's share capital (representing all of the non-voting shares), are held by public investors.

(3) On September 7, 2016, we entered into an €800 million syndicated term loan and revolving credit facilities agreement (the "**Issuer Facilities Agreement**"), with the Issuer as borrower. The Issuer Facilities Agreement consists of:

- a €600 million term facility (the "**Issuer Term Facility**"), accrued interest on which will be payable in cash and which matures on September 7, 2021; and

- a €200 million revolving credit facility (the "**Issuer Revolving Facility**" and, together with the Issuer Term Facility, the "**Issuer Facilities**"), accrued interest on which will be payable in cash and which matures on September 7, 2021.

The Issuer Facilities are secured by the same collateral that secures the Notes (the "**Collateral**") on a *pari passu* basis. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement*."

Following the Issue Date, we expect to draw €600 million under the Issuer Term Facility, which the Issuer will use, together with the net proceeds from the Offering, to fully repay amounts outstanding under three intercompany loan notes with Schaeffler AG as lender (the "**Schaeffler AG Loan Notes**"). Schaeffler AG will apply this repayment towards the redemption (the "**Schaeffler Group Notes Redemption**") of the outstanding $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 issued by Schaeffler Finance B.V. (the "**Outstanding Schaeffler Group April 2013 Notes**") and the repayment of other outstanding indebtedness. See "*Use of Proceeds*" and "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*." As of the Issue Date, the Issuer Revolving Facility is expected to be undrawn. The Schaeffler Group Notes Redemption is expected to take place on October 7, 2016 (the "**Schaeffler Group Notes Redemption Date**"), subject to the successful completion of this Offering.

(4) The Notes will initially be secured by pledges over (i) 333,000,001 common shares in Schaeffler AG (representing 66.7% of the voting shares (*Stammaktien*) and 50% *plus* one share of the total share capital of Schaeffler AG) held by the Issuer and (ii) 41,937,694 common shares in Continental AG held by the Issuer (representing a number of common shares in Continental AG equal to the aggregate principal amount of the Notes (euro-equivalent as of August 31, 2016) *plus* €800 million, divided by the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Continental Share Value**") on August 31, 2016 multiplied by 1.75). As of August 31, 2016, the Continental Share Value was €183.50. Based on the Continental Share Value of €183.50, the shares in Continental AG forming part of the Collateral had a total market value of €7,696 million as of August 31, 2016. As of August 31, 2016, the volume weighted average price per non-voting share of Schaeffler AG quoted on the Frankfurt Stock Exchange during the last 60 trading days was €13.20 (the "**Schaeffler AG Share Value**"). Based on the Schaeffler AG Share Value of €13.20, the shares in Schaeffler AG forming part of the Collateral had a total market value of €4,396 million as of August 31, 2016. The Collateral securing the Notes also secures on a *pari passu* basis obligations under the Issuer Facilities Agreement, certain hedging obligations and any future indebtedness that is permitted under the Indenture to share the Collateral.

Liens over assets forming part of the Collateral will automatically be released under the Indenture under certain circumstances, including upon the release of any and all liens over such assets (other than permitted liens) securing other debt, including debt under the Issuer Facilities Agreement. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement*" for a summary of the security release provisions under the Issuer Facilities Agreement.

On or about the Issue Date, the Issuer will use €2,260 million of the net proceeds from the Offering to make a distribution to IHO Beteiligungs by way of dividends (€1,380 million) and a notes proceeds loan (€880 million) (the "**Notes Proceeds Loan**"). IHO Beteiligungs will apply this distribution towards the IHO Beteiligungs Group Notes Redemption and the repayment of the €600 million outstanding balance under the Existing IHO Beteiligungs Group Facilities Agreement. The Issuer will use the remaining net proceeds from the Offering, together with drawings under the Issuer Term Facility, to fully repay amounts outstanding under the Schaeffler AG Loan Notes and to pay related fees and expenses. Schaeffler AG will apply this repayment towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness. See "*Use of Proceeds*" and "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

(5) The Issuer is a wholly owned subsidiary of IHO Beteiligungs. The Issuer is a holding and finance company and does not conduct any business operations of its own. The main assets of the Issuer are a 75.1% stake (representing 100% of the voting rights) in the share capital of Schaeffler AG and a 36.0% stake in the share capital of Continental AG. As of the Issue Date, the restrictive covenants in the indenture that will govern the Notes (the "**Indenture**") will only apply to the Issuer and not to any of its subsidiaries. Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries (as defined in the Indenture) of the Issuer. As a result, Schaeffler AG and its subsidiaries or any future subsidiaries that are designated as Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture. Schaeffler AG and its subsidiaries will only be subject to the restrictive covenants in the indentures governing the Schaeffler Group Notes (as defined below) and the New Schaeffler Group Facilities Agreement for so long as such debt instruments remain outstanding. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group.*"

(6) As of the date of this Offering Memorandum, the Schaeffler AG Loan Notes amounted to €1,674 million and are secured by share pledges over 23,250,361 common shares of Continental AG. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes). See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*." The Issuer intends to use a portion of the proceeds from the Offering together with drawings under the Issuer Term Facility to fully repay amounts outstanding under the Schaeffler AG Loan Notes. Schaeffler AG will apply this repayment towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness. See "*Use of Proceeds*." Upon full repayment of the Schaeffler AG Loan Notes, the existing pledges over the common shares of Continental AG securing the Schaeffler AG Loan Notes will be released.

(7) On July 18, 2016, Schaeffler AG entered into a new €2,300 million syndicated term loan and revolving credit facilities agreement (the "**New Schaeffler Group Facilities Agreement**"), with Schaeffler AG as borrower and certain of its subsidiaries as guarantors. The New Schaeffler Group Facilities Agreement refinanced the old syndicated term loan and revolving credit facilities agreement consisting of term facilities in the amount of €750 million and $1,300 million and a revolving facility in the amount of €1,000 million (the "**Old Schaeffler Group Facilities Agreement**") entered into on October 27, 2014 with Schaeffler AG as borrower and certain of its subsidiaries as guarantors. The New Schaeffler Group Facilities Agreement consists of:

- a €1,000 million term loan facility ("**New Schaeffler Group Term Facility**"), accrued interest on which is payable in cash and which matures (subject to an uncommitted extension option for an extension of the final maturity date by one year) on the fifth anniversary of the date of the New Schaeffler Group Facilities Agreement; and

- a €1,300 million revolving credit facility (the "**New Schaeffler Group Revolving Facility**" and, together with the New Schaeffler Group Term Facility, the "**New Schaeffler Group Facilities**"), accrued interest on which is payable in cash and which matures (subject to an uncommitted extension option for an extension of the final maturity date by up to two years) on the fifth anniversary of the date of the New Schaeffler Group Facilities Agreement.

The New Schaeffler Group Facilities are guaranteed by certain subsidiaries of Schaeffler AG and are secured by substantially the same collateral that secures the Schaeffler Group Notes. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—New Schaeffler Group Facilities Agreement.*"

On July 29, 2016, Schaeffler AG partially drew its new €1,000 million term loan under the New Schaeffler Group Facilities Agreement to pay down its €417 million outstanding balance under the Old Schaeffler Group Facilities Agreement, together with cash on balance and €35 million in proceeds received from the close-out of cross-currency hedging arrangements Schaeffler AG entered into in connection with the Old Schaeffler Group Facilities Agreement. On August 18, 2016, Schaeffler AG used the remaining commitments under the €1,000 million term loan to redeem €600 million in aggregate principal amount of 4.25% senior secured notes due 2018 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 29, 2013 (the "**Redeemed Schaeffler Group April 2013 Notes**").

(8) As of the date hereof, the Schaeffler Group had the following notes outstanding (the "**Schaeffler Group Notes**"):

- $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 29, 2013;

- €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 by Schaeffler Finance B.V. pursuant to an indenture dated May 14, 2014, and €500 million in aggregate principal amount of 3.25% senior notes due 2019 issued by Schaeffler Finance B.V. pursuant to an indenture dated May 14, 2014; and

- €400 million in aggregate principal amount of 2.50% senior secured notes due 2020, €600 million in aggregate principal amount of 3.25% senior secured notes due 2025 and $600 million in aggregate principal amount of 4.75% senior secured notes due 2023 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 13, 2015.

On August 18, 2016, Schaeffler Finance B.V. redeemed the Redeemed Schaeffler Group April 2013 Notes. The redemption was funded by drawings under the New Schaeffler Group Facilities.

For a more detailed description of the Schaeffler Group Notes, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes*."

The Issuer intends to use a portion of the proceeds from the Offering, together with drawings under the Issuer Term Facility, to fully repay amounts outstanding under the Schaeffler AG Loan Notes. Schaeffler AG will apply this repayment towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness. See "*Use of Proceeds*."

(9) As of the Issue Date, Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries of the Issuer. Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any collateral securing the Notes. As a result, Schaeffler AG and its subsidiaries or any future subsidiaries that are designated as Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture. Schaeffler AG and its subsidiaries will only be subject to the restrictive covenants in the indentures governing the Schaeffler Group Notes and the New Schaeffler Group Facilities Agreement for so long as such debt instruments remain outstanding. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group,*" "*Description of the Notes*" and "*Risk Factors—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral*."

On October 9, 2015 and in connection with the IPO, Schaeffler AG was substituted for IHO Verwaltungs GmbH (currently named

Schaeffler Verwaltung Zwei GmbH) (the "**Substitution**") as the new parent guarantor under the Schaeffler Group Notes and the Old Schaeffler Group Facilities Agreement, as a result of which the guarantees provided by IHO Verwaltungs and Schaeffler Beteiligungsholding under the Schaeffler Group Notes and the Old Schaeffler Group Facilities Agreement were released. As a result of the Substitution, IHO Verwaltungs and Schaeffler Beteiligungsholding ceased to be members of the Schaeffler Group. Effective December 31, 2015, Schaeffler Beteiligungsholding merged into IHO Verwaltungs, which now directly holds 36.0% of the share capital of Continental AG.

(10) 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.

(11) Continental AG is a publicly listed corporation (*Aktiengesellschaft*) listed on three German stock exchanges (Frankfurt, Hanover/Hamburg and Stuttgart). As of August 31, 2016, Continental AG had a market capitalization of €36,701 million (based on a Continental Share Value of 183.50).

Summary of the Offering

The following is a brief summary of certain terms of the Offering and may not contain all the information that is important to an investor. For additional information regarding the Notes, see "*Description of the Notes*" and "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Security Pooling and Intercreditor Agreement*."

Issuer	IHO Verwaltungs GmbH (currently named 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	
2021 Euro Notes	€750,000,000 in aggregate principal amount of 2.750% / 3.500% senior secured PIK toggle notes due 2021 (the "**2021 Euro Notes**").
2023 Euro Notes	€750,000,000 in aggregate principal amount of 3.250% / 4.000% senior secured PIK toggle notes due 2023 (the "**2023 Euro Notes**").
2026 Euro Notes	€750,000,000 in aggregate principal amount of 3.750% / 4.500% senior secured PIK toggle notes due 2026 (the "**2026 Euro Notes**" and, together with the 2021 Euro Notes and the 2023 Euro Notes, the "**Euro Notes**").
2021 Dollar Notes	$500,000,000 in aggregate principal amount of 4.125% / 4.875% senior secured PIK toggle notes due 2021 (the "**2021 Dollar Notes**").
2023 Dollar Notes	$500,000,000 in aggregate principal amount of 4.500% / 5.250% senior secured PIK toggle notes due 2023 (the "**2023 Dollar Notes**").
2026 Dollar Notes	$500,000,000 in aggregate principal amount of 4.750% / 5.500% senior secured PIK toggle notes due 2026 (the "**2026 Dollar Notes**" and, together with the 2021 Dollar Notes and the 2023 Dollar Notes, the "**Dollar Notes**;" the Dollar Notes and the Euro Notes together, the "**Notes**").
Issue Date	September 22, 2016.
Issue Price	
2021 Euro Notes	100%.
2023 Euro Notes	100%.
2026 Euro Notes	100%.
2021 Dollar Notes	100%.
2023 Dollar Notes	100%.
2026 Dollar Notes	100%.

Maturity Date

2021 Euro Notes	September 15, 2021.
2023 Euro Notes	September 15, 2023.
2026 Euro Notes	September 15, 2026.
2021 Dollar Notes	September 15, 2021.
2023 Dollar Notes	September 15, 2023.
2026 Dollar Notes	September 15, 2026.

Interest Rates and Payment Dates

The Issuer will pay interest on the Notes semi-annually in arrears on May 15 and November 15 of each year, beginning on May 15, 2017. The first two and the final interest payments on the Notes will be made in cash. For each other interest period, the Issuer will be required to pay interest on the Notes entirely in cash ("**Cash Interest**"), unless the conditions described in this Offering Memorandum are satisfied, in which case the Issuer will be entitled to pay, to the extent described herein, interest for such interest period by increasing the principal amount of the Notes or issuing Additional PIK Notes (such increase or issuance being referred to herein as "**PIK Interest**"). For additional information on the requirement to pay Cash Interest or a combination of Cash Interest and PIK Interest, see "*Description of the Notes—Interest*."

Cash Interest on the 2021 Euro Notes will accrue at the rate of 2.750% per annum (the "**2021 Euro Cash Interest Rate**"), cash Interest on the 2023 Euro Notes will accrue at the rate of 3.250% per annum (the "**2023 Euro Cash Interest Rate**"), cash Interest on the 2026 Euro Notes will accrue at the rate of 3.750% per annum (the "**2026 Euro Cash Interest Rate**"), cash Interest on the 2021 Dollar Notes will accrue at the rate of 4.125% per annum (the "**2021 Dollar Cash Interest Rate**"), cash Interest on the 2023 Dollar Notes will accrue at the rate of 4.500% per annum (the "**2023 Dollar Cash Interest Rate**") and Cash Interest on the 2026 Dollar Notes will accrue at the rate of 4.750% per annum (the "**2026 Dollar Cash Interest Rate**" and each of the 2021 Euro Cash Interest Rate, the 2023 Euro Cash Interest Rate, the 2026 Euro Cash Interest Rate, the 2021 Dollar Cash Interest Rate, the 2023 Dollar Cash Interest Rate and the 2026 Dollar Cash Interest Rate, as applicable, the "**Cash Interest Rate**"). PIK Interest will accrue at the respective Cash Interest Rate plus 0.75% per annum. Interest on the Notes will accrue from the Issue Date. If the Issuer pays all eligible interest in PIK Interest, it

	will increase the principal amount of the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes or issue Additional PIK Notes in relation to the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes, as applicable, in a principal amount up to a maximum of €847 million, €933 million, €1,095 million, $592 million, $665 million and $793 million, respectively.
Form and Denomination	
Euro Notes	The Euro Notes will be issued in global form in denominations of €100,000 and in integral multiples of €1 in excess thereof, maintained in book-entry form.
Dollar Notes..	The Dollar Notes will be issued in global form in denominations of $200,000 and in integral multiples of $1 in excess thereof, maintained in book-entry form.
Ranking of the Notes	The Notes: • will be general senior obligations of the Issuer; • will, together with the obligations under the Issuer Facilities Agreement and certain hedging obligations, be secured by security interests over the Collateral; • will be structurally subordinated to any existing and future indebtedness of the Issuer's subsidiaries (in particular, Schaeffler AG and its subsidiaries); • 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 the 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, including the Issuer Facilities Agreement, respectively; • 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.

Security	Subject to the terms of the security documents and the Issuer Security Pooling and Intercreditor Agreement, the obligations of the Issuer under the Notes will be secured by: • pledges over 333,000,001 common shares in Schaeffler AG (representing 66.7% of the voting shares (*Stammaktien*) and 50% *plus* one share of the total share capital of Schaeffler AG) held by the Issuer; and • pledges over 41,937,694 common shares in Continental AG held by the Issuer (representing a number of common shares in Continental AG equal to the aggregate principal amount of the Notes (euro-equivalent as of August 31, 2016) *plus* €800 million, divided by the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Continental Share Value**") on August 31, 2016, multiplied by 1.75). The Collateral securing the Notes also secures on a *pari passu* basis obligations under the Issuer Facilities Agreement, certain hedging obligations and any future indebtedness that is permitted under the Indenture to share the Collateral. See "*Description of the Notes—Security*." Liens over assets forming part of the Collateral will be automatically released under the indenture under certain circumstances, including upon the release of any and all liens over such assets (other than permitted liens) securing other debt, including debt under the Issuer Facilities Agreement. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement*" for a summary of the security release provisions under the Issuer Facilities Agreement. The Indenture will provide that, for so long as the Issuer's security pooling and intercreditor agreement (the "**Issuer 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 Issuer Security Pooling and Intercreditor Agreement, all payments in respect of the Notes may only be made to the Security Trustee (and the Trustee and, subject to the terms of the Indenture, the holders of the Notes may make demands or claims under the Notes only to the effect that such payments be made to the Security Trustee) for application pursuant to the Issuer Security Pooling and Intercreditor Agreement

or any additional security pooling and intercreditor agreement, as the case may be.

The Issuer 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 Issuer Security Pooling and Intercreditor Agreement will be passed if the total principal amount of notes that are subject to the Issuer Security Pooling and Intercreditor Agreement (initially, the Notes offered hereby) and the total amount of commitments under facilities agreements that are subject to the Issuer Security Pooling and Intercreditor Agreement (initially, the Issuer 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 Issuer 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 and our Structure—Note Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances*," "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer 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 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes will be redeemable at the Issuer's option, in whole or in part, at any time on or after September 15, 2018, September 15, 2019, September 15, 2021, September 15, 2018, September 15, 2019 and September 15, 2021, 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 September 15, 2018, September

	15, 2019, September 15, 2021, September 15, 2018, September 15, 2019 and September 15, 2021, the Issuer may redeem some or all of the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 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 September 15, 2018, September 15, 2019, September 15, 2021, September 15, 2018, September 15, 2019 and September 15, 2019, the Issuer may redeem at its option up to 40% of the original principal amount of the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 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 affecting taxation or the obligation to pay duties of any kind, the Issuer will become obligated to pay Additional Amounts. See "*Description of the Notes—Redemption for changes in taxes*."
Original Issue Discount	The Notes will be issued with original issue discount ("**OID**") for U.S. federal income tax purposes because none of the stated interest on the Notes will constitute "qualified stated interest." As a result, U.S. Holders (as defined under "*Taxation—U.S. Taxation*") will be required to include the amounts representing the OID in gross income (as ordinary income) generally on a constant yield basis in advance of receipt of the cash payments to which such income is attributable, regardless of the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. For a discussion of the material tax consequences of an investment in the Notes, see "*Taxation—U.S. Taxation*."
Additional Amounts.......................................	Any payments made by or on behalf of the Issuer under or with respect to the Notes will be made without withholding or deduction for taxes unless required by law. If the Issuer 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, the Issuer will pay the Additional Amounts necessary so that the net amount received by the holders of the Notes 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 Indenture will limit, among other things, the ability of the Issuer 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; • create or incur certain liens; • enter into agreements that restrict any restricted 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*." As of the Issue Date, the restrictive covenants in the Indenture will apply only to the Issuer and not to any of its subsidiaries. Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries (as defined in the Indenture) of the Issuer. As a result, Schaeffler AG and its subsidiaries or any future subsidiaries that are designated as Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture. See "*Risk Factors—Risks related to the Notes and our*

	Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral."
Selling and Transfer Restrictions	The Notes 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. In addition, the offer and the sale of the Notes and the distribution of offering materials relating thereto are subject to specific restrictions as set out under "*Important Information about this Offering Memorandum*" and "*Transfer Restrictions*."
Use of Proceeds	We will use the gross proceeds from the Offering, together with drawings under the Issuer Term Facility, to (i) make a distribution to IHO Beteiligungs by way of dividends and the Notes Proceeds Loan, which IHO Beteiligungs will apply towards the IHO Beteiligungs Group Notes Redemption and the repayment of the outstanding balance under the Existing IHO Beteiligungs Group Facilities Agreement, (ii) fully repay the Schaeffler AG Loan Notes, which Schaeffler AG will apply towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness, and (iii) pay related fees and expenses. See "*Use of Proceeds*."
No Prior Market	The Notes will be new securities for which there is currently 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 to trading on the LuxSE's Euro MTF Market.
Listing Agent	Deutsche Bank Luxembourg S.A.
Governing Law for the Notes and the Indenture	New York law.
Governing Law for the Issuer Security Pooling and Intercreditor Agreement	English law.
Governing Law for the Security Documents	German law.
Trustee	Deutsche Trustee Company Limited.
U.S. Registrar, Transfer Agent and Paying	Deutsche Bank Trust Company Americas.

Agent..	
Luxembourg Registrar, Transfer Agent and Paying Agent..	Deutsche Bank Luxembourg S.A.
Principal Paying Agent..................................	Deutsche Bank AG, London Branch.
Security Trustee	Deutsche Bank AG, Filiale Luxemburg.
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 of this Offering Memorandum before making a decision regarding whether to invest in the Notes.

Summary Financial Information

The summary financial information contained in the following tables has been taken or derived from the unaudited consolidated condensed financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016 and the audited consolidated financial statements of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014, which are all reproduced elsewhere in this Offering Memorandum. These financial statements were prepared in accordance with IFRS. KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to Schaeffler AG's audited consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014. Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016 have been reviewed by KPMG. KPMG has issued a review report in accordance with the applicable provisions of the WpHG, in particular section 37 w para. 5 WpHG, with respect to Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016.

The historical financial information presented for the twelve-month period ended June 30, 2016 has been calculated by adding amounts for the six-month period ended June 30, 2016 to the amounts for the full year ended December 31, 2015 and subtracting the amounts for the six-month period ended June 30, 2015. The financial information for the twelve-month period ended June 30, 2016 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

The summary financial information presented below includes certain non-GAAP measures and ratios, which are used by management in monitoring Schaeffler AG's business. Non-GAAP 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 Schaeffler AG's operating results as reported under IFRS. Please see "Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures."

The summary financial information presented below should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements and the notes thereto of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014, the unaudited consolidated condensed financial statements and the notes thereto of Schaeffler AG as of and for the six-month period ended June 30, 2016 and the audited unconsolidated financial statements of the Issuer as of and for the fiscal year ended December 31, 2015. This information should also be read together with the sections entitled "Certain Financial Information of the Issuer" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group."

As of the Issue Date, Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries of the Issuer under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral. As a consequence, Note Holders will have no recourse to any Unrestricted Subsidiary, its assets or its properties if there is an event of default under the Indenture. Access by the Issuer to the cash flow generated by Unrestricted Subsidiaries, including Schaeffler AG and its subsidiaries, is limited to amounts actually distributed to the Issuer as dividends or other distributions. See "Risk Factors—Risks related to our Financing—The Issuer may not be able to generate sufficient cash flows to meet its debt service obligations" and "Risk Factors—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral."

Consolidated Income Statement – Schaeffler AG

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Revenue	**11,205**	**12,124**	**13,226**	**6,721**	**6,712**	**13,217**
Cost of sales	(8,029)	(8,708)	(9,448)	(4,837)	(4,792)	(9,403)
Gross profit	**3,176**	**3,416**	**3,778**	**1,884**	**1,920**	**3,814**
Research and development expenses	(611)	(622)	(720)	(350)	(378)	(748)
Selling expenses	(761)	(819)	(920)	(461)	(450)	(909)
Administrative expenses	(433)	(412)	(407)	(208)	(218)	(417)
Other income	72	49	57	19	15	53
Other expenses	(435)	(89)	(386)	(66)	(30)	(350)
Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)	**1,008**	**1,523**	**1,402**	**818**	**859**	**1,443**
Financial income[1]	217	256	327	213	112	226
Financial expenses	(641)	(875)	(874)	(550)	(265)	(589)
Financial result	**(424)**	**(619)**	**(547)**	**(337)**	**(153)**	**(363)**
Income from equity-accounted investees[1]	**2**	**–**	**–**	**–**	**–**	**–**
Earnings before income taxes	**586**	**904**	**855**	**481**	**706**	**1,080**
Income taxes	(452)	(242)	(250)	(165)	(206)	(291)
Net income	**134**	**662**	**605**	**316**	**500**	**789**
Attributable to shareholders of the parent company	127	654	591	309	494	776
Attributable to non-controlling interests	7	8	14	7	6	13

(1) Since 2015, we ceased to list income from equity-accounted investees as a separate line item in our income statement due to the minimal amounts of such income, and such income has been included as part of financial income for the fiscal years ended December 31, 2014 and 2015, as well as the six-month periods ended June 2015 and 2016.

Consolidated Statement of Financial Position – Schaeffler AG

	As of December 31,			As of June 30,
	2013	2014	2015	2016
		(audited) (in € million)		(unaudited) (in € million)
Assets				
Total non-current assets	**4,410**	**6,802**	**7,438**	**7,397**
of which intangible assets	538	555	589	585
of which property, plant and equipment	3,369	3,748	4,180	4,242
of which other financial assets[(1)]	202	1,978	2,123	1,922
Total current assets	**3,977**	**4,815**	**5,042**	**5,157**
of which inventories	1,536	1,713	1,812	1,914
of which trade receivables	1,676	1,900	2,023	2,266
of which other financial assets	232	343	123	119
of which cash and cash equivalents	300	636	799	572
Total assets	**8,387**	**11,617**	**12,480**	**12,554**
Shareholders' equity and liabilities				
Total shareholders' equity	**(1,966)**	**258**	**1,568**	**1,425**
Total non-current liabilities	**7,870**	**8,839**	**8,144**	**8,286**
of which provisions for pensions and similar obligations	1,510	1,984	1,942	2,358
of which financial debt	5,720	6,413	5,685	5,442
of which other financial liabilities	162	21	12	7
Total current liabilities	**2,483**	**2,520**	**2,768**	**2,843**
of which financial debt	33	1	3	4
of which trade payables	1,022	1,261	1,405	1,384
of which other financial liabilities	405	558	512	506
Total shareholders' equity and liabilities	**8,387**	**11,617**	**12,480**	**12,554**

(1) Includes the Schaeffler AG Loan Notes from the Issuer in an aggregate amount of €1,674 million as of June 30, 2016, €1,773 million as of December 31, 2015 and €1,071 million as of December 31, 2014. As of the date of this Offering Memorandum, such Schaeffler AG Loan Notes amounted to €1,674 million and are secured by share pledges over 23,250,361 common shares of Continental AG. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes).

Consolidated Statement of Cash Flows – Schaeffler AG

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
		(audited) (in € million)		(unaudited) (in € million)		(unaudited) (in € million)
Cash from operating activities[(1)]	1,027	900	1,372	422	777	1,727
Cash used in investing activities	(554)	(852)	(1,002)	(494)	(561)	(1,069)
Cash provided by (used in) financing activities	(582)	271	(212)	(160)	(438)	(490)
Net increase (decrease) in cash and cash equivalents	**(109)**	**319**	**158**	**(232)**	**(222)**	**168**
Cash and cash equivalents as at end of period	300	636	799	420	572	951

(1) Excluding interest payments, cash flows from operating activities amounted to €1,632 million, €1,420 million and €1,880 million for the fiscal years ended December 31, 2013, 2014 and 2015, respectively, and €801 million and €884 million for the six-month periods ended June 30, 2015 and 2016, respectively.

Other Financial and Operating Data – Schaeffler AG

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	11,205	12,124	13,226	6,721	6,712	13,217
Revenue growth (in %)	–	*8.2*	*9.1*	–	*(0.1)*	–
EBIT	1,008	1,523	1,402	818	859	1,443
EBIT margin (in %)	*9.0*	*12.6*	*10.6*	*12.2*	*12.8*	*10.9*
EBITDA (unaudited)[1]	1,660	2,172	2,096	1,161	1,217	2,152
EBITDA margin (in %) (unaudited)	*14.8*	*17.9*	*15.8*	*17.3*	*18.1*	*16.3*
Cash from operating activities	1,027	900	1,372	422	777	1,727
Cash from operating activities before net interest paid (unaudited)[2]	1,624	1,412	1,837	761	811	1,887
Capital expenditures according to cash flow statement (unaudited)[3]	(572)	(857)	(1,025)	(501)	(561)	(1,085)
Free cash flow (unaudited)[4]	473	48	370	(72)	216	658
Free cash flow before net interest paid (unaudited)[4]	1,070	560	835	267	250	818
Working capital (at the end of the period) (unaudited)[5]	2,190	2,352	2,430	2,738	2,796	2,796
Net financial debt (at the end of the period)[6]	5,453	5,778	4,889	6,245	4,874	4,874
Net financial debt at the end of the period over EBITDA for the period (x) (unaudited)[7]	3.3	2.7	2.3	2.8	2.3	2.3
Net financial debt after deducting Schaeffler AG Loan Notes (at the end of the period) (unaudited)[6]	5,453	4,078	3,116	4,630	3,200	3,200
Net financial debt after deducting Schaeffler AG Loan Notes at the end of the period over EBITDA for the period (x) (unaudited)[7]	3.3	1.9	1.5	2.1	1.5	1.5
Number of employees (in ones)	78,258	82,294	84,198	83,774	85,225	85,225

(1) 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, amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS. The EBITDA figures presented are not necessarily comparable to the performance figures published by other companies as EBITDA or the like. See "*Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of net income to EBITDA for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Net income	**134**	**662**	**605**	**316**	**500**	**789**
Income taxes	452	242	250	165	206	209
Income from equity-accounted investees[a]	(2)	–	–	–	–	–
Financial expenses	641	875	874	550	265	589
Financial income[a]	(217)	(256)	(327)	(213)	(112)	(226)
EBIT	**1,008**	**1,523**	**1,402**	**818**	**859**	**1,443**
Depreciation, amortization and impairments	652	649	694	343	358	709
EBITDA (unaudited)	**1,660**	**2,172**	**2,096**	**1,161**	**1,217**	**2,152**

(a) Since 2015, we ceased to list income from equity-accounted investees as a separate line item in our income statement due to the minimal amounts of such income, and such income has been included as part of financial income for the fiscal years ended December 31, 2014 and 2015, as well as the six-month periods ended June 2015 and 2016.

(2) The following table sets forth our cash from operating activities before net interest paid for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Cash from operating activities	**1,027**	**900**	**1,372**	**422**	**777**	**1,727**
Interest paid	605	520	508	379	107	236
Interest received	(8)	(8)	(43)	(40)	(73)	(76)
Net interest paid (unaudited)	**597**	**512**	**465**	**339**	**34**	**160**
Cash from operating activities before net interest paid (unaudited)	**1,624**	**1,412**	**1,837**	**761**	**811**	**1,887**

(3) Capital expenditures according to cash flow statement includes capital expenditures on intangible assets and capital expenditures on property, plant and equipment. The following table sets forth our capital expenditures according to cash flow statement for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Capital expenditures on intangible assets	(18)	(50)	(48)	(18)	(10)	(40)
Capital expenditures on property, plant and equipment	(554)	(807)	(977)	(483)	(551)	(1,045)
Capital expenditures according to cash flow statement (unaudited)	**(572)**	**(857)**	**(1,025)**	**(501)**	**(561)**	**(1,085)**

(4) The following table sets forth our free cash flow and our free cash flow before net interest paid for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Cash from operating activities	1,027	900	1,372	422	777	1,727
Cash used in investing activities	(554)	(852)	(1,002)	(494)	(561)	(1,069)
Free cash flow (unaudited)	**473**	**48**	**370**	**(72)**	**216**	**658**
Interest paid	605	520	508	379	107	236
Interest received	(8)	(8)	(43)	(40)	(73)	(76)
Net interest paid (unaudited)	**597**	**512**	**465**	**339**	**34**	**160**
Free cash flow before net interest paid (unaudited)	**1,070**	**560**	**835**	**267**	**250**	**818**

(5) The following table sets forth our working capital for the dates below:

	As of December 31,			As of June 30,	
	2013	2014	2015	2015	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)	
Inventories	1,536	1,713	1,812	1,810	1,914
Trade receivables	1,676	1,900	2,023	2,215	2,266
Trade payables	(1,022)	(1,261)	(1,405)	(1,287)	(1,384)
Working capital (unaudited)	**2,190**	**2,352**	**2,430**	**2,738**	**2,796**

(6) The following table sets forth our net financial debt and our net financial debt after deducting the Schaeffler AG Loan Notes for the dates below:

	As of December 31,			As of June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(audited, unless otherwise stated) (in € million)			**(unaudited) (in € million)**	
Financial debt – non-current	5,720	6,413	5,685	6,653	5,442
Financial debt – current	33	1	3	12	4
Financial debt	**5,753**	**6,414**	**5,688**	**6,665**	**5,446**
Cash and cash equivalents	(300)	(636)	(799)	(420)	(572)
Net financial debt[(a)]	**5,453**	**5,778**	**4,889**	**6,245**	**4,874**
Schaeffler AG Loan Notes[(b)]	–	1,700	1,773	1,615	1,674
Net financial debt after deducting Schaeffler AG Loan Notes (unaudited)	**5,453**	**4,078**	**3,116**	**4,630**	**3,200**

(a) Includes a shareholder loan of €6 million as of December 31, 2013.

(b) Secured by share pledges over 23,250,361 common shares of Continental AG. As of the date of this Offering Memorandum, the Schaeffler AG Loan Notes amounted to €1,674 million. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes). The amount shown as of December 31, 2014 includes the principal amount of a €629 million loan note with Schaeffler Beteiligungsholding as debtor and Schaeffler AG as lender.

(7) The following table sets forth our net financial debt for dates below over EBITDA for the periods below and our net financial debt after deducting the Schaeffler AG Loan Notes for the dates below over EBITDA for the periods below:

	As of and for the year ended December 31,			**As of and for the six-month period ended June 30,**		**As of and for the twelve-month period ended June 30,**
	2013	**2014**	**2015**	**2015**	**2016**	**2016**
	(audited) (in € million, unless otherwise stated)			**(unaudited) (in € million, unless otherwise stated)**		**(unaudited) (in € million, unless otherwise stated)**
Net financial debt (at the end of the period)	5,453	5,778	4,889	6,245	4,874	4,874
EBITDA (for the period) (unaudited)	1,660	2,172	2,096	1,161	1,217	2,152
Net financial debt over EBITDA (x) (unaudited)[(a)]	**3.3**	**2.7**	**2.3**	**2.8**	**2.3**	**2.3**
Net financial debt after deducting Schaeffler AG Loan Notes (at the end of the period) (unaudited)	5,453	4,078	3,116	4,630	3,200	3,200
EBITDA (for the period) (unaudited)	1,660	2,172	2,096	1,161	1,217	2,152
Net financial debt after deducting Schaeffler AG Loan Notes over EBITDA (x) (unaudited)[(a)]	**3.3**	**1.9**	**1.5**	**2.1**	**1.5**	**1.5**

(a) As of the six-month periods ended June 30, 2015 and 2016, the calculation uses EBITDA for the twelve-month periods ended June 30, 2015 and 2016, respectively.

Selected Segment Information

Automotive Division

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	**8,164**	**8,986**	**9,993**	**5,069**	**5,179**	**10,103**
Cost of sales	(5,960)	(6,501)	(7,189)	(3,687)	(3,698)	(7,200)
Gross profit	**2,204**	**2,485**	**2,804**	**1,382**	**1,481**	**2,903**
EBIT	**683**	**1,238**	**1,124**	**651**	**739**	**1,212**
In % of revenue	*8.4*	*13.8*	*11.2*	*12.8*	*14.3*	*12.0*
Depreciation, amortization and impairments	(464)	(453)	(507)	(245)	(262)	(524)
Inventories[1]	920	1,019	1,107	1,148	1,221	1,221
Trade receivables[1]	1,197	1,389	1,556	1,661	1,752	1,752
Property, plant and equipment[1]	2,367	2,749	3,164	2,927	3,185	3,185
Additions to intangible assets and property, plant and equipment	441	755	916	351	376	941

(1) As at the end of the respective period

Industrial Division

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	**3,041**	**3,138**	**3,233**	**1,652**	**1,533**	**3,114**
Cost of sales	(2,069)	(2,207)	(2,259)	(1,150)	(1,094)	(2,203)
Gross profit	**972**	**931**	**974**	**502**	**439**	**911**
EBIT	**325**	**285**	**278**	**167**	**120**	**231**
In % of revenue	*10.7*	*9.1*	*8.6*	*10.1*	*7.8*	*7.4*
Depreciation, amortization and impairments	(188)	(196)	(187)	(98)	(96)	(185)
Inventories[1]	616	694	705	662	693	693
Trade receivables[1]	479	511	467	554	514	514
Property, plant and equipment[1]	1,002	999	1,016	1,015	1,057	1,057
Additions to intangible assets and property, plant and equipment	132	188	202	84	93	211

(1) As at the end of the respective period.

Pro Forma Financial Information

The tables below contain certain unaudited historical financial information for the Issuer and certain unaudited consolidated historical financial information for the Schaeffler Group as of and for the twelve-month period ended June 30, 2016. The basis of preparation for this information is set forth in "Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Pro Forma Financial Information."

The tables below also contain certain unaudited pro forma financial information for the Issuer and the Schaeffler Group as of and for the twelve-month period ended June 30, 2016, which has been adjusted to reflect certain effects of the Transactions and the Schaeffler Group Refinancing, as applicable, and certain other adjustments on the Issuer financial information and the consolidated financial information for the Schaeffler Group, respectively, as if the Transactions and the Schaeffler Group Refinancing, as applicable, had occurred on (i) July 1, 2015, for the purposes of the calculation of income statement and cash flow statement items or (ii) June 30, 2016, for the purposes of the calculation of balance sheet items. The unaudited pro forma financial information included herein has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive or any generally accepted accounting standards. The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe to be reasonable. Neither the assumptions underlying the pro forma adjustments nor the resulting unaudited pro forma financial information have been audited or reviewed in accordance with any generally accepted auditing standards. The unaudited pro forma financial information is for illustrative purposes only and should not be considered indicative of actual results that would have been achieved had the Transactions and the Schaeffler Group Refinancing, as applicable, been completed on the dates indicated and do not indicate our future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the unaudited pro forma financial information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the unaudited pro forma financial information.

The table below includes certain non-GAAP measures and ratios, which are used by management in monitoring the business of the Issuer and the Schaeffler Group. Non-GAAP 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 operating results as reported under German GAAP or IFRS. Please see "Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures."

The information in the tables below should be read in conjunction with the information contained in "Certain Financial Information of the Issuer," "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group" and the financial statements, including the related notes thereto, contained in this Offering Memorandum beginning on page F–1.

	As of and for the twelve-month period ended June 30, 2016	
	Actual[1]	*Pro forma* financial information
	(unaudited) (in € million, unless otherwise stated)	
Issuer (German GAAP)[2]		
Dividends received[3]	515	515
Financial debt (at end of period)[1][4]	1,674	4,197
Cash and cash equivalents (at end of period)[5]	9	241
Net financial debt (at end of period)[1][6]	1,665	3,956
Net interest paid[1][7]	72	151
Dividends received over net interest paid (x)	–	3.4
Schaeffler Group (IFRS)[8]		
EBITDA[9]	2,152	2,152
Financial debt (at end of period)[10]	5,446	4,639
Schaeffler AG Loan Notes receivable (at end of period)[11]	1,674	–
Cash and cash equivalents (at end of period)[12]	572	1,434
Net financial debt (at end of period)[13]	3,200	3,205
Net interest paid[14]	160	134
Net financial debt (at end of period) over EBITDA (x)	1.5	1.5
EBITDA over net interest paid (x)	13.5	16.1

	As of June 30, 2016 (unless otherwise stated)
	(unaudited) (in € million, unless otherwise stated)
Combined Ratios	
Combined Net Leverage Ratio (x)[15]	3.4
Combined Coverage Ratio (x)[16]	7.5
LTV Ratios	
Value of 75.1% of Schaeffler AG shares held by the Issuer[17]	6,600
Value of Schaeffler AG shares pledged as Collateral[18]	4,396
Value of 36.0% of Continental AG shares held by the Issuer[19]	13,210
Value of Continental AG shares pledged as Collateral[20]	7,696
Pro Forma LTV Ratio (1.0:x)[21]	4.7
Pro Forma Collateral LTV Ratio (1.0:x)[22]	2.9

(1) The historical Issuer financial information presented does not reflect the historical financial information of the IHO Beteiligungs Group. In particular, it does not reflect the actual financial debt of the IHO Beteiligungs Group in an aggregate principal amount of €2,263 million as of June 30, 2016, which is being refinanced with new debt to be incurred by the Issuer. Similarly, it does not reflect the actual interest paid by the IHO Beteiligungs Group in an aggregate amount of €248 million during the twelve-month period ended June 30, 2016. As a result, financial debt of and interest paid by the Issuer on a *pro forma* basis is not directly comparable with and substantially higher than the actual figures as of June 30, 2016.

(2) The historical Issuer financial information has been compiled based on the audited unconsolidated financial statements of the Issuer as of and for the fiscal year ended December 31, 2015 and the unaudited accounting records of the Issuer as of and for the six-month periods ended June 30, 2015 and 2016, in accordance with German GAAP. The Issuer financial information is presented for illustrative purposes only and has not been audited or reviewed in accordance with any generally accepted auditing standards. See "*Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Pro Forma Financial Information*."

(3) Dividends received reflect dividends received by the Issuer from its investments in Schaeffler AG (€245 million) and Continental AG (€270 million). The Issuer is a holding and finance company without any substantial operating activities. As such, the Issuer considers dividends and other distributions received from its investments in Schaeffler AG and Continental AG as its most significant financial performance indicator.

(4) *Pro forma* financial debt is the financial debt as adjusted to give *pro forma* effect to the Transactions as if the Transactions had occurred on June 30, 2016. Actual financial debt of the Issuer consists of amounts outstanding under the Schaeffler AG Loan Notes (€1,674 million). See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*." *Pro forma* financial

debt of the Issuer consists of the Issuer Facilities Agreement (€600 million) and the Notes offered hereby (€3,597 million-equivalent). For presentational purposes, the U.S. dollar tranches of the Notes have been converted into euro at an exchange rate of $1.1132 to €1.00. This exchange rate differs from the exchange rate in effect as of June 30, 2016. The actual financial debt of the Issuer does not reflect the actual financial debt of the IHO Beteiligungs Group in an aggregate principal amount of €2,263 million as of June 30, 2016, including amounts outstanding under the Existing IHO Beteiligungs Group Facilities Agreement (€600 million in aggregate principal amount as of June 30, 2016) and the Outstanding IHO Beteiligungs Group Notes (€510 million and $1,280 million in aggregate principal amount as of June 30, 2016), which is being refinanced with new debt to be incurred by the Issuer, including the Issuer Facilities Agreement and the Notes offered hereby. As a result, financial debt of the Issuer on a *pro forma* basis is not directly comparable with and substantially higher than the actual figures as of June 30, 2016.

(5) *Pro forma* cash and cash equivalents represent cash and cash equivalents as adjusted to give *pro forma* effect to the Transactions as if they occurred on June 30, 2016.

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

(7) The Issuer's net interest paid is calculated as interest paid less interest received. The Issuer's *pro forma* net interest paid is defined as the accumulated net interest paid for the twelve-month period ended June 30, 2016, as adjusted to give pro forma effect to the Transactions, as if the Transactions had occurred on July 1, 2015. The actual net interest paid for the twelve-month period ended June 30, 2016 consisted mostly of interest payments to Schaeffler AG on the Schaeffler AG Loan Notes. *Pro forma* net interest paid is actual net interest paid for the twelve-month period ended June 30, 2016 (€72 million), adjusted by adding interest payments of €133 million-equivalent relating to the Notes and interest payments of €18 million relating to drawings under the Issuer Facilities Agreement, and by deducting interest payments of €72 million relating to the fully repaid Schaeffler AG Loan Notes. The actual net interest paid by the Issuer does not reflect the actual interest paid by the IHO Beteiligungs Group in an aggregate amount of €248 million during the twelve-month period ended June 30, 2016, including interest paid under the Redeemed IHO Beteiligungs Group Notes (€113 million during the period from July 1, 2015 until May 13, 2016) and the Old IHO Beteiligungs Group Facilities Agreement (€8 million during the period from July 1, 2015 until October 5, 2015), and interest paid under the Existing IHO Beteiligungs Group Facilities Agreement (€18 million during the period from October 5, 2015 until June 30, 2016) and the Outstanding IHO Beteiligungs Group Notes (€109 million during the twelve-month period ended June 30, 2016), which are being refinanced with new debt to be incurred by the Issuer, including the Issuer Facilities Agreement and the Notes offered hereby. Excluding the actual interest paid under the Redeemed IHO Beteiligungs Group Notes (€113 million), the aggregate actual interest paid by the IHO Beteiligungs Group was €135 million during the twelve month ended June 30, 2016. As a result, net interest paid by the Issuer on a *pro forma* basis is not directly comparable with and substantially higher than the actual figures as of June 30, 2016.

(8) The historical Schaeffler Group financial information has been compiled based on the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015 and the unaudited consolidated condensed financial statements of Schaeffler AG as of and for the six-month periods ended June 30, 2015 and 2016, in accordance with IFRS. See "*Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Pro Forma Financial Information*."

(9) 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, amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS or German GAAP. The EBITDA figures presented are not necessarily comparable to the performance figures published by other companies as EBITDA or the like. See "*Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures*."

(10) *Pro forma* financial debt is financial debt as adjusted to give *pro forma* effect to the Transactions and the Schaeffler Group Refinancing as if they had occurred on June 30, 2016. It does not, however, reflect the intended repayment of other outstanding indebtedness from a portion (€869 million) of the amounts received from the repayment of the Schaeffler AG Loan Notes. For presentational purposes, the U.S. dollar tranches of the Schaeffler Group Notes and the Old Schaeffler Group Facilities Agreement have been converted into euro at an exchange rate of $1.1102 to €1.00 as of June 30, 2016.

(11) The actual amount reflects amounts receivable under the Schaeffler AG Loan Notes as of June 30, 2016. The *pro forma* amount reflects amounts receivable under the Schaeffler AG Loan Notes as of June 30, 2016 as adjusted to give *pro forma* effect to the Transactions as if they occurred on June 30, 2016. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

(12) *Pro forma* cash and cash equivalents represent cash and cash equivalents as adjusted to give pro forma effect to the Transactions and the Schaeffler Group Refinancing, as applicable, as if they occurred on June 30, 2016. It does not, however, reflect the intended repayment of other outstanding indebtedness from a portion (€869 million) of the amounts received from the repayment of the Schaeffler AG Loan Notes.

(13) Actual net financial debt represents actual gross financial debt less actual amounts receivable under the Schaeffler AG Loan Notes and less actual cash and cash equivalents. *Pro forma* net financial debt represents *pro forma* gross financial debt less *pro forma* amounts receivable under the Schaeffler AG Loan Notes less *pro forma* cash and cash equivalents.

(14) Schaeffler Group *pro forma* net interest paid is defined as the accumulated net interest paid for the twelve-month period ended June 30, 2016, as adjusted to give *pro forma* effect to the Transactions and the Schaeffler Group Refinancing as if they had occurred on July 1, 2015. The actual net interest paid for the twelve-month period ended June 30, 2016 (€160 million) is adjusted by (a) deducting (i) interest payments of €26 million relating to the Redeemed Schaeffler Group April 2013 Notes, (ii) interest payments of €55 million relating to drawings under the Old Schaeffler Group Facilities Agreement, and (iii) interest payments of €36 million relating to the Outstanding Schaeffler Group April 2013 Notes, and (b) adding (i) interest payments of €19 million relating to drawings under the New Schaeffler Group Facilities Agreement, and (ii) interest received of €72 million relating to the fully repaid Schaeffler AG Loan Notes. It does not, however, reflect any interest payments related to the intended repayment of other outstanding indebtedness from a portion (€869 million) of the amounts received from the repayment of the Schaeffler AG Loan Notes.

(15) Combined Net Leverage Ratio is calculated on a combined and "look-through" basis as the Issuer's ownership percentage of the net financial debt of the Schaeffler Group *plus* the net financial debt of the Issuer, divided by the Issuer's ownership percentage of the EBITDA of the Schaeffler Group *plus* dividends received by the Issuer from Continental AG.

(16) Combined Coverage Ratio is calculated on a combined and "look-through" basis as the Issuer's ownership percentage of the EBITDA of the Schaeffler Group *plus* dividends received by the Issuer from Continental AG, divided by the Issuer's ownership percentage of the net interest paid by the Schaeffler Group *plus* the net interest paid by the Issuer.

(17) This amount reflects the volume weighted average price per non-voting share of Schaeffler AG quoted on the Frankfurt Stock Exchange over the last 60 trading days (the "**Schaeffler AG Share Value**") on August 31, 2016 (€13.20), multiplied by the number of Schaeffler AG shares held by the Issuer (500,000,000).

(18) As of the Issue Date, the Notes and the Issuer Facilities will be secured by pledges over 333,000,001 common shares in Schaeffler AG (representing 66.7% of the voting shares (*Stammaktien*) and 50% *plus* one share of the total share capital of Schaeffler AG). Based on the Schaeffler AG Share Value of €13.20, the shares in Schaeffler AG forming part of the Collateral had a total market value of €4,396 million as of August 31, 2016.

(19) This amount reflects the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange over the last 60 trading days (the "**Continental Share Value**") on August 31, 2016 (€183.50), multiplied by the number of Continental AG shares held by the Issuer (71,990,458).

(20) As of the Issue Date, the Notes and the Issuer Facilities will be secured by pledges over 41,937,694 common shares in Continental AG (representing a number of common shares in Continental AG equal to the aggregate principal amount of the Notes (euro-equivalent as of August 31, 2016) plus €800 million, divided by the Continental Share Value on August 31, 2016, multiplied by 1.75). Based on the Continental Share Value of €183.50, the shares in Continental AG forming part of the Collateral had a total market value of €7,696 million as of August 31, 2016.

(21) The LTV Ratio is calculated as the *pro forma* (gross) financial debt of the Issuer as of June 30, 2016, divided by an amount equal to (i) the Schaeffler AG Share Value on August 31, 2016 (€13.20) multiplied by the number of Schaeffler AG shares held by the Issuer (500,000,000) plus (ii) the Continental Share Value on August 31, 2016 (€183.50) multiplied by the number of Continental AG shares held by the Issuer (71,990,458).

(22) The Collateral LTV Ratio is calculated as the *pro forma* (gross) financial debt of the Issuer as of June 30, 2016, divided by an amount equal to (i) the Schaeffler AG Share Value on August 31, 2016 (€13.20) multipled by the number of Schaeffler AG shares to be pledged as Collateral under the Indenture and the Issuer Facilities Agreement (333,000,001) plus (ii) the Continental Share Value on August 31, 2016 (€183.50) multipled by the number of Continental AG shares to be pledged as Collateral under the Indenture and the Issuer Facilities Agreement (41,937,694). The Issuer Revolving Facility is expected to be undrawn as of the Issue Date. If the Issuer Revolving Facility (€200 million) were fully drawn as of the Issue Date, the *Pro Forma* Collateral LTV Ratio would be 1.0 to 2.7. As of the date of this Offering Memorandum, the Schaeffler AG Loan Notes are separately secured by share pledges over 23,250,361 common shares of Continental AG. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes). Upon full repayment of the Schaeffler AG Loan Notes (€1,674 million) in connection with the Transactions, the existing pledges over such common shares of Continental AG will be released. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

Risk Factors

An investment in the Notes is subject to risks. In addition to the other information contained in this Offering Memorandum, investors should carefully consider the following risks when deciding whether to invest in the Notes. The market price of the Notes could decline if any of these risks were to materialize, in which case investors could lose some or all of their investment. The following risks, alone or together with additional risks and uncertainties not currently known to us, or that we might currently deem immaterial, could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations and may adversely affect the Issuer's ability to fulfill their respective obligations under the Notes 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.

Except as the context otherwise indicates, in the sub-sections entitled "—Risks related to our Business Operations and the Markets in which we operate" and "—Legal, Regulatory and Tax Risks," the terms "we," "us," "our" and other similar terms are generally used to refer to Schaeffler AG and its subsidiaries, whereas in the sub-sections entitled "—Risks related to our Financing" and "—Risks related to the Notes and our Structure," the terms "we," "us," "our" and other similar terms are generally used to refer to the Issuer and its subsidiaries.

The order in which the risks are presented is not an indication of the likelihood of the risks actually materializing, or the significance or degree of the risks or the scope of any potential harm to our business, net assets, financial condition, cash flows or results of operations. The risks mentioned herein may materialize individually or cumulatively.

Risks related to our Business Operations and the Markets in which we operate

As a global supplier to the automotive and industrial sector we are exposed to substantial risks associated with the performance of the global economy in general and developments in the Eurozone, the United States and China in particular.

We are a global supplier to the automotive and industrial sectors. Thus, 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 is directly related to the strength of the global economy. Therefore, our revenues and profit 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, negative developments in Europe, where we generated 54.8% of our consolidated revenue in the six-month period ended June 30, 2016, could have a material adverse effect on our business and operating results. The deterioration of the sovereign debt and fiscal deficits of several countries of the Eurozone, including Cyprus, Greece, Ireland, Italy, Portugal and Spain, 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. In July 2015, Greece defaulted on debt it owed to the International Monetary Fund and introduced capital controls to prevent a collapse of its banking system, which in turn led to acute negotiations over a Greek exit from the Eurozone. While Greece and other Eurozone countries reached an agreement on a third bailout program in May 2016, there is still uncertainty whether Greece will be able to implement agreed reforms and remain in the Eurozone. Furthermore, on June 23, 2016, the United Kingdom voted to leave the EU. Initial market

reaction has resulted in significant volatility in currency and equity markets, and a downgrade of the United Kingdom's sovereign credit rating by S&P and Fitch. A prolonged lack of clarity on the details of the United Kingdom's exit from the EU, and uncertainty over trade arrangements, market access and legislative and regulatory frameworks, will likely result in continued volatility across the international financial markets. Until the terms and timing of the United Kingdom's exit from the EU are clearer, it is not possible to determine its impact on our business. In addition, the United Kingdom's vote to leave the EU may prompt other countries to reconsider their EU membership, resulting in political uncertainty within the EU, turmoil in international financial markets and reduced economic growth. The resulting political and economic uncertainty could also lead to a departure, or heighten the risk of departure, from the euro monetary union by one or more Eurozone countries and/or the abandonment of the euro as a currency. The occurrence of any of the above could have material adverse effects on our business, financial condition, results of operations and prospects.

Economic growth in the United States has proven slow in recent months. At the same time, the Board of Governors of the Federal Reserve System has indicated that it may again raise interest rates in 2016. Interest rate increases would lead to a reduction in capital market liquidity. Therefore, interest rate hikes may further slow economic growth in the United States and even lead to a renewed recession. Furthermore, the Chinese economy, which was previously particularly resilient to adverse developments in other countries and showed constant economic growth, has seen a significant deceleration in the past two years, partly due to excess capacity in the real estate and manufacturing sectors and high debt levels throughout the economy. This has led to increased volatility on stock markets in China and Hong Kong. While the Chinese government and institutions associated with the Chinese government have reiterated their commitment to support stock markets and the country's economic development as a whole, stock markets may still experience a significant decline, and the growth of the Chinese economy may further decelerate or reverse into a recession which would in turn adversely affect the global economy as a whole. Lower Chinese demand for imports and raw materials has already depressed global commodities prices, which, combined with low oil prices, have hampered developments of emerging countries dependent on commodity exports, such as Russia and Brazil. Brazil is experiencing economic recession as well as political instability. In addition, a continuation or further aggravation 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 European or global economic development. A recession in the United States, China or Brazil, or a continuation of tensions between Russia and Ukraine, could therefore adversely affect the global economy and could also have a material adverse effect on our business and operating results.

Tax increases that reduce income available for consumption may also weaken global demand in general and demand in the automotive markets in particular. Tax increases are a likely reaction of national governments to the increase of national debt resulting from the various bailout programs set up for banks or, most recently, the stabilization package for member states of the EU. Likewise, measures introduced to cut national budget deficits such as cutting public salaries and pensions as well as other public spending, may weaken global demand in general, and demand in the automotive markets in particular.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We operate in a cyclical industry and this makes it hard for us to correctly forecast demand for our products.

Our business is characterized by high fixed costs. On the one hand, we risk underutilization of our facilities if the markets in which we operate decline. 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 revenues and earnings. On the

other hand, we risk having insufficient capacity to meet customer demand if the markets in which we operate grow faster than anticipated and thus may lose market share.

Sales to our automotive customers, from which we generated 77.2% of our consolidated revenue in the six-month period ended June 30, 2016, 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, original equipment manufacturer ("**OEM**") customers generally do not commit to purchasing minimum quantities from their suppliers. Inability to correctly forecast demand for our automotive products could lead to underutilization of our facilities or insufficient capacity to meet customer demand. Attempts to react to such inaccurate forecasts by increasing or reducing our capacity at short notice may cause us to incur additional costs (*e.g.*, severance payments or overtime surcharges).

Sales to our industrial customers, from which we generated 22.8% of our consolidated revenue in the six-month period ended June 30, 2016, 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 forecast future working capital requirements. Inability to correctly forecast demand for our industrial products could lead to underutilization of our facilities or insufficient capacity to meet customer demand.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our business environment is characterized by intense competition, which could reduce our revenues 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 as well as the development and introduction of new products, product designs and technologies by significant existing and new competitors. Bearings represent core markets for both of our divisions and the majority of such bearings manufactured globally is used for either motor vehicles or industrial applications. 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 and service in the future, our customers could decide to procure products from our competitors.

The automotive supply industry, in particular, has been characterized by high capital expenditures (which, unless stated otherwise, we define as additions of property, plant, equipment and intangible assets according to our asset register), rapid technological change, continuous advancements in process technologies and manufacturing facilities, intense pricing pressure from major OEM customers and periods of oversupply. 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, or upon expiration, of an existing contract. 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 are unable to offset

price reductions through improved operating efficiencies and the realization of synergies, price reductions could impact our profit margins.

In addition, the markets in which we operate in are characterized by a trend toward consolidation. Increasing consolidation among our competitors and between competitors and OEM customers could allow competitors to further benefit from economies of scale, offer more comprehensive product portfolios, and increase the size of their serviceable markets. This could require us to accept considerable reductions in our profit margins and the loss of market share due to price pressure. Furthermore, competitors may gain control over or influence on our suppliers or customers by investing in such companies, which could adversely affect our supplier relationships.

Loss of market share or a deterioration of our profit margins due to competitive pressure could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our efforts to expand in emerging markets are subject to a variety of business, economic, legal and political risks, the materialization of which could adversely affect our expansion efforts.

We manufacture our products in many countries and market and sell them worldwide. We are actively operating and expanding our operations in rapidly growing and emerging markets, including China, India, Russia and Vietnam. In the future, we plan to further strengthen our presence in these fast-growing markets in line with our “in the region, for the region” approach and to generate a greater percentage of our revenues there.

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 adversely affect our operations:

- underdeveloped infrastructure;
- lack of qualified management or adequately trained personnel;
- divergent labor regulations or cultural expectations regarding employment;
- 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;
- business environments in which fraud, bribery or corruption are common, condoned or encouraged by private or official actors;
- potential nationalization of enterprises or other expropriations; and
- political or social unrest or acts of sabotage or terrorism.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We are exposed to risks associated with market trends and developments, which may have a negative impact on the demand for our products, and we may not be able to adapt sufficiently or in a timely manner.

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 $10,000 or €9,000 has been increasing steadily over the past few years, in particular in emerging markets such as China, India, Brazil and Eastern Europe. Some car manufacturers are also intending to introduce vehicles that are partially, highly, or fully automated in the years to come. The industrial market is also characterized by specific market trends, such as the focus on energy efficiency, renewable energies, 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, or increase insourcing, (iv) the market will accept our innovations and (v) our competitors will not be able to produce our non-patented products more cheaply. Should we fail to develop appropriate strategies as a response to the market trends described above 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. In particular, alternative drive trains (*e.g.*, electric vehicles) may not require our products or may make use of such products to a lesser extent than conventional drive trains. If such alternative drive trains were to gain market share sooner than expected, giving us less time to adjust our product offering to this development, this could result in us losing market share. Our customers may also devote a greater amount of resources to developing alternative drive trains internally, thereby further reducing demand for our products and services. In addition, the products in our markets are evolving from mechanical components to mechanical systems and are expected to increasingly evolve to mechatronic systems and services with electronic components and software. Any delay or inability to adapt our products accordingly may hinder our competitiveness and diminish our market share. 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. Rapid technological changes have created a shift towards digitalizing business processes and products in our markets, and we may not be able to digitalize our processes and products quickly or in a cost effective manner to meet customer demands or keep pace with competition.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We depend on a limited number of large OEM and Tier 1 suppliers with significant bargaining power for the sale of a substantial portion of our products and this may adversely affect our profit margins.

Many of our customers are large OEMs and Tier 1 suppliers (*i.e.*, suppliers that sell their products directly to OEMs). Both have substantial bargaining power with respect to price and other commercial terms. Most OEM customers, for example, have annual price-reduction initiatives and objectives with their suppliers. Our customers' demand for price reductions drives us to constantly

improve our production process in order to reduce costs. If we are not successful in these improvements, our profit margins may be adversely 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 adversely affect our business. Furthermore, failure by these customers to inform us of changes to their production needs in a timely manner could also impede our ability to effectively manage our business. The effect on our business would be particularly acute if a number of customer relationships were terminated or the number of products we deliver under such relationships were substantially reduced within a short period of time.

During the six-month period ended June 30, 2016, the Automotive Division’s top ten customers represented approximately 60% of its revenues and the Industrial Division’s top ten customers represented approximately 17% of its revenues. A number of factors, including 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, reduced or delayed customer requirements and plant shutdowns, strikes or other work stoppages affecting production by such OEM customers could cause a loss of all or a substantial portion of sales to any of our large OEM customers.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We could be adversely affected by our customers defaulting on payments.

In addition to the impact that production cuts and permanent capacity reductions by OEM customers may have on our business and results of operations, the financial condition of these customers can also affect our own financial condition. In the past, OEM customers and other customers have suffered from declines in sales and production, tightened liquidity and increased cost of capital, which, together with structural issues specific to these companies (such as significant overcapacity and pension and healthcare costs), have caused many of these companies to undergo unprecedented restructurings, including reorganizations under bankruptcy laws.

If the creditworthiness of our OEM customers or other customers were to decline, we would face an increased default risk with respect to our trade receivables. There can be no assurance that any financial arrangements provided to these companies, or even a successful reorganization of such companies through bankruptcy, will guarantee their continued viability. In addition, we do not carry insurance on all of our receivables. If certain of our OEM customers are unable to make payments for products that we have already delivered, we may not be able to recover those receivables.

Payment defaults by OEM customers or other customers could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Longer product lives of OEM parts could adversely affect aftermarket demand for some of our products.

We generated 21% of our consolidated revenue in the six-month period ended June 30, 2016 from our aftermarket business (*i.e.*, sale of spare parts and provision of services). The average useful life of parts, particularly in the end products of OEMs, has increased in recent years due to innovations in products and technologies. Longer product lives generally lead to less-frequent replacement of parts over the lifespan of the equipment, leading in turn to decreased aftermarket sales of the relevant

products. This dynamic has adversely affected our aftermarket sales in the past and could do so in the future. Further increases in average useful lives of parts could also further adversely affect aftermarket demand for certain of our products.

Lower demand for our products due to longer product lives of OEM parts could have a material adverse effect on our aftermarket revenue and, accordingly, our business, net assets, financial condition, cash flows and results of operations.

We may be unable to successfully implement the realignment of our Industrial Division or may incur additional costs in connection with these efforts.

At a meeting on August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign our Industrial Division in a program titled "CORE" with the objective of improving the efficiency and competitive position of the industrial business for the long term in order to facilitate lasting growth and increased profitability. This program mainly focuses on realigning the organizational structure of our Industrial Division towards stronger customer orientation and on streamlining its management structure. In addition, the program aims to optimize our Industrial Division's product portfolio and speed up supply to the market. As part of the "CORE" program, Schaeffler AG expects to reduce the Industrial Division workforce by up to 500 jobs in a socially acceptable manner, mostly in Germany and the rest of Europe. See "*Business—Strategy—Increase Profitability by Realigning our Industrial Division*."

We expect any costs associated with this realignment to be more than offset by cost savings and gains from productivity improvements. However, the Schaeffler Group may be unable to realize these targeted cost savings and productivity improvements. The process of implementing our "CORE" program may take longer than currently envisaged and may cause additional costs, including costs that the Schaeffler Group does not and cannot currently foresee. Furthermore, a reduction of our labor force could adversely affect our business (*e.g.*, through strikes, lawsuits, business interruptions or reputational damage).

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 to pursue this growth strategy, particularly in China and 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.

Inability to execute our growth strategy could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We may be unable to successfully integrate or achieve expected benefits from future acquisitions.

We may pursue selected acquisitions in the future. To the extent that we are successful in making acquisitions, we may need to expend substantial amounts of cash, incur additional debt or assume loss-making divisions. Future acquisitions also involve a number of other risks, including:

- unexpected losses of key employees of the acquired operations;
- extraordinary or unexpected legal, regulatory, contractual or other costs;
- difficulties in integrating the financial, technological and management standards, processes, procedures and controls of the acquired business with those of our existing operations;
- challenges in managing the increased scope, geographic diversity and complexity of our operations;
- mitigating contingent and/or assumed liabilities;
- the possible loss of customers and/or suppliers; and
- control issues in relation to acquisitions through joint ventures and other arrangements where we do not exercise sole control.

We may not be able to realize the anticipated cost savings, synergies, future earnings or other benefits that we intend to achieve from acquisitions. We cannot guarantee that any future acquisition will yield benefits that are sufficient to justify the expenses we incur. We could also take on additional risks as a result of acquisitions.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We depend on a limited number of key suppliers for certain products and inability to source products from these suppliers, particularly due to supply interruptions, could adversely affect our operations.

We require substantial amounts of raw materials for our production, including steel tubing and bars, strip steel, nickel and other alloys and electric power. For some of the critical components used as part of our production and manufacturing processes we rely on a limited number of key suppliers. Accordingly, our procurement logistics may be adversely affected by supply delays, cancellations, strikes, insufficient quantities or inadequate quality related to any of our suppliers. Any of these factors could result in interruptions in production and, therefore, have an adverse effect 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. If any one of our suppliers becomes unable to meet our delivery requirements for any reason (*e.g.*, due to insolvency, destruction of production plants, strikes 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.

Inability to source the required quantities of raw materials and components when needed could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We are exposed to fluctuations in prices of raw materials and energy, which may lead to higher production and manufacturing costs.

Steel is the principal raw material used in many of our products. Price increases for raw materials, as well as energy, may affect the production and manufacturing costs of our products, and we may not be able to pass those costs on to our customers.

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 effect on our results of operations. 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.

During periods of declining raw material or energy prices, customers may demand price reductions for our products, despite the fact that we may be using existing inventories that were purchased at higher prices. This could in turn have a negative effect on our profit margins.

Fluctuations in prices for raw materials and energy could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 the actual and perceived quality of our products could damage our image and reputation and also the image and reputation of one or more of our brands. In addition, defective products could result in loss of sales, loss of customers and loss of market acceptance.

Furthermore, we manufacture many products pursuant to specifications and quality requirements of our OEM customers. 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 adversely affect the market acceptance of our other products and our market reputation in various market segments.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Product piracy may adversely affect our operations.

We aim to maintain a high quality standard for our products and believe that our brands enjoy a reputation of high performance and reliability. As a result, we have been the target of product piracy in the past. For example, on February 15, 2016, a local trader in Colombia was discovered to be dealing in counterfeit rolling bearings under Schaeffler brands and was raided by the competent authorities. The police confiscated more than 26,000 counterfeit products on that day worth almost €1 million. Only two days later the police confiscated another 1,875 counterfeit products when it searched another branch of the same local trader in a different Colombian city.

Due to the reputation of our brands, we expect that third parties may continue to produce and distribute counterfeit products under our brands in the future. Such products are usually sold at

significantly reduced prices, which puts pressure on us to lower the prices we charge for original products. We may also lose market share to producers of counterfeit products, particularly in emerging markets. While we actively prosecute product piracy in all of our markets, fighting product piracy may be costly and may not prove successful in all cases. Furthermore, the lower quality standards of counterfeit products illegally sold under our brand names may damage our brand image if customers unwittingly purchase such products and experience product failures or poor performance.

Product piracy could therefore have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 mainly 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.

Inability to maintain our technological leadership could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We may not be able to obtain the funding required for our R&D activities and these activities may not lead to the development of commercially successful products.

Developing new and improved products requires a substantial amount of capital funding. We spend significant resources on R&D. R&D expenses amounted to approximately 5% of our consolidated revenue in each of the fiscal years ended December 31, 2013, 2014 and 2015 and in the six-month period ended June 30, 2016. 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. Furthermore, should we be unable to secure sufficient funding to finance our R&D activities, we could lose our competitive position in a number of important and rapidly growing sub-markets.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our operations depend on qualified executives and key employees and the loss of these persons could adversely affect our market position and prospects.

Our success depends on the members of the Board of Managing Directors, the members of the executive board and other qualified executives and employees in key functions throughout the Schaeffler Group. 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.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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

With around 85,000 employees (as of June 30, 2016), we employ a large workforce around the world. A significant number of our employees, particularly in Germany, are unionized. Furthermore, Schaeffler AG and other German entities of the Schaeffler Group are subject to the regulations of the German Co-Determination Act (*Mitbestimmungsgesetz*). Therefore, we depend on positive relationships with our employees and employee representatives. These relationships could deteriorate in the future and we could experience additional strikes, further unionization efforts or other types of conflicts with employee representatives or our employees. Strikes associated with our operations could also damage our reputation with customers or our public reputation.

In addition, many of our customers and suppliers also have unionized workforces. Refusals to work or work downtime experienced by our customers or suppliers could reduce demand for our products or prevent us from obtaining raw materials and other products required for our own production.

Strikes or labor disputes could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our operations rely on complex information technology systems and networks, and interruptions of these systems and networks could adversely affect our business operations.

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 and to security threats. An extended outage in a data center or telecommunications network utilized by our systems, security breaches or any similar event could lead to an extended and unanticipated interruption of our systems or networks and affect our production and other operations. In addition, it is possible that a malfunction of our data system security measures could enable unauthorized persons to access sensitive business data, including information relating to our intellectual property or business strategy.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We could be adversely affected by property losses and unforeseen business interruptions.

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 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 materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our insurance coverage may be insufficient, and we may be unable to completely insure certain risks or obtain sufficient insurance coverage in the future.

We have taken out insurance coverage for a number of risks, including property damage, product liability (including extended product liability), damage to rented objects and environmental damage. There is no guarantee that our insurance policies will adequately cover all material risks we face. Some risks cannot be insured, and for certain risks and in certain locations, insurance may not be available or may be available only at costs that are not economically viable. We cannot guarantee that one or more events will occur for which the Schaeffler Group is uncompensated or undercompensated by insurance. Furthermore, our insurance coverage could lapse due to unintentional non-payment of insurance premiums.

Following a number of claims or after a major claim, insurance premiums may be increased or the terms and conditions of insurance coverage may become less favorable. This may also occur due to a general change in the insurance markets. There is no guarantee that we will be able to continue to obtain sufficient levels of insurance on terms and conditions that are economically viable.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We are exposed to risks associated with changes in exchange rates and hedging and exchange rate fluctuations could adversely affect our results of operations.

We operate worldwide and are therefore exposed to financial risks that arise from changes in exchange rates. Exchange rate 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. Furthermore, fluctuations in exchange rates could impact payments due in U.S. dollars under the Notes offered hereby, the Schaeffler Group Notes and the New Schaeffler Group Facilities Agreement. See "*Description of Other Indebtedness*." As a result of these factors, fluctuations in exchange rates could adversely 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 and Chinese Renminbi. 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 derivative financial instruments, and in particular forward exchange contracts. The foreign exchange risk is concentrated at the 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 may be unable to use derivative financial instruments in the future, to the extent necessary, and our hedging strategy could therefore ultimately be adversely affected. Furthermore, any hedging transactions executed in the form of derivative financial instruments may adversely affect our profit due to changes in the mark-to-market valuation if hedge accounting is not applied.

In addition, we are exposed to exchange rate risks arising from external and internal loan agreements and corporate bonds, which result from cash inflows and outflows in currencies other than the functional currency of our respective group member. These exchange rate risks are, in general,

hedged against by using appropriate derivative financial instruments, and in particular 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 materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Legal, Regulatory and Tax Risks

We are involved in legal, administrative and arbitration proceedings and may be obligated to pay substantial damages or incur additional costs.

Companies of the Schaeffler Group 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, particularly in the United States, substantial claims for damages or other payments. Based on judgments or settlement agreements, we could be obligated to pay substantial damages. Our litigation costs and those of third parties could also be significant. See "*Business—Environment, Compliance, Insurance and Legal—Litigation and Administrative Proceedings*."

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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

Since 2011, various antitrust authorities, including authorities in the United States, have been investigating several manufacturers of bearings and other products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted practices violating antitrust laws. We are cooperating with antitrust authorities in the context of these investigations.

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

- ***EU***: On March 19, 2014, the European Commission issued a decision under which we were required to pay €370.5 million. This penalty was paid in the second quarter of 2014.
- ***United States***: The U.S. Department of Justice served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011. In September 2012, Schaeffler Group USA Inc. submitted documents and information to the U.S. Department of Justice. So far, Schaeffler Group USA Inc. has not received a response.
- ***South Korea***: The Korean Fair Trade Commission fined our South Korean subsidiary Schaeffler Korea Corporation approximately €12 million by order delivered March 10, 2015 for collusion regarding imported bearings for the industrial aftermarket and approximately €5 million by order delivered May 8, 2015 regarding automotive bearings. Both fines were paid in 2015, but Schaeffler Korea Corporation filed appeals against both decisions. In the industrial bearings case, Schaeffler Korea Corporation won the appeal. However, the Korean Fair Trade Commission appealed this decision of the court. In March 2016, the Korean Fair Trade Commission started another investigation against Schaeffler Korea Corporation for alleged collusion regarding alternator bearings, which it ceased in July 2016. In 2015, the South Korean public prosecutor initiated a criminal proceeding against Schaeffler Korea Corporation for the alleged collusions,

which it ceased in July 2016. The Korean Fair Trade Commission expressed its intention that one further investigation against Schaeffler Korea Corporation might be initiated. However at this time no such proceeding has been initiated.

- ***Brazil***: On September 17, 2014, the Brazilian antitrust authority, CADE, raided our Brazilian subsidiary. CADE alleged price coordination and exchange of sensitive information with regard to automotive clutches. In addition, CADE started an investigation into alleged antitrust violations relating to bearings and clutch-facing products. We are cooperating with CADE. On July 29, 2015, our Brazilian subsidiary settled the bearings cartel case by agreeing to pay approximately Brazilian Real 61 million (approximately €18 million at the time). On September 16, 2015, our Brazilian subsidiary also settled the clutches cartel case by agreeing to pay approximately Brazilian Real 37 million (approximately €9 million at the time). Both fines were paid in 2015. On July 27, 2016, our affected German subsidiary settled the clutch-facings case by agreeing to pay Brazilian Real 699,216 (approximately €198,000). Employees of Schaeffler Brazil who have been investigated have the opportunity to join any settlement. They are facing criminal prosecution as well with respect to certain of the alleged antitrust violations. In connection with these investigations, some employees have filed labor law claims against our Brazilian subsidiary for damages.
- ***Spain***: On December 4, 2014, the Spanish Competition Authority imposed a fine in the amount of approximately €1 million against Schaeffler Iberia, S.L.U., and the Issuer with respect to alleged antitrust law infringements in the railway bearings sector. Both companies filed an appeal against this decision.
- ***India***: On December 15, 2015, FAG Bearings India Ltd. received a questionnaire from the local cartel authorities regarding the bearings market. On January 27, 2016, FAG Bearings India Ltd. responded to the questionnaire and has since initiated an internal investigation.

If any competent antitrust authority concludes that we participated in anti-competitive practices, it may seek to impose a fine. Furthermore, prosecutors may initiate criminal proceedings against us or our employees. In addition, we may be exposed to substantial follow-on civil damage claims from both direct and indirect purchasers of bearings or other affected products. As of December 31, 2015, we had established provisions in the amount of €238 million for such claims in connection with the above-mentioned decision of the European Commission. Since then, we have signed settlement agreements with three customers and are currently in discussions with a number of customers regarding compensation claims they have raised. Since May 2012, several class action lawsuits have been filed by plaintiffs in the United States and Canada against various Schaeffler Group companies and certain other defendants in the context of the U.S. Department of Justice investigation. Schaeffler Group USA Inc. has settled some class actions with indirect purchasers for an unsubstantial amount each, while other class actions are still pending. The plaintiffs in the remaining class actions seek damages in an unspecified amount, attorneys' fees and an injunction against the defendants. Moreover, our customers are increasingly requiring that provisions be included in sourcing contracts entitling the respective customer to liquidated damages (*pauschalisierter Schadensersatz*) in the event of antitrust violations. As a result, if such clauses are enforceable and if in the future we were to be found to have engaged in any antitrust violations we may be contractually required to pay substantial liquidated damages, which could make follow-on civil damage claims even more likely.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our risk management and compliance controls and procedures may fail to prevent or detect corruption, fraud, other criminal or unauthorized behavior or violations of trade and economic sanctions rules.

We have adopted a worldwide risk management and compliance program that is aimed at preventing corruption, fraud and other criminal or unauthorized behavior by our employees,

consultants, agents and suppliers. Although our global risk management and compliance organization continuously seeks to improve the effectiveness and efficiency of this program, given the global scope of our operations and, in particular, the fact that corruption and extortion are widespread in certain of the countries in which we operate, such controls may prove to be insufficient to prevent or detect unlawful conduct. Despite our compliance program, certain employees, consultants, agents or suppliers may still engage in illegal practices or corruption to win business or to conspire in order to circumvent our compliance controls. Similarly, our risk management function may fail to identify, mitigate or manage relevant risk exposures.

In 2015, for example, we received information about fraudulent transactions to the detriment of the Schaeffler Group committed by employees at one department of our Industrial Division in Europe, which prompted us to launch a full review of the incidents. As a result of the review and a subsequently initiated compliance investigation across a number of countries, which is still ongoing, we became aware of incidents of unlawful payments in Turkey and potential unlawful payments in certain other countries, in particular in Russia, Belarus and Ukraine, that were made in connection with the acquisition of business. The relevant board members and employees are no longer employed by us and we are claiming damages from wrongdoing former board members and employees. These cases are also the subject of investigations by the competent German prosecution authorities. There can be no assurance that, in the course of our ongoing compliance investigation, or in future investigations, we or any governmental authorities will not become aware of other incidents of unlawful payments by our employees or persons acting on our behalf, including such that may have a material adverse effect on us.

If our employees, consultants, agents or suppliers engage in corruption, fraud or other criminal or unauthorized behavior, we could be subject to administrative, civil or criminal fines or other sanctions, such as the loss of business licenses or permits or other restrictions. Potential wrongdoing by our employees, consultants, agents or suppliers could also damage our reputation and have an adverse impact on our ability to compete for business.

Our international operations also require us to comply with trade and economic sanctions or other restrictions imposed by the EU, the United States or other governments or organizations, and we are monitoring developments in and compliance with such sanctions programs as part of our global risk management and compliance organization. In 2015, we discovered that some of our subsidiaries had made some limited sales into Iran and some of our distributors may have supplied Schaeffler products to Cuba, which may not have been in full compliance with sanctions administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control, or OFAC. Upon discovery of these potential violations, we undertook remedial actions to help ensure compliance with applicable sanctions laws, including discontinuing all sales into Iran, and voluntarily reported these incidents to OFAC. Following the lifting of a number of sanctions targeting Iran in January 2016, we recommenced limited sales into Iran in compliance with applicable sanctions programs.

If we fail to comply with applicable economic and trading sanctions laws, we may be subject to fines, penalties and other sanctions. Governments may also seek to impose modifications to compliance programs, which may increase our compliance costs. An expansion of sanctions programs, embargoes and other restrictions in the future (including additional designations of countries subject to sanctions), or modifications in how existing sanctions are interpreted or enforced, may adversely affect our business operations.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to detect fraud or report our financial results accurately or timely.

An effective internal control environment is necessary for us to produce reliable financial reports and is an important part of our effort to prevent financial fraud. We periodically evaluate the effectiveness of the design and operation of our internal controls over financial reporting. Based on these evaluations, we may conclude that enhancements, modifications, or changes to internal controls are necessary or desirable. As a result of becoming a listed company, we may also be required to make additional changes to our system of internal controls in order to comply with the additional requirements that will be applicable to us, and there can be no guarantee that we will be able to respond to these additional requirements without difficulties or inefficiencies that could cause us to incur additional costs and/or expose us to regulatory or civil litigation or penalties.

While management evaluates the effectiveness of our internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including fraud, collusion, management override, and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate business risks.

If we fail to maintain an effective system of internal controls, we may be unable to produce reliable financial reports or prevent fraud. In addition, we may be subject to sanctions or investigation by regulatory authorities. Any such actions could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We are exposed to warranty and product liability claims and may incur additional costs in connection with such claims.

As a manufacturer, we are subject to product liability lawsuits and other proceedings alleging violations of due care, violations 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 or other claims could result in increased costs. Additionally, any product liability allegations could also have a considerable adverse effect on our reputation and market perception. 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.

For example, in April 2016, an Airbus helicopter crashed in Norway after the main rotor blades separated from the aircraft, causing the death of 13 passengers. In preliminary findings, Norwegian authorities and Airbus have narrowed down the root cause to a fatigue crack of a planet gear. The inner construction of the planet gear was designed and manufactured by our subsidiary FAG Aerospace. The planet gear is used in approximately 480 helicopters. The investigation is still ongoing. We currently have no indication that our parts were responsible for the accident.

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.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 R&D 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.

Subsidy-related repayment claims could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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. 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 products by using our know-how without incurring any expenses of their own.

In addition, while there is a presumption that patents are valid, the granting of a patent does not necessarily guarantee that it is effective or that possible patent claims can be enforced to the degree necessary or desired. Thus, 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 revenues 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. Furthermore, the licensed patents may be invalid.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

There is a risk that we infringe on the intellectual property rights of third parties and could therefore be forced to change our product offering or be exposed to additional costs.

Our competitors, suppliers, customers and other third parties 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 baseless claims, against us. As a result, we could be forced to cease manufacturing, using or marketing the relevant technologies or products in certain countries or 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 from third parties to make use of technology.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 claim inventions of our employees. Present or former employees who made or make employee inventions might continue to own the rights to inventions if we fail to claim such inventions in a timely manner. If we nevertheless registered an employee invention in our name or utility model and/or used an employee invention as such, then the respective employee may have a claim for transfer of the patent or utility model, as the case may be, against us, and might be able to assert claims for damages for the unauthorized use of his or her invention or utility model (*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, employees may have claims for employee invention compensation which have not yet been fully satisfied.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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

Our employees in various countries (*e.g.*, Germany, China, South Korea and Slovakia) are subject to collective bargaining agreements. If industry-wide 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.

Increased costs due to amendments to collective bargaining agreements could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

We are exposed to risks in connection with our pension obligations, which may lead to unexpected funding obligations.

We provide defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of June 30, 2016, our total pension obligations (defined benefit obligation) amounted to €3,042 million and our net pension obligations for defined benefit pension plans (defined benefit obligation less pension plan assets, funded status) amounted to €2,346 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 stocks, fixed-income securities and real estate. The values attributable to the externally invested pension plan assets are subject to market fluctuations that are beyond our influence. Unfavorable market developments 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 obligations as interest rate decreases could have an adverse effect on our liabilities under our 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 (*e.g.*, due to the longevity of our obligations and interest rate changes).

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Our operations are subject to stringent laws and regulations, particularly under applicable environmental laws, the violation of which could lead to significant liabilities.

The nature of our business subjects us to significant government regulation, including 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 operation of our business. This regulatory framework imposes significant day-to-day compliance burdens, costs and risks on us. In particular, violations of such laws and regulations may give rise to significant liabilities, including 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 regulations concerning employee health and safety.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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, health and export control. This applies also to air, water, soil pollution and waste regulations, all of which have recently become more stringent through new laws, in particular, 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 regulations 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 and purchase new vehicles. Most of these programs, which were designed to stimulate the economy by boosting vehicle sales, have expired. 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 long 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 (*Autobahnmaut*) could negatively affect vehicle sales and production volumes.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 to treat, contaminated soil excavated in the course of construction. We may 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 for contamination that we have caused. 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 adversely affected.

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 the United States as a result of sales of clutch-lining material containing asbestos made until the end of the 1980s.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Tax audits may lead to a substantial increase of our tax burden for past periods.

The Issuer as well as many German and foreign companies of the Schaeffler Group are subject to routine tax audits by the competent tax authorities. In ongoing or future tax audits, the tax laws or relevant facts could be interpreted by the tax authorities in a manner deviating from our view. As a result, the tax authorities could revise original tax assessments and substantially increase our tax burden (including interest and penalty payments). The group tax audit (*Konzernbetriebsprüfung*) for the fiscal years from 2008 up to and including 2011 regarding all material German Schaeffler AG Group companies and the Issuer is currently ongoing. The last tax audit conducted by the competent tax authorities regarding Schaeffler AG and all material German subsidiaries covering the fiscal years from 2005 up to and including 2007 has been completed, and tax assessments up to 2006 with respect thereto are final and binding (*bestandskräftig*). The Issuer was established after 2007 and was therefore not subject to a tax audit for prior tax years.

Due to certain reorganizations (*i.e.*, the transfer of IHO Holding GmbH & Co. KG's (currently named Schaeffler Holding GmbH & Co. KG) operating business and the respective subsidiaries by way of a hive-down under the German Reorganization Act (*Umwandlungsgesetz*) to the Issuer in 2009 and the subsequent transfer of the interest in Schaeffler Technologies AG & Co. KG to Schaeffler AG in 2012 and the accretion of Schaeffler Beteiligungsholding into the Issuer in 2015), Schaeffler AG and the Issuer are exposed to tax audit risks in connection with the operating business and the respective subsidiaries and investments, including the shares in Continental AG, relating to periods during which IHO Holding GmbH & Co. KG operated this business and held shares in Continental AG as well as to periods during which Schaeffler Beteiligungsholding held the shares in Continental AG.

The Issuer and Schaeffler AG and its affiliates have set up certain tax provisions to address identifiable risks in respect of uncertain tax audit risks. The unconsolidated financial statements of

the Issuer and the consolidated financial statements of Schaeffler AG included in this Offering Memorandum include provisions and liabilities to cover potential exposure for tax audits regarding the Issuer or the companies of the Schaeffler Group. So far, we are not aware that there have been any definitive significant findings which would not be covered by the tax provisions and liabilities we have already accounted for. Nevertheless, it cannot be ruled out that ongoing and/or future tax audits will lead to additional tax expenses and/or payments.

The Issuer and Schaeffler AG and its subsidiaries could incur 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 and this could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

Certain shares in Schaeffler Group companies and the Issuer (not including the shares in Continental AG) are tainted for German tax purposes which may trigger the (partial) retroactive taxation of built-in gains.

Due to a legal restructuring of the Issuer and the Schaeffler Group, certain shares in the Issuer as well as in the Schaeffler Group companies 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 business of the former IHO Holding GmbH & Co. KG (currently named Schaeffler Holding GmbH & Co. KG) was indirectly and through various steps hived-down into the Issuer pursuant to the German Reorganization Tax Act (*Umwandlungssteuergesetz*) at tax book value. As a result, a seven-year holding period applies with respect to the shares in the Issuer received and furthermore to the shares that form part of the contributed business. In 2012, the limited partnership interest in Schaeffler Technologies AG & Co. KG was contributed into Schaeffler AG at tax book value (*steuerlicher Buchwert*). As a result, a further seven-year holding period applies with respect to the shares in Schaeffler AG held by the Issuer.

A sale or comparable event of any of these tainted shares and certain further actions or omissions during the seven-year holding period may trigger the (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. While this tax would generally only affect the shareholders (including the Issuer) making (indirect) contributions, trade tax on a recapture gain would become due at the level of a subsidiary of the Issuer (*i.e.*, a Schaeffler Group company). The retroactive taxable gain is principally defined as the difference between the fair market value of the contributed assets or shares at the time of the relevant transaction 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.

As tainted shares form part of the Collateral securing the Notes and the Issuer Facilities Agreement, an enforcement of the Collateral would also trigger the (partial) retroactive taxation of such built-in gains (reduced by one seventh for each year passed since the relevant contribution). 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 Issuer or their successors and assignees; accordingly the avoidance of any such event and the ensuing tax burden is beyond the Issuer's control.

The taxation of such a recapture gain may result in a tax liability of several hundred million euros for Schaeffler Group companies, the Issuer and its direct and indirect shareholders and could therefore have a material adverse effect on our business, net assets, financial condition, cash flows, results of operations, the value of the Collateral and the amount of enforcement proceeds available for distribution to Note Holders.

The Issuer and the Schaeffler Group could be affected by the German interest barrier rules and this may increase their respective tax burdens.

The interest barrier rules generally provide for a limitation on the deduction of a business' net interest expenses in a fiscal year to an amount equal to 30% of the tax-adjusted earnings before interest, taxes, depreciation and amortization in such fiscal year (the definition of interest expenses for interest barrier rule purposes is not free of doubt and therefore causes uncertainty). As a result, annual refinancing expenses (interest payments and further expenses which qualify as interest expenses within the meaning of the interest barrier rules) of the Issuer and the Schaeffler Group may not be immediately deductible in full for tax purposes, but can be carried forward as interest-expense carryforwards (*Zinsvorträge*). The Issuer and Schaeffler AG built up certain amounts of interest-expense carryforwards (*Zinsvorträge*). The timing of the recognition of deferred tax assets on the interest-expense carryforwards (*Zinsvorträge*) may affect our financial results.

Risks related to our Financing

The high leverage and debt service obligations of the Issuer and the Schaeffler Group could make it difficult for them to service their debt, including the Notes.

As of June 30, 2016, on a *pro forma* basis after giving effect to the Transactions, the Issuer would have had financial debt of €4,197 million. As of June 30, 2016, on a *pro forma* basis after giving effect to the Transactions and the Schaeffler Group Refinancing, the Schaeffler Group would have had financial debt of €4,639 million. The level of indebtedness of the Issuer and the Schaeffler Group could make it more difficult for them to satisfy their obligations with respect to their indebtedness and have important consequences for investors in the Notes.

The high level of indebtedness at the level of the Schaeffler Group could, for example:

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

These or other factors could adversely affect the Schaeffler Group's operating and financial performance such that it is unable to pay dividends or otherwise make distributions to the Issuer, which would make it difficult for the Issuer to satisfy its obligations under its financing arrangements, including the Notes.

In addition, despite its high level of debt, the Issuer may be able to incur significant additional amounts of debt, subject to compliance with certain covenants and other conditions under the Indenture and the Issuer Facilities Agreement. Moreover, as the Indenture and the Issuer Facilities Agreement will not place any restrictions on the ability of Schaeffler AG and its subsidiaries to incur additional debt, these entities will only be subject to the restrictions contained under their respective financing arrangements, for so long as such arrangements remain outstanding. See "*—Risks related to the Notes and our Structure—Despite their high level of indebtedness, the Issuer and the Schaeffler Group will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with their substantial indebtedness*" and "*—Risks related to the Notes and our*

Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral."

The Issuer may not be able to generate sufficient cash flows to meet its debt service obligations.

As the Issuer is a holding and finance company with limited assets and conducts no business of its own, its ability to make scheduled payments on, or to refinance, its financial indebtedness, including the Notes, will depend entirely on cash flows from Schaeffler AG and Continental AG and any other future subsidiaries or investments, which in turn depends on the future financial and operating performance of those companies. The financial and operating performance of these companies will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond their control.

None of Schaeffler AG, Continental AG or their respective subsidiaries are obligated to make funds available to us for payment on the Notes and the terms of their financing arrangements, as well as applicable corporate law may restrict them from paying dividends or making other distributions to the Issuer. There can be no assurance that the agreements governing the current and future financing arrangements of Schaeffler AG, Continental AG and their subsidiaries, or applicable corporate law, will permit them to provide the Issuer with dividends, distributions or loans in an amount sufficient to enable the Issuer to service its indebtedness, including the Notes. In addition to any restrictions on payment to the Issuer contained in such financing arrangements, any failure to comply with the covenants and restrictions contained in such financing arrangements could trigger defaults under those arrangements which could delay or preclude the dividends, distributions, loans or any other similar payments to the Issuer.

Additionally, the Schaeffler Group has incurred substantial amounts of indebtedness and uses a significant portion of its cash flow to service its own financial debt, capital expenditure requirements and other corporate needs. The maintenance and incurrence covenants currently included in the terms of the Schaeffler Group's financing arrangements impose significant restrictions on its ability to pay dividends or otherwise make distributions to the Issuer. Accordingly, limited reliance should be placed on the Schaeffler Group's EBITDA, operating income and cash flow as indicators of the Issuer's ability to service its debt obligations, including the Notes.

If the Issuer is unable to generate sufficient cash flow to satisfy its debt obligations, it may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying investments or seeking to raise additional capital. The Issuer 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 the Issuer's ability to dispose of assets and use the proceeds from the disposition. The Issuer's inability to generate sufficient cash flows to satisfy its debt obligations, or to refinance its indebtedness on commercially reasonable terms, would materially and adversely affect its financial condition and results of operations and the Issuer's ability to satisfy its obligations under the Notes.

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

Certain existing and future debt obligations, including the Notes, the Issuer Facilities Agreement, the New Schaeffler Group Facilities Agreement and the Schaeffler Group Notes, contain, or will contain, a range of restrictive covenants, representations and change of control provisions. In addition, the Issuer Facilities Agreement and the New Schaeffler Group Facilities Agreement require the respective entities to satisfy specified financial tests and maintain specified financial ratios. Under the Issuer Facilities Agreement, the Issuer is, among other things, required to maintain certain leverage ratios.

See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement—Financial Covenants*." Under the New Schaeffler Group Facilities Agreement, Schaeffler AG is required to maintain financial ratios regarding a maximum level of total consolidated net debt to consolidated EBITDA ("leverage ratio").

In light of the cyclicality of the business of the Schaeffler Group and Continental AG and its possible effects on their results of operations as well as the other market and business-related risks described in more detail under "*—Risks related to our Business Operations and the Markets in which we operate*," the Issuer and its subsidiaries may not be able to maintain their current revenue and profitability at the levels required for meeting the EBITDA related financial tests. Hence, the Issuer and its subsidiaries cannot assure you that they will continue to comply with these financial covenants in the future.

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

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

The Issuer is exposed to risks in connection with its share interest in Continental AG.

Continental AG, in which the Issuer had a 36.0% share interest as of June 30, 2016, is our major associated company. In its financial year 2015, Continental AG reported revenue of approximately €39.2 billion and EBITDA of approximately €6.0 billion. However, this does not indicate that Continental AG will be profitable in any future periods. 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. Most of the risks described under "*—Risks related to our Business Operations and the Markets in which we operate*" and "*—Legal, Regulatory and Tax Risks*" similarly apply to Continental AG and its subsidiaries. Given our limited access to information regarding Continental AG's operations, Continental AG may also be subject to significant risks of which we are unaware, including legal, regulatory, tax and other risks. Any fluctuation of Continental AG's results or material adverse change to Continental AG's trading position and growth prospects could adversely affect Continental AG's ability to pay dividends to the Issuer, could lead to a decrease in the carrying amount of our investment in Continental AG or require us to make impairment adjustments with respect to our share interest in Continental AG, which would directly adversely affect our net assets and financial position or our ability to satisfy our obligations under the Notes.

The Issuer and the Schaeffler Group are exposed to risks in connection with interest rate changes and associated hedging and interest rate fluctuations could adversely affect our results of operations.

The Issuer and the Schaeffler Group are exposed to risks associated with changes in variable interest rates, as certain of their credit facilities bear interest at a floating rate, such as loans under the Issuer

Facilities Agreement and the New Schaeffler Group Facilities Agreement. Therefore, an increase or decrease in interest rates would affect their current interest expenses and their future refinancing costs. These risks are monitored and evaluated as part of their interest rate management activities and managed individually based on principles of alignment with their corporate risk strategy and market opportunities by means of derivative interest rate hedging instruments.

However, the future use of derivative interest rate hedging instruments is generally dependent on the availability of adequate credit lines with appropriate financial institutions. As a result, the Issuer and the Schaeffler Group may be unable to use derivative financial instruments in the future to the extent necessary, and their hedging strategy could therefore ultimately be adversely impacted. In addition, any hedging transactions executed in the form of derivative financial instruments may result in mark-to-market losses.

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

Risks related to the Notes and our Structure

Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral.

Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries of the Issuer under the Indenture. Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral. As a consequence, Note Holders will have no recourse to any Unrestricted Subsidiary, its assets or its properties if there is an event of default under the Indenture. Access by the Issuer to the cash flow generated by Unrestricted Subsidiaries, including Schaeffler AG and its subsidiaries, is limited to amounts actually distributed to the Issuer as dividends or other distributions. See *"—Risks related to our Financing—The Issuer may not be able to generate sufficient cash flows to meet its debt service obligations."* Dividends are received in proportion to the Issuer's economic interest in Schaeffler AG, which is 75.1% as of the date of this Offering Memorandum. Furthermore, holders of the remaining 24.9% interest in Schaeffler AG, which are non-voting shares, will receive preferred dividends (€0.01 per share) before the Issuer. Unrestricted Subsidiaries may also be subject to restrictions on their ability to make distributions to the Issuer, further limiting access to their cash flow. Since Unrestricted Subsidiaries, including Schaeffler AG and its subsidiaries, are not subject to the restrictive covenants in the Indenture, they are free, among other things, to incur and secure indebtedness, sell assets and use the proceeds therefrom in accordance with the indentures governing the Schaeffler Group Notes and the New Schaeffler Group Facilities Agreement, which could delay or preclude the distribution of dividend payments or any other similar payments by such Unrestricted Subsidiaries to the Issuer. Defaults by Schaeffler AG or any of its subsidiaries under any of their debt instruments, including any insolvency (other than an insolvency of Schaeffler AG), will not result in a cross-default under the Indenture, and Note Holders will, therefore, not be able to accelerate the maturity of the Notes even if the financial condition of Schaeffler AG and its subsidiaries were to deteriorate significantly.

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

The Notes will, upon issuance, be secured by the Collateral. The assets subject to the Collateral are also subject to security interests for the benefit of the other *pari passu* secured creditors, including lenders under the Issuer Facilities Agreement, certain hedge counterparties and the holders of any future indebtedness that shares in the Collateral and becomes subject to the Issuer Security Pooling

and Intercreditor Agreement after the Issue Date. In addition, the Indenture will allow the incurrence of additional permitted indebtedness in the future that is secured by such assets. The amount to be received upon an enforcement of any Collateral would be dependent on numerous factors affecting the value of the assets subject to the Collateral at the time of their enforcement. In addition, any failure of the Issuer to comply with the covenants of its financing arrangements, including under the Issuer Facilities Agreement, may result in an acceleration of the maturity of the indebtedness thereunder which could also negatively impact the value of the Collateral. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from the enforcement of the Collateral may not be sufficient to repay the obligations under the Notes.

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 will not be granted directly to the Note Holders but will be granted only in favor of the Security Trustee. The Issuer 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 Issuer 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 Issuer 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 any notes or similar debt instruments issued by the Issuer or any of its subsidiaries in the future that are secured by the Collateral and are subject to the Issuer Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution, with series of notes denominated in different currencies each voting separately as a class. The Indenture will provide that, within each voting class, abstentions will be deemed to have voted either in favor of or against the resolution on a pro rata basis in the same proportion as the aggregate principal amount with respect to which votes were actually cast in favor of the resolution and against the resolution, respectively, bears to the total principal amount with respect to which votes were actually cast. The Trustee (and any trustee for notes issued in the future that become subject to the Issuer 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 or otherwise treated to have voted) in favor of the resolution and the aggregate principal amount of notes of each currency that voted (or are deemed or otherwise treated to have voted) against the resolution.
- Lenders under the Issuer Facilities Agreement (and under future facilities agreements that become subject to the Issuer Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution (separately for commitments under the same facilities agreement denominated in different base currencies) 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 or otherwise treated under the relevant facilities agreement to have voted) in favor of the resolution and the aggregate amount of commitments that voted (or are deemed or otherwise treated 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 or otherwise treated 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 or otherwise treated 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 or otherwise treated to have voted) against the resolution, in each case on a euro-equivalent basis.

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

After giving effect to the Transactions, the aggregate principal amount of the Notes outstanding will constitute a majority of the total commitments of all secured creditors subject to the Issuer Security Pooling and Intercreditor Agreement and entitled to vote thereunder. However, in the future 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.

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 German law.

Due to German law and jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the Collateral will secure only a so-called "parallel debt" obligation created under the Issuer 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 under the Notes (the "**Principal Obligations**"), and any payment in respect of the Principal Obligations will discharge the corresponding parallel debt and any payment in respect of the parallel debt will discharge the corresponding Principal Obligations. Although the Security Trustee has, pursuant to the parallel debt, a claim against the Issuer for the full principal amount of the Notes, the parallel debt construct has not been tested in court in Germany and there is no judicial guidance as to its efficacy. Therefore, the ability of the Security Trustee to enforce the Collateral may be restricted. In addition, Note Holders bear some risk associated with a possible insolvency or bankruptcy of the Security Trustee. See "*Limitations on Validity and Enforceability of the Collateral and Certain Insolvency Law Considerations*."

Limitations on the enforceability and the amount of the Collateral may adversely affect their validity and enforceability.

The Collateral may be subject to claims or could be limited or subordinated in favor of the Issuer's existing and future creditors under applicable laws. In addition, enforcement of the Collateral will be limited to the extent of the amount which can be secured by a security grantor without rendering the security interest voidable or otherwise ineffective under, or contrary to, applicable law. Enforcement of any of the Collateral against the Issuer will also be subject to certain defences available to grantors of security interests generally. These laws and defences include those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, initial over-collateralization and defences affecting the rights of creditors generally.

In general, under fraudulent conveyance and similar laws, a court could subordinate or void any security interest provided by such security grantor if it found that:

- the security interest was granted with actual intent to hinder, delay or defraud creditors or shareholders of the respective security grantor;

- the security interest granted excessively over-collateralized the secured claims;
- the secured creditors have, or are deemed to have, a shareholder-like position; or
- the security was granted close to or in an actual state of insolvency of the security grantor.

The measure of insolvency for purposes of fraudulent conveyance and similar laws varies depending on the law applied. Under the laws of Germany, a security grantor would be considered insolvent if it (i) could not pay its debts as they became due or (ii) is considered over-indebted. In such circumstances, if a court voided such Collateral, or held it unenforceable, the Note Holders and the Security Trustee would cease to have any claim in respect of the relevant Collateral and would benefit only from any remaining Collateral and any quota paid on the unsecured debt of the relevant debtor. The Note Holders and the Security Trustee may also be required to repay any amounts received with respect to such Collateral.

There is also a risk that the Collateral may be held invalid by a German court because the initial value of the Collateral significantly exceeds the secured obligations, including the liabilities under the Notes. Under case law of the German Federal Supreme Court (*Bundesgerichtshof*), security arrangements granting excessive collateral may be invalid, if overall, in light of the motivation of the secured parties and the purpose of the collateral, the taking of excessive collateral is not reconcilable with good faith standards. The German Federal Supreme Court has held that collateral is excessive, if it can be expected at the time the relevant security arrangements are entered into that the value of the collateral will be in obvious disproportion (*auffälliges Missverhältnis*) to the amount of the secured obligations at the time of enforcement. German courts have, however, not established specific numerical levels or ratios to determine whether collateral is deemed to be excessive at the time the security arrangements are entered into. While we believe there are good reasons to conclude that the granting of the Collateral is not against standards of good faith, there remains some uncertainty in light of the lack of specific case law on this point.

A summary description of certain limitations on the validity and enforceability of the Collateral in respect of German law is set out in "*Limitations on Validity and Enforceability of the Collateral and Certain Insolvency Law Considerations*."

The Notes will be structurally subordinated to indebtedness of the subsidiaries of the Issuer.

None of the Schaeffler Group companies will guarantee the Notes and, as of the Issue Date, there will not be any other subsidiaries of the Issuer that 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 such non-guarantor subsidiary, such subsidiary will pay the holders of its own debt (including holders of third party debt which such subsidiary has guaranteed), its trade creditors and any preferred shareholders before it would be able to distribute any of its assets to the Issuer. As a result of the foregoing, the Issuer may not have sufficient assets to make payments on the Notes.

As of June 30, 2016, on a *pro forma* basis after giving effect to the Transactions and the Schaeffler Group Refinancing, the subsidiaries of the Issuer would have had €4,639 million in financial indebtedness on a combined basis, including drawings outstanding under the New Schaeffler Group Facilities Agreement and the Schaeffler Group Notes.

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

Although the Indenture restricts the Issuer's 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 Issuer acquires 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 equally. To the extent the Issuer provides asset security for the benefit of other debt without also securing the Notes, the Notes 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 may not have sufficient assets remaining to make payments on the Notes.

The Issuer has only limited control over the management of Schaeffler AG and Continental AG.

Since Schaeffler AG and Continental AG are companies incorporated as stock corporations (*Aktiengesellschaft*) under German law, the Issuer is limited in the degree of control it can exercise over the affairs of such companies. Each of Schaeffler AG and Continental AG is managed by its respective board of managing directors, which is not subject to instructions by the shareholders' meeting or the supervisory board, and members of the board of managing directors may only be removed for cause. As a result, Schaeffler AG and Continental AG may incur or secure indebtedness or make other business decisions without the approval of the Issuer. Members of the board of managing directors of a German stock corporation (*Aktiengesellschaft*), such as Schaeffler AG and Continental AG, have a legal duty to act solely in the interests of their respective companies, and it is possible that the interests of Schaeffler AG and Continental AG may not be aligned, or even conflict with, the interests of the Issuer.

Schaeffler AG and Continental AG each have their own financing structure, which is independent from the Issuer. However, if Schaeffler AG or Continental AG were unable to conduct its business as anticipated, unable to obtain required debt financing at commercially reasonable terms or at all or otherwise in need of additional funding in order to develop its business, the Issuer may provide additional debt or equity financing to Schaeffler AG, Continental AG or their respective subsidiaries. If the Issuer is unable or, due to restrictions under the terms of its debt instruments (including the Notes and/or the Issuer Facilities Agreement), not permitted to provide such financing, the business or financial condition of Schaeffler AG or Continental AG could suffer, which could adversely affect the value of our investments in Schaeffler AG and/or Continental AG and the ability of Schaeffler AG and/or Continental AG to make distributions.

Membership of the same persons on several boards may result in conflicts of interest among the Issuer, the Schaeffler Group and Continental AG.

There is some overlap in personnel among the Issuer, the Schaeffler Group and Continental AG ("**Dual Mandates**"), which is common practice in comparable corporate structures. Klaus Rosenfeld, the Chief Executive Officer of Schaeffler AG, is also a member of the supervisory board of Continental AG. Furthermore, Georg F. W. Schaeffler, the chairman of Schaeffler AG's Supervisory Board, and Maria-Elisabeth Schaeffler-Thumann, the deputy chairperson of Schaeffler AG's Supervisory Board, are also represented on the supervisory board of Continental AG. Mr. Schaeffler and Ms. Schaeffler-Thumann are also the ultimate owners of all voting shares of Schaeffler AG and 46.0% of the total share capital of Continental AG. In addition, Mr. Schaeffler, Ms. Schaeffler-Thumann and Mr. Rosenfeld are all members of the management board (*Geschäftsführung*) of the Issuer.

It cannot be excluded that in some cases there may be a conflict of interest in engaging in and structuring business relations among the Issuer, the Schaeffler Group and Continental AG.

The German Stock Corporation Act (*Aktiengesetz*) and Corporate Governance Code (*Deutscher Corporate Governance Kodex*) contain certain provisions aimed at protecting companies from the negative effects of potential conflicts of interest in case of personnel overlap. Members of the board of managing directors of a German stock corporation (*Aktiengesellschaft*), such as Schaeffler AG and Continental AG, have a legal duty to act solely in the interests of their respective companies. In the

case of Dual Mandates, this duty can mean that members of the board of managing directors are not permitted to vote on certain decisions in one or both of the companies. Even though they are members of the supervisory board of Continental AG, persons holding Dual Mandates are not allowed to make any decisions that are not in the interests of the Schaeffler Group. Despite these regulations, we cannot exclude the possibility that in some cases conflicts of interest may arise which are resolved to the detriment of either the Schaeffler Group or Continental AG. In particular, it cannot be excluded that individuals involved in the strategy of the Issuer who also hold positions as members of the board of managing directors and supervisory board or other functions in the Schaeffler Group or Continental AG may act in the interests of these companies to the detriment of the Issuer. The same holds true with regard to the possible individual economic interests of such persons.

The materialization of any of the risks described above could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

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 Collateral.

The Indenture and the Issuer Security Pooling and Intercreditor Agreement provide that in certain circumstances all or part of the Collateral may be released without any consent of the Note Holders; see "*Description of the Notes—Security.*" Among other circumstances, liens over assets forming part of the Collateral will be automatically released under the indenture, under certain circumstances, including upon the release of any and all liens (other than permitted liens) over the relevant Collateral securing other debt, including the Issuer Facilities Agreement. The Issuer Facilities Agreement provides that (i) a certain number of shares in Schaeffler AG may be released from the Collateral if the S-Verwaltung Zwei Group Gross Debt (as defined therein) has been reduced to €1.5 billion and (ii) a certain number of shares in Continental AG may be released from the Collateral if the S-Verwaltung Zwei Group Gross Debt has been reduced to €750 million. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement*" for a summary of the security release provisions under the Issuer Facilities Agreement. Such release could occur, for example, in connection with a refinancing, amendment or restatement of the Issuer Facilities Agreement.

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 Issuer 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.

The Collateral only includes certain assets of the Issuer, and the value of the Collateral may not be sufficient to pay all or any of the Notes.

The Collateral securing the Notes will initially comprise pledges over (i) 333,000,001 common shares in Schaeffler AG (representing a 50% *plus* one share stake in Schaeffler AG) and (ii) 41,937,694 common shares in Continental AG (representing a number of common shares in Continental AG equal to the aggregate principal amount of the Notes (euro-equivalent as of August 31, 2016) plus €800 million, divided by the Continental Share Value on August 31, 2016, multiplied by 1.75). In particular, the Collateral securing the Notes will not include pledges over all of the capital stock in Continental AG held by the Issuer and all of the capital stock in Schaeffler AG. None of the assets of the Schaeffler Group will be included in the Collateral. All or part of the Collateral may be released

without the consent of Note Holders under certain circumstances (see "*—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 Collateral*"). 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 (including lenders under the Issuer Facilities Agreement), those claims, including claims of the Note Holders, may not be satisfied in full before the claims of our unsecured creditors are paid.

The shares of Schaeffler AG and Continental AG may experience significant price fluctuations from time to time that may be unrelated to the performance of Schaeffler AG and/or Continental AG. The market price of these shares may fluctuate as a result of various factors, many of which are beyond our control and may fall below the current market price. These factors include, but are not limited to, the following:

- market expectations for the financial performance of Schaeffler AG and/or Continental AG;
- actual or anticipated fluctuations in the business, financial position or prospects of Schaeffler AG and/or Continental AG;
- actual or anticipated changes in shareholders' distributions by Schaeffler AG and/or Continental AG;
- actual or anticipated fluctuations in the general economic, financial or business conditions in the countries in which Schaeffler AG and/or Continental AG operate;
- changes in the estimates of the financial results of Schaeffler AG and/or Continental AG by securities analysts or the failure to meet the estimates of the securities analysts;
- actual or anticipated sales of blocks of shares of Schaeffler AG and/or Continental AG in the market or short selling of such shares;
- actual or anticipated speculative trading in the shares of Schaeffler AG and/or Continental AG;
- actual or anticipated future issuances of shares of Schaeffler AG and/or Continental AG;
- actual or anticipated changes in the automotive and industrial sector, including but not limited to mergers and acquisitions, strategic alliances, entrance of new competitors, or the development or introduction of new products in the markets in which Schaeffler AG and/or Continental AG operate;
- changes to the regulatory environment;
- announcements by Schaeffler AG and/or Continental AG or any of its competitors of major contracts or the loss of major customers;
- departures of key personnel;
- changes in or lack of the trading liquidity of the shares of Schaeffler AG and/or Continental AG;
- volatility in the domestic or international stock markets;
- the general condition of the global economy or financial system; and
- the risk factors mentioned in "*Risk Factors—Risks related to our Business Operations and the Markets in which we operate*."

The market price of the shares of Schaeffler AG and/or Continental AG may be adversely affected by any of the preceding or other factors regardless of the actual operational results, financial condition and financial performance of Schaeffler AG and/or Continental AG. Therefore, we cannot make any predictions about the market price of the shares constituting Collateral.

In addition, the fair market value of the Collateral is subject to fluctuations based on factors that include, among others, the ability to sell the 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. 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.

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

The Collateral will be subject to any and all exceptions, defects, prior or junior ranking encumbrances or liens and other imperfections permitted under the Indenture or the Issuer 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 or contractual liens under applicable laws.

The Collateral will include pledges over a certain number of common shares in Schaeffler AG and a certain number of common shares in Continental AG owned by the Issuer. Due to the size of the aggregate outstandings secured by the Collateral and the high volatility and uncertainty regarding the value of the shares of Schaeffler AG and Continental AG, the value of Collateral as well as the ability of the Security Trustee to enforce such Collateral in a timely manner could be adversely affected.

The enforcement of security interests by the Security Trustee will also be subject to practical problems generally associated with the realization of security interests in collateral. For example, the enforcement of security interest by the Security Trustee may require the completion of judicial proceedings. 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 Issuer Security Pooling and Intercreditor Agreement. See "*—Note Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances*."

The Collateral might be challenged or voidable in insolvency proceedings.

The Collateral may be voidable 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 or insolvency proceedings are commenced at the time of, or within certain statutory time periods ("clawback periods") after, the grant. At each time, if the Collateral granted, perfected or recreated were to be enforced before the end of the respective clawback period, it may be declared void. To the extent that the creation of the Collateral is voided, the Note Holders and the Security Trustee would lose the benefit of such

Collateral and would be creditors solely of the Issuer and would therefore benefit only from any remaining Collateral and possibly a general quota paid to unsecured creditors of the Issuer as a result of the insolvency proceedings. The Note Holders and the Security Trustee may also be required to repay any amounts received with respect to the Collateral.

In order to effectively secure future indebtedness, including additional Notes, that is permitted by the Issuer Security Pooling and Intercreditor Agreement to share in the Collateral, it may be necessary 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 Collateral and Certain Insolvency Law Considerations*." Since the Issuer 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 lenders under the Issuer Facilities Agreement, certain hedge counterparties and the holders of any future indebtedness that shares in the Collateral and becomes subject to the Issuer 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 Issuer Security Pooling and Intercreditor Agreement, including the Note Holders.

In addition, in case the Issuer issues additional Notes with the same securities identification numbers as the initial Notes issued on the Issue Date, including any Additional PIK Notes paid as PIK Interest, an insolvency administrator may seek to challenge the enforceability of Collateral securing both the additional Notes and the initial Notes issued on the Issue Date even if the clawback period with respect to the Collateral 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 is set out in "*Limitations on Validity and Enforceability of the Collateral and Certain Insolvency Law Considerations*."

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

Applicable law requires that a security interest in certain assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if the Security Trustee is not able to take the actions necessary to perfect any of these liens on or prior to the Issue Date. The Issuer has 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 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.

The insolvency laws of Germany 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 Germany. The insolvency laws of foreign jurisdictions may not be as favorable to your interests as the laws of the United States or other jurisdictions with which you are familiar, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and thus may limit your ability to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws. In the event that the Issuer 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 EU and Germany is set forth under "*Limitations on Validity and Enforceability of 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 the Issuer's 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 the Issuer. The interests of the Schaeffler Family could conflict with your interests, particularly if the Issuer and/or its subsidiaries encounter financial difficulties or are unable to pay their debts when due. Affiliates of the Schaeffler Family may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to you as a Note Holder. In addition, the Schaeffler Family or their affiliates may, in the future, own businesses that directly compete with us.

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

The Issuer and the Schaeffler Group may be able to incur substantial additional debt in the future. Under the New Schaeffler Group Facilities Agreement, we have a €1,300 million revolving credit

facility available to us. In addition, under the Issuer Facilities Agreement, the Issuer entered into a €600 million term loan facility and a €200 million revolving credit facility. Although the Indenture, the indentures governing the Schaeffler Group Notes, the Issuer Facilities Agreement and the New Schaeffler Group Facilities Agreement contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and, under certain limited circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. In addition to specified permitted debt, the Issuer will be able to incur additional debt under the Indenture so long as on a *pro forma* basis the Issuer loan-to-value ratio (as defined in the Indenture) is less than 1.0 to 2.5 and the combined coverage ratio (as defined in the Indenture) is at least 2.0 to 1.0. Moreover, as the Indenture and the Issuer Facilities Agreement will not place any restrictions on the ability of Schaeffler AG and its subsidiaries to incur additional debt, these entities are only subject to the restrictions contained under the terms of their respective financing arrangements, for so long as such arrangements remain outstanding. See "—*Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral*."

Furthermore, the Issuer may accrue PIK interest under the Notes, which will increase the amount of the Issuer's outstanding debt in the future. In addition, the Indenture, the indentures governing the Schaeffler Group Notes, the Issuer Facilities Agreement and the New Schaeffler Group Facilities Agreement as well as under debt incurred in the future will not prevent us from incurring obligations that do not constitute indebtedness under those agreements. If new debt is added to our existing debt levels, the risks associated with our substantial indebtedness described above, including our possible inability to service our debt, will increase.

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 and Schaeffler AG may be required to immediately repay the outstanding principal, any accrued interest on and any other amounts owed by them under one or more of their bank facilities and may be required to offer to repurchase certain other debt instruments, including the Issuer Facilities Agreement, the New Schaeffler Group Facilities Agreement and the Schaeffler Group Notes. The source of funds for these repayments would be the available cash or cash generated from other sources. For example, certain agreements governing indebtedness of the Schaeffler Group, including the indentures governing the Schaeffler Group Notes, contain provisions that may prohibit the upstreaming of funds to the Issuer necessary to repurchase or repay the Notes upon a change of control; see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes—Terms and conditions of the Schaeffler Group Notes.*" If a change of control occurs at a time when Schaeffler Group companies are prohibited from providing funds to the Issuer, Schaeffler Group companies may seek the consent of the creditors under such indebtedness to allow the repurchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. The Issuer may also require third party financing to make an offer to repurchase the Notes upon a change of control. The Issuer cannot assure you that Schaeffler Group companies would be able to obtain the consent of their creditors to provide funds to the Issuer or that the Issuer would be able to obtain such third party financing or otherwise obtain sufficient funds upon a change of control to make these repayments and any required repurchases of tendered Notes. Any failure by the Issuer to offer or consummate an offer to purchase Notes could constitute a default under the Indenture,

which could, in turn, constitute a default under the Issuer Facilities Agreement. See "*Description of the Notes—Repurchase at the option of Holders—Change of Control*."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.

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 Issuer 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 Issuer and its restricted subsidiaries taken as a whole to another person or group may be uncertain.

If the actual liquidity of the Issuer prior to an interest payment date or the liquidity projected for the Issuer for a three-month period following an interest payment date falls below certain levels, interest on the Notes may be paid in PIK Interest rather than cash.

The Issuer will be required to pay interest on the Notes entirely in cash unless the conditions described in this Offering Memorandum are satisfied, in which case the Issuer will be entitled to pay interest, to the extent described herein, by either increasing the principal amount of the outstanding Notes or by issuing Additional PIK Notes as PIK Interest. See "*Description of the Notes—Interest."* In addition, the ability of the Issuer to pay Cash Interest is dependent on the receipt of funds from its subsidiaries and payments it receives from Continental AG (and any minority investments it may make in the future). The Issuer Facilities Agreement, New Schaeffler Group Facilities Agreement and the indentures governing the Schaeffler Group Notes allow the Issuer's subsidiaries to utilize amounts that would otherwise be available to pay dividends to the Issuer for other uses, and such uses would reduce the amount of cash available to pay dividends to the Issuer in order for the Issuer to pay Cash Interest on the Notes. The terms of the Notes will not restrict the Issuer's subsidiaries' ability to use its dividend payment capacity for such alternative uses. See "*Description of Other Indebtedness*" and "*Description of the Notes—Principal and maturity*" and *"Description of the Notes—Interest."* In addition, the Issuer Facilities require, and future indebtedness of the Issuer may require, the Issuer to pay cash interest with respect to these obligations, which will require the Issuer to use a certain portion of the dividend capacity for these purposes. As a result, we cannot assure you that the Issuer will be required (or able) to make Cash Interest payments on the Notes, and Note Holders could potentially receive no Cash Interest on the Notes for interest periods other than the initial two and final periods. The payment of interest through an increase in the principal amount of the outstanding Notes or the issuance of new Notes or any future debt providing for PIK interest, will increase the amount of the Issuer's indebtedness and would increase the risks associated with the Issuer's level of indebtedness. In addition, we may refinance our Issuer Facilities Agreement, Schaeffler AG may refinance the New Schaeffler Group Facilities Agreement and we may redeem or repay the Schaeffler Group Notes prior to the maturity date of the Notes. The Issuer cannot assure you that prior to, or after giving effect to, any such refinancing, redemption and repayment, the

subsidiaries of the Issuer will be in a position to make payments to the Issuer that would allow it to pay Cash Interest on the Notes.

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 Germany. Most of its 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 to enforce against it judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States.

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

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

Although application has been made to admit the Notes to trading on the 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 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*."

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

The Notes will be issued with original issue discount for U.S. federal income tax purposes because none of the stated interest on the Notes will constitute "qualified stated interest." As a result, U.S. Holders (as defined below under "*Taxation—U.S. Taxation*") will be required to include original issue discount in their gross income (as ordinary income) as it accrues even though they have not received related cash payments. See "*Taxation—U.S. Taxation*."

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

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

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, and further upgraded to "BB" by S&P in April 2016 and "Ba2" by Moody's in October 2015. On September 7, 2016, S&P confirmed our corporate rating at "BB" and assigned an issue rating of "B+" to the Notes. Also on September 7, 2016, Moody's split our corporate rating into separate corporate ratings for the Schaeffler Group and for the Issuer. As a result, the corporate rating of the Schaeffler Group was upgraded to "Baa3" and the Issuer was assigned a corporate rating of "Ba1". The Notes were assigned a corresponding issue rating of "Ba1".

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 of our credit ratings (see "*—Risks related to our Business Operations and the Markets in which we operate—As a global supplier to the automotive and industrial sector we are exposed to substantial risks associated with the performance of the global economy in general and developments in the Eurozone, the United States and China in particular.*"). Any such downgrade could have adverse effects on our options for obtaining funding as well as our financing costs and interest expenses. A further downgrade of our credit rating could also impact our liquidity position if our suppliers change the terms of payment offered to us for this reason, for example, by requesting payment in advance. These negative consequences could be exacerbated if credit insurers were to further restrict coverage for our accounts payable. In addition, a downgrade could cause our customers to extend their normal payment terms or even to terminate their business relationships with us to engage other suppliers.

Any of these circumstances could have a material adverse effect on our business, financial condition and results of operations, which could in turn adversely affect the Issuer's ability to fulfill its obligations under the Notes 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 BBB- or better from S&P and a rating of Baa3 or better from Moody's and no default has occurred and is continuing, then beginning that day and continuing until one or both of S&P and Moody's 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 Note Holders. 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

The Issuer will use the gross proceeds from the Offering, together with drawings under the Issuer Term Facility, to (i) make a distribution to IHO Beteiligungs by way of dividends and the Notes Proceeds Loan, which IHO Beteiligungs will apply towards the IHO Beteiligungs Group Notes Redemption and the repayment of the outstanding balance under the Existing IHO Beteiligungs Group Facilities Agreement, (ii) fully repay the Schaeffler AG Loan Notes, which Schaeffler AG will apply towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness, and (iii) pay related fees and expenses.

We estimate that the net proceeds from the sale of the Notes will amount to €3,568 million-equivalent, after payment of the estimated fees and expenses related to the Offering.

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). See "*Summary—The Transactions*."

Sources of Funds	**(unaudited)** **(in € million)**
Notes offered hereby[(1)]	3,597
Issuer Facilities Agreement[(2)]	600
Total Sources	**4,197**

Uses of Funds	**(unaudited)** **(in € million)**
Dividends and Notes Proceeds Loan to IHO Beteiligungs[(3)]	2,260
to be used by IHO Beteiligungs, together with proceeds from the close-out of cross-currency swaps (€132 million)[(4)] for:	
- Redemption of the Outstanding IHO Beteiligungs Group Notes (€1,792 million)[(5)]	
- Repayment under the Existing IHO Beteiligungs Group Facilities Agreement (€600 million)[(6)]	
Repayment under Schaeffler AG Loan Notes[(7)]	1,674
to be used by Schaeffler AG for:	
- Redemption of the Outstanding Schaeffler Group April 2013 Notes (€805 million)[(8)]	
- Repayment of other outstanding indebtedness	
Estimated fees and expenses[(9)]	31
Cash and cash equivalents of the Issuer	232
Total Uses	**4,197**

(1) The amount reflects the €3,597 million-equivalent gross proceeds from the issuance of the Notes. For presentational purposes, the Dollar Notes have been converted into euro at an assumed exchange rate of $1.1132 to €1.00. This exchange rate differs from the exchange rate in effect as of June 30, 2016.

(2) The amount reflects the gross proceeds of €600 million we expect to draw under the Issuer Term Facility (thereby fully drawing the Issuer Term Facility) for the full repayment under the Schaeffler AG Loan Notes following the Issue Date. As of the Issue Date, the Issuer Revolving Facility of €200 million is expected to be undrawn.

(3) The Issuer will use €2,260 million of the proceeds from the Notes to make distributions to IHO Beteiligungs by way of dividends (€1,380 million) and the Notes Proceeds Loan (€880 million), which IHO Beteiligungs will apply towards the IHO Beteiligungs Group Notes Redemption and the repayment of the outstanding balance under the Existing IHO Beteiligungs Group Facilities Agreement. The Issuer intends to assume the obligations of IHO Beteiligungs under the Notes Proceeds Loan at a later date.

(4) This amount reflects the expected cash to be received from the close-out of existing cross-currency hedging arrangements IHO Beteiligungs entered into in connection with the Outstanding IHO Beteiligungs Group Notes based on an assumed exchange rate of $1.1132 to €1.00. This exchange rate differs from the exchange rate in effect as of June 30, 2016.

(5) The redemption amount reflects the aggregate principal amount of the Outstanding IHO Beteiligungs Group Notes (€1,660 million), the applicable redemption premium (€100 million), and any accrued and unpaid interest up until the IHO Beteiligungs Group Notes Redemption Date (€32 million), gross of unamortized transaction costs. The redemption amount is subject to change as a result of fluctuations in the U.S. dollar exchange rate, the Bund Rate and the Treasury Rate until the IHO Beteiligungs Group Notes Redemption Date. For presentational purposes, the redemption amount has been calculated based on (i) an exchange rate of $1.1132 to €1.00 for the U.S. dollar tranches of the Outstanding IHO Beteiligungs Group Notes, (ii) a Bund Rate of negative 0.6253% for the 2021 euro tranche of the Outstanding IHO Beteiligungs Group Notes and (iii) Treasury Rates of 0.5900% and 0.7892% for the 2019 and 2022 dollar tranches of the Outstanding IHO Beteiligungs Group Notes. These rates differ from the rates in effect as of June 30, 2016.

(6) The repayment amount reflects the aggregate principal amount outstanding under the Existing IHO Beteiligungs Group Facilities Agreement excluding any accrued and unpaid interest.

(7) The amount reflects the full repayment of the Schaeffler AG Loan Notes (€1,674 million) between the Issuer and Schaeffler AG, which Schaeffler AG will apply towards the Schaeffler Group Notes Redemption and the repayment of other outstanding indebtedness. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

(8) The redemption amount reflects the aggregate principal amount of the Outstanding Schaeffler Group April 2013 Notes (€764 million), the applicable redemption premium (€27 million), and any accrued and unpaid interest up until the Schaeffler Group Notes Redemption Date (€14 million), gross of unamortized transaction costs. The redemption amount is subject to change as a result of fluctuations in the U.S. dollar exchange rate until the Schaeffler Group Notes Redemption Date. For presentational purposes, the redemption amount has been calculated based on an exchange rate of $1.1132 to €1.00. This exchange rate differs from the exchange rate in effect as of June 30, 2016.

(9) Represents our estimate of fees and expenses in connection with or otherwise related to the Offering and the Issuer Facilities Agreement, 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 tables provide an overview of the unaudited unconsolidated capitalization of the Issuer and the unaudited consolidated capitalization of the Schaeffler Group as of June 30, 2016 (a) on an actual basis and (b) as adjusted to give effect to the Transactions and the Schaeffler Group Refinancing, as applicable, and certain other adjustments as described below. The below tables have not taken any tax effects into consideration. All values shown are book values (except where otherwise stated).

The following tables should be read in conjunction with "Use of Proceeds," "Certain Financial Information of the Issuer," "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group," "Description of Other Indebtedness" and the financial statements, including the related notes thereto, contained in this Offering Memorandum beginning on page F–1. See "Summary—The Transactions" and "*Summary—Schaeffler Group—Recent Developments—Schaeffler Group Refinancing.*"

Issuer (German GAAP)[(1)(2)]	As of June 30, 2016 Actual	Transactions Adjustments	As of June 30, 2016 As Adjusted
		(unaudited) **(in € million)**	
Cash and cash equivalents[(3)]	9	232	241
Issuer Facilities Agreement[(4)]	–	600	600
Notes offered hereby[(5)]	–	3,597	3,597
Schaeffler AG Loan Notes[(6)]	1,674	(1,674)	–
Financial debt (current and non-current)[(2)(7)]	**1,674**	**2,523**	**4,197**
Shareholders' equity[(7)(8)]	8,333	(1,687)	6,646
Total capitalization[(2)]	**10,007**	**836**	**10,843**

(1) This information is based on the unaudited accounting records of the Issuer as of June 30, 2016, in accordance with German GAAP.

(2) The capitalization of the Issuer does not reflect the existing debt of IHO Beteiligungs in an aggregate principal amount of €2,263 million as of June 30, 2016, including amounts outstanding under the Existing IHO Beteiligungs Group Facilities Agreement (€600 million in aggregate principal amount as of June 30, 2016) and the Outstanding IHO Beteiligungs Group Notes (€510 million and $1,280 million in aggregate principal amount as of June 30, 2016), which is being refinanced with new debt to be incurred by the Issuer, including the Issuer Facilities Agreement and the Notes offered hereby. As a result, financial debt of the Issuer as adjusted to give effect to the Transactions and certain other adjustments is not directly comparable with and substantially higher than the actual figures as of June 30, 2016.

(3) The adjustment reflects the balance of the application of proceeds from the Notes offered hereby and the Issuer Facilities Agreement as set forth under "*Use of Proceeds*."

(4) The amount reflects the gross proceeds of €600 million we expect to draw under the Issuer Term Facility (thereby fully drawing the Issuer Term Facility) for the full repayment under the Schaeffler AG Loan Notes following the Issue Date. As of the Issue Date, the Issuer Revolving Facility of €200 million is expected to be undrawn. See "*Use of Proceeds*."

(5) The amount reflects the aggregate principal amount of the Notes (euro-equivalent). For presentational purposes, the Dollar Notes have been converted into euro at an assumed exchange rate of $1.1132 to €1.00. This exchange rate differs from the exchange rate in effect as of June 30, 2016. See "*Use of Proceeds*."

(6) The adjustment reflects the full repayment of the Schaeffler AG Loan Notes. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*" and "*Use of Proceeds.*"

(7) For this illustration, we have assumed that expected transaction costs of €31 million are not amortized and have thus deducted this amount from shareholders' equity.

(8) The adjustment reflects (i) €1,380 million in dividends paid to IHO Beteiligungs from the net proceeds of the Offering, (ii) €276 million in dividends declared to IHO Beteiligungs to set off the outstanding balance under the manual cash management and offsetting agreement between the Issuer and IHO Beteiligungs, which was terminated on September 5, 2016, and (iii) €31 million paid in transaction costs. See "*Use of Proceeds*" and "*Certain Relationships and Related Party Transactions—Manual Cash Management and Offsetting Agreement*."

Schaeffler Group (IFRS)	As of June 30, 2016 Actual	Transactions and Schaeffler Group Refinancing Adjustments	As of June 30, 2016 As Adjusted
		(unaudited) (in € million)	
Cash and cash equivalents[1][2]	572	862	1,434
Old Schaeffler Group Facilities Agreement[2]	417	(417)	–
New Schaeffler Group Facilities Agreement	–	978	978
Term Facility	–	*1,000*	*1,000*
Revolving Facility	–	–	–
Unamortized transaction costs	–	*(22)*	*(22)*
Schaeffler Group Notes	5,020	(1,368)	3,652
EUR Notes	*3,100*	*(600)*	*2,500*
USD Notes[2]	*1,937*	*(766)*	*1,171*
Unamortized transaction costs	*(17)*	*(2)*	*(19)*
Other financial debt	9	–	9
Financial debt (current and non-current)	**5,446**	**(807)**	**4,639**
Shareholders' equity[3][4]	1,425	(79)	1,346
Total capitalization	**6,871**	**(886)**	**5,985**

(1) The adjustment reflects (i) €1,674 million received from the full repayment of the Schaeffler AG Loan Notes, (ii) €35 million received from the close-out of existing cross-currency hedging arrangements of Schaeffler AG entered into in connection with the Old Schaeffler Group Facilities Agreement, (iii) €793 million paid in connection with the Schaeffler Group Notes Redemption (excluding accrued and unpaid interest) (iv) €9 million paid in connection with the Schaeffler Group Notes Consent Solicitations, and (v) a €45 million net outflow as a result of the Schaeffler Group Refinancing. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*." It does not, however, reflect the intended repayment of other outstanding indebtedness from a portion (€869 million) of the amounts received from the repayment of the Schaeffler AG Loan Notes.

(2) For presentational purposes, unless otherwise indicated, any dollar amounts have been converted into euro at an exchange rate of $1.1102 to €1.00 as of June 30, 2016.

(3) The adjustment mainly reflects (i) an expense related to the derecognition of bifurcated embedded derivatives of €39 million related to the repayment of the Old Schaeffler Group Facilities Agreement, the Redeemed Schaeffler Group April 2013 Notes and the Outstanding Schaeffler Group April 2013 Notes, (ii) a redemption premium of €27 million and accelerated amortization and transaction costs of €4 million in connection with the Schaeffler Group Notes Redemption, and (iii) a consent fee of €9 million paid in connection with the Schaeffler Group Notes Consent Solicitations. It does not, however, reflect the intended repayment of other outstanding indebtedness from a portion (€869 million) of the amounts received from the repayment of the Schaeffler AG Loan Notes.

(4) The Issuer holds 75.1% of Schaeffler AG's share capital (representing 100% of the voting rights), with the remaining 24.9% of Schaeffler AG's share capital held by public investors. We estimate that the shareholders' equity of Schaeffler AG attributable to non-controlling interests as of June 30, 2016, *pro forma* for the Transactions and the Schaeffler Group Refinancing, would be €192 million (calculated as shareholders' equity less goodwill, multiplied by the proportionate interest in Schaeffler AG's share capital held by public investors).

For further information relating to the debt instruments described above, see *"Certain Financial Information of the Issuer—Liabilities—Financial Debt*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Liquidity and Capital Resources*" and *"Description of Other Indebtedness*."

Certain Financial Information of the Issuer

The following section sets forth certain unconsolidated financial information of the Issuer. Prospective investors should read the following section together with the unaudited unconsolidated accounting records of the Issuer as of and for the six-month period ended June 30, 2016 and the audited unconsolidated financial statements of the Issuer as of and for the fiscal year ended December 31, 2015 (including comparative figures for 2014), which are included elsewhere in this Offering Memorandum, as well as the section entitled "Important Information about this Offering Memorandum—Presentation of Financial and Other Information." The unconsolidated accounting records and financial statements of the Issuer as of and for those periods were prepared in accordance with German GAAP. KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to the Issuer's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2015. The financial information set forth in this section does not include any financial information of the Schaeffler Group. For a discussion of the financial information of the Schaeffler Group, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group." In this section, "we," "us," or "our" refers solely to the Issuer.

Results of Operations

The following table shows our operating results for the fiscal years ended December 31, 2014 and 2015, as well as for the six-month periods ended June 30, 2015 and 2016.

	For the year ended December 31,		For the six-month period ended June 30,	
	2014	**2015[1]**	**2015[1]**	**2016**
	(audited) (in € million)		(unaudited) (in € million)	
Income from equity investments	168	250[2]	250[2]	515
Interest and similar expenses (net)	(61)	(65)[3]	(23)[3]	(35)
General and administrative expenses	(27)	(10)	(8)	(1)
Other operating income (net)	29	13	10	0
Results from ordinary activities	**109**	**188**	**229**	**479**
Extraordinary income (net)	–	421	–	–
Income tax income/expenses	57	67	(2)	(2)
Net income	**166**	**677**	**227**	**477**

(1) Effective December 31, 2015, Schaeffler Beteiligungsholding merged with the Issuer. As the sole remaining partner, the Issuer assumed the commercial business of Schaeffler Beteiligungsholding under universal succession. As part of the merger, all assets and liabilities passed to the Issuer. This primarily involves 71,990,458 shares in Continental AG, corresponding to 36.0% of voting rights. The merger triggered an extraordinary income of €421 million in the year ended December 31, 2015, which corresponds to the difference between the carrying amount of the absorbed shares in Schaeffler Beteiligungsholding and the carrying amount of the net assets taken over from Schaeffler Beteiligungsholding. The difference of €421 million represents retained earnings at Schaeffler Beteiligungsholding, consisting of €234 million in dividends received from Continental AG in the same year and €203 million mainly attributable to a gain from the sale of shares in Continental AG in September 2013, partially offset by €17 million in interest expenses of Schaeffler Beteiligungsholding incurred under its intercompany loan from Schaeffler AG in 2015.

(2) The amount does not reflect €234 million in dividends Schaeffler Beteiligungsholding received from Continental AG in 2015 (same for the six-month period ended June 30, 2015), which was reflected as part of extraordinary income for the year ended December 31, 2015.

(3) The amount does not reflect €17 million in interest expenses of Schaeffler Beteiligungsholding incurred under its intercompany loan from Schaeffler AG in 2015 (€13 million for the six-month period ended June 30, 2015), which was reflected as part of extraordinary income for the year ended December 31, 2015.

Comparison of the Six-Month Period Ended June 30, 2015 with the Six-Month Period Ended June 30, 2016

	For the six-month period ended June 30,		
	2015[1]	**2016**	**Change**
	(unaudited) **(in € million)**		**(unaudited)** **(in %)**
Income from equity investments	250[2]	515	>100.0
Interest and similar expenses (net)	(23)[3]	(35)	52.2
General and administrative expenses	(8)	(1)	(87.5)
Other operating income (net)	10	0	(100.0)
Results from ordinary activities	**229**	**479**	**>100.0**
Income tax income/expenses	(2)	(2)	–
Net income	**227**	**477**	**>100.0**

(1) Effective December 31, 2015, Schaeffler Beteiligungsholding merged with the Issuer. The merger triggered an extraordinary income for the year ended December 31, 2015, which is not reflected in the financials for the six-month period ended June 30, 2015.

(2) The amount does not reflect €234 million in dividends Schaeffler Beteiligungsholding received from Continental AG in the six-month period ended June 30, 2015, which was reflected as part of extraordinary income for the year ended December 31, 2015.

(3) The amount does not reflect €13 million of interest expenses of Schaeffler Beteiligungsholding incurred under its intercompany loan from Schaeffler AG in 2015, which was reflected as part of extraordinary income for the year ended December 31, 2015.

Income from Equity Investments

Income from equity investments consists of dividends and other distributions received from the Issuer's investments in Schaeffler AG and Continental AG. The Issuer considers income from equity investments its most significant financial performance indicator.

Income from equity investments increased from €250 million in the six-month period ended June 30, 2015 by €265 million, or 106.0%, to €515 million in the six-month period ended June 30, 2016. Income from equity investments in the six-month period ended June 30, 2016 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2016 (€245 million) and Continental dividends declared at the annual general meeting of Continental AG in 2016 (€270 million). The prior year amount solely reflected Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2015 (€250 million).

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer effective December 31, 2015, the €234 million dividend declared at the annual general meeting of Continental AG in 2015 was reflected as part of the Issuer's extraordinary income from the merger at the end of 2015 and is not reflected in the six-month period ended June 30, 2015.

Interest and Similar Expenses

Interest and similar expenses primarily consists of interest expenses incurred under the Schaeffler AG Loan Notes.

Net interest and similar expenses increased from €23 million in the six-month period ended June 30, 2015 by €12 million, or 52.2%, to €35 million in the six-month period ended June 30, 2016. This increase was largely due to a €13 million increase in interest expense relating to the Schaeffler AG Loan Notes, from €20 million in the six-month period ended June 30, 2015 to €33 million in the six-month period ended June 30, 2016. In addition, net interest expenses of €2 million based on an assessment of provisions for pensions and similar obligations were recorded in the six-month period ended June 30, 2016. The increase in interest expenses was partially offset by a €3 million decrease in interest expense related to discounting of balance sheet items, from €3 million in the six-month period ended June 30, 2015 to €0 million in the six-month period ended June 30, 2016.

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer effective December 31, 2015, the €13 million interest expense of Schaeffler Beteiligungsholding relating to its intercompany loan from Schaeffler AG in the six-month period ended June 30, 2015 was reflected as part of the Issuer's extraordinary income from the merger at the end of 2015 and is not reflected in the six-month period ended June 30, 2015.

General and Administrative Expenses

General and administrative expenses primarily consist of expenses for personnel costs and purchased services.

General and administrative expenses decreased from €8 million in the six-month period ended June 30, 2015 by €7 million, or 87.5%, to €1 million in the six-month period ended June 30, 2016. This decrease was largely due to lower group charges from affiliated companies as well as lower expenses related to the supervisory board.

Other Operating Income

Other operating income primarily consists of guarantee commissions from the assumption of guarantees in favor of the creditors of the Schaeffler Group.

Net other operating income decreased from €10 million in the six-month period ended June 30, 2015 by €10 million, or 100.0%, to €0 million in the six-month period ended June 30, 2016. The decrease was largely due to a decrease in the guarantee commissions from the assumption of guarantees in favor of the creditors of the Schaeffler Group. The guarantees of the Issuer under the Schaeffler Group Notes and the Old Schaeffler Group Facilities Agreement were released on October 9, 2015 in connection with the IPO as part of the Substitution.

Income Tax Income/Expenses

Income tax income/expenses consist of prepayments and provisions for corporate income and trade tax.

Income tax expenses remained flat at €2 million in the six-month periods ended June 30, 2015 and 2016.

Net Income

Net income largely consists of income from equity investments in Schaeffler AG and Continental AG *less* interest expense on financial debt and income taxes.

Net income increased from €227 million in the six-month period ended June 30, 2015 by €250 million, or 110.1%, to €477 million in the six-month period ended June 30, 2016. This increase was largely due to an increase of income from equity investments of €265 million. Net income for the six-month period ended June 30, 2015 did not include the €234 million dividend received by Schaeffler Beteiligungsholding from Continental AG during the period or the €17 million interest expense of Schaeffler Beteiligungsholding relating to its intercompany loan from Schaeffler AG, which was reflected as part of the Issuer's extraordinary income from the merger at the end of 2015.

Comparison of the Fiscal Year Ended December 31, 2014 with the Fiscal Year Ended December 31, 2015

	For the year ended December 31,		
	2014	2015[(1)]	Change
	(audited) (in € million)		(unaudited) (in %)
Income from equity investments	168	250[(2)]	*48.8*
Interest and similar expenses (net)	(61)	(65)[(3)]	*6.6*
General and administrative expenses	(27)	(10)	*(63.0)*
Other operating income (net)	29	13	*(55.2)*
Results from ordinary activities	**109**	**188**	***72.5***
Extraordinary income (net)	–	421	*>100.0*
Income tax income/expenses	57	67	*17.5*
Net income	**166**	**677**	***>100.0***

(1) Effective December 31, 2015, Schaeffler Beteiligungsholding merged with the Issuer. The merger triggered an extraordinary income of €421 million in the year ended December 31, 2015, which corresponds to the difference between the carrying amount of the absorbed shares in Schaeffler Beteiligungsholding and the carrying amount of the net assets taken over from Schaeffler Beteiligungsholding. The difference of €421 million represents retained earnings at Schaeffler Beteiligungsholding, consisting of €234 million in dividends received from Continental AG in the same year and €203 million mainly attributable to a gain from the sale of shares in Continental AG in September 2013, partially offset by €17 million in interest expenses of Schaeffler Beteiligungsholding incurred under its intercompany loan from Schaeffler AG in 2015.

(2) The amount does not reflect €234 million in dividends Schaeffler Beteiligungsholding received from Continental AG in 2015, which was reflected as part of extraordinary income for the year ended December 31, 2015.

(3) The amount does not reflect €17 million in interest expenses of Schaeffler Beteiligungsholding incurred under its intercompany loan from Schaeffler AG in 2015, which was reflected as part of extraordinary income for the year ended December 31, 2015.

Income from Equity Investments

Income from equity investments increased from €168 million in the fiscal year ended December 31, 2014 by €82 million, or 48.8%, to €250 million in the fiscal year ended December 31, 2015. Income from equity investments in 2015 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2015. The prior year amount solely reflected the Issuer's share in the profit of Schaeffler Beteiligungsholding, which, prior to its merger with the Issuer effective December 31, 2015, held a 36.0% stake in Continental AG. Schaeffler Beteiligungsholding's profit in 2014 consisted primarily of the Continental dividends declared at the annual general meeting of Continental AG in 2014.

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer, the €234 million dividend declared at the annual general meeting of Continental AG in 2015 was reflected as part of the Issuer's extraordinary income from the merger.

Interest and Similar Expenses

Net interest and similar expenses increased from €61 million in the fiscal year ended December 31, 2014 by €4 million, or 6.6%, to €65 million in the fiscal year ended December 31, 2015. This increase was largely due to a €12 million increase in interest expense, from €44 million in 2014 to €56 million in 2015, relating to interest on the Schaeffler AG Loan Notes as well as an interest expense of €5 million recorded in 2015 (prior year: zero) as the result of the discounting of balance sheet items. The loss of interest income resulting from the transfer of group management functions from the Issuer to Schaeffler AG on October 23, 2014 further increased net interest and similar expenses in 2015. The increase in net interest and similar expenses was partially offset by a €12 million decrease in interest expense, from €15 million in 2014 to €3 million in 2015, based on an assessment of provisions for pensions and similar obligations.

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer, the €17 million interest expense of Schaeffler Beteiligungsholding relating to its intercompany loan from Schaeffler AG in 2015 was reflected as part of the Issuer's extraordinary income from the merger.

General and Administrative Expenses

General and administrative expenses decreased from €27 million in the fiscal year ended December 31, 2014 by €17 million, or 63.0%, to €10 million in the fiscal year ended December 31, 2015. This decrease was largely due to lower personnel costs resulting from the transfer of group management functions from the Issuer to Schaeffler AG on October 23, 2014.

Other Operating Income

Net other operating income decreased from €29 million in the fiscal year ended December 31, 2014 by €16 million, or 55.2%, to €13 million in the fiscal year ended December 31, 2015. The decrease was largely due to a decrease in the guarantee commissions from the assumption of guarantees in favor of the creditors of the Schaeffler Group. The guarantees of the Issuer under the Schaeffler Group Notes and the Old Schaeffler Group Facilities Agreement were released on October 9, 2015 in connection with the IPO as part of the Substitution.

Extraordinary Income

The Issuer recorded net extraordinary income of €421 million in the fiscal year ended December 31, 2015 in connection with the Schaeffler Beteiligungsholding merger. Effective December 31, 2015, Schaeffler Beteiligungsholding merged with the Issuer and the Issuer assumed the commercial business of Schaeffler Beteiligungsholding under universal succession. The Issuer recorded the assets and liabilities transferred as part of the merger at their carrying amount as of the date of the merger. The merger triggered an extraordinary income of €421 million, which corresponds to the difference between the carrying amount of the absorbed shares in Schaeffler Beteiligungsholding and the carrying amount of the net assets taken over from Schaeffler Beteiligungsholding. The difference of €421 million represents retained earnings at Schaeffler Beteiligungsholding, consisting of €234 million in dividends received from Continental AG in the same year and €203 million mainly attributable to a gain from the sale of shares in Continental AG in September 2013, partially offset by €17 million in interest expenses of Schaeffler Beteiligungsholding incurred under its intercompany loan from Schaeffler AG in 2015.

Income Tax Income/Expenses

Income tax income increased from €57 million in the fiscal year ended December 31, 2014 by €10 million, or 17.5%, to €67 million in the fiscal year ended December 31, 2015. This increase was largely due to the balance sheet impact of a change to the internal corporate structure completed in 2012, which resulted in a deferred tax benefit of €68 million in the fiscal year ended December 31, 2015 (prior year: €54 million) and which is expected to reverse over a period of four years provided the corporate structure remains unchanged.

Net Income

Net income increased from €166 million in the fiscal year ended December 31, 2014 by €511 million to €677 million in the fiscal year ended December 31, 2015. This increase was primarily due to the extraordinary income of €421 million resulting from the merger of Schaeffler Beteiligungsholding into the Issuer on December 31, 2015, as well as an increase of €82 million in income from equity investments representing the difference between Continental AG dividends received (via Schaeffler Beteiligungsholding) in 2014 and Schaeffler AG dividends received in 2015.

Liquidity

For the fiscal years ended December 31, 2014 and 2015 as well as for the six-month periods ended June 30, 2015 and 2016, our principal source of liquidity was cash from dividends received. The table below shows how our liquidity changed over the relevant periods indicated by cash inflows and outflows.

	For the year ended December 31,		For the six-month period ended June 30,	
	2014	2015[(1)]	2015[(1)]	2016
	(unaudited) (in € million)		(unaudited) (in € million)	
Dividends received	168	250[(2)]	250[(2)]	515
Dividends paid	–	(251)	–	–
Interest received	2	–	–	–
Interest paid	(3)	(25)[(3)]	(22)[(3)]	(69)
Income taxes received	55	8	7	–
Income taxes paid	(16)	(2)	(1)	(1)

(1) Effective December 31, 2015, Schaeffler Beteiligungsholding merged with the Issuer. As a result, dividends received and interest paid by Schaeffler Beteiligungsholding prior to its merger with the Issuer (€234 million and €13 million, respectively, in 2015) are not reflected in the liquidity of the Issuer.

(2) The amount does not reflect the €234 million dividend Schaeffler Beteiligungsholding received from Continental AG in 2015 (same for the six-month period ended June 30, 2015).

(3) The amount does not reflect the €13 million interest paid by Schaeffler Beteiligungsholding under its intercompany loan from Schaeffler AG in 2015 (same for the six-month period ended June 30, 2015).

Cash Flows for the Six-Month Periods Ended June 30, 2015 and 2016

Dividends

Dividends received consist of dividends received from Schaeffler AG and Continental AG. Dividends paid consist of dividends paid to our shareholder IHO Beteiligungs.

Dividends received in the six-month period ended June 30, 2016 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2016 (€245 million) and Continental dividends declared at the annual general meeting of Continental AG in 2016 (€270 million). The prior year amount solely reflected Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2015 (€250 million).

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer effective December 31, 2015, the €234 million dividend declared at the annual general meeting of Continental AG in 2015 is not reflected in the six-month period ended June 30, 2015.

No dividends were paid to IHO Beteiligungs in the six-month periods ended June 30, 2015 and 2016.

Interest

Interest paid primarily consists of interest payments on the Schaeffler AG Loan Notes.

Interest paid increased from €22 million in the six-month period ended June 30, 2015 by €47 million, or 213.6%, to €69 million in the six-month period ended June 30, 2016. This increase was largely due to an increase in the aggregate principal amount outstanding under the Schaeffler AG Loan Notes and timing of the interest payments. The Issuer incurred €1,071 million in Schaeffler AG Loan Notes in December 2014 and replaced Schaeffler Beteiligungsholding as the debtor of a loan note with a principal amount of €629 million issued by Schaeffler Beteiligungsholding in favor of Schaeffler AG in September 2015. Interest on the Schaeffler AG Loan Notes was paid on an annual basis in June of 2015 and 2016. As a result, interest paid for the six-month period ended June 30, 2015 mainly consisted of interest payments on the €1,071 million balance under the Schaeffler AG Loan Notes

outstanding since December 2014, whereas interest paid for the six-month period ended June 30, 2016 mainly consisted of annual interest payments on the €1,071 million *plus* €629 million balance under the Schaeffler AG Loan Notes.

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer effective December 31, 2015, the €13 million interest paid by Schaeffler Beteiligungsholding under its intercompany loan from Schaeffler AG in the first half of 2015 is not reflected in the six-month period ended June 30, 2015.

Income Taxes

Income taxes received consists of reimbursement of corporate income and trade tax prepayments. Income taxes paid consists of prepayments for corporate income and trade tax.

Net income taxes received decreased from €6 million in the six-month period ended June 30, 2015 to €1 million in income taxes paid in the six-month period ended June 30, 2016. This decrease was largely due to an extraordinary effect regarding tax reimbursements for the fiscal year ended December 31, 2014 in an amount of €7 million.

Cash Flows for the Fiscal Years Ended December 31, 2014 and 2015

Dividends

Dividends received increased from €168 million in the fiscal year ended December 31, 2014 by €82 million, or 48.8%, to €250 million in the fiscal year ended December 31, 2015. Dividends received in the fiscal year ended December 31, 2014 consisted entirely of dividends received from Continental AG through Schaeffler Beteiligungsholding. No dividends were received from Schaeffler AG in the fiscal year ended December 31, 2014. Dividends received in the fiscal year ended December 31, 2015 consisted entirely of dividends received from Schaeffler AG.

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer, the €234 million dividend declared at the annual general meeting of Continental AG in 2015 was not reflected as part of the Issuer's dividends received in 2015.

Dividends paid to IHO Beteiligungs were €251 million in the fiscal year ended December 31, 2015. No dividends were paid to IHO Beteiligungs in the prior year.

Interest

Interest paid increased from €3 million in the fiscal year ended December 31, 2014 by €22 million to €25 million in the fiscal year ended December 31, 2015. This increase was largely due to interest payments on the €1,071 million balance under the Schaeffler AG Loan Notes outstanding since December 2014.

As a result of the merger of Schaeffler Beteiligungsholding with the Issuer effective December 31, 2015, the €13 million interest paid by Schaeffler Beteiligungsholding under its intercompany loan from Schaeffler AG in 2015 is not reflected in the fiscal year ended December 31, 2015.

Interest received related to tax refunds was €2 million in the fiscal year ended December 31, 2014, whereas no interest was received in the fiscal year ended December 31, 2015.

Income Taxes

Net income taxes received decreased from €39 million in the fiscal year ended December 31, 2014 by €33 million, or 84.6%, to €6 million in the fiscal year ended December 31, 2015. This decrease was largely due to an extraordinary effect regarding corporate income tax reimbursement for the fiscal year ended December 31, 2012 in an amount of €49 million.

Liabilities

Financial Debt

Schaeffler AG Loan Notes

Financial debt primarily consists of intercompany financing arrangements owing from the Issuer to Schaeffler AG.

As part of an internal reorganization in December 2014, Schaeffler AG issued new shares to IHO Beteiligungs in exchange for a contribution in kind from IHO Beteiligungs that consisted of collateralized loan notes held by IHO Beteiligungs: a loan note issued by the Issuer amounting to €1,071 million and a loan note issued by Schaeffler Beteiligungsholding with a principal amount of €629 million. As of December 31, 2014, the Issuer's financial debt primarily consisted of the €1,071 million loan note. In 2015, the Issuer had repaid principal on its loan note in the amount of €197 million plus accrued interest, which amount is not available to be redrawn. On August 31, 2015, in connection with the amendment of a manual cash management and offsetting agreement between the Issuer and Schaeffler AG, an amount of €270 million outstanding under the agreement was converted into a loan note owing from the Issuer to Schaeffler AG. In addition, on September 1, 2015, the Issuer replaced Schaeffler Beteiligungsholding as the debtor of the loan note issued by Schaeffler Beteiligungsholding. The three loan notes owing from the Issuer to Schaeffler AG are together referred to as the "**Schaeffler AG Loan Notes**." As of December 31, 2015, the Issuer's financial debt primarily consisted of the three Schaeffler AG Loan Notes which amounted to €1,773 million. As of June 30, 2016, the Issuer's financial debt primarily consisted of three Schaeffler AG Loan Notes which amounted to €1,674 million and are secured by share pledges over 23,250,361 common shares of Continental AG. Upon full repayment of the Schaeffler AG Loan Notes in connection with the Transactions, the share pledges over the common shares in Continental AG will be released.

For further information about the Schaeffler AG Loan Notes, see "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

Manual Cash Management and Offsetting Agreement

On March 11, 2015, IHO Beteiligungs and the Issuer concluded a manual cash management and offsetting agreement. As of December 31, 2015, a loan in the principal amount of €70 million granted by IHO Beteiligungs to the Issuer was outstanding under the manual cash management and offsetting agreement. As of June 30, 2016, a loan in the principal amount of €276 million granted by the Issuer to IHO Beteiligungs was outstanding under the manual cash management and offsetting agreement. On September 5, 2016, the manual cash management and offsetting agreement was terminated. In connection with the termination, the Issuer declared a dividend in the amount of €276 million to IHO Beteiligungs, and the Issuer and IHO Beteiligungsholding set off the outstanding balance of IHO Beteiligungsholding under the agreement against the dividend entitlement on a cashless basis. See "*Certain Relationships and Related Party Transactions*—Manual Cash Management and Offsetting Agreement."

Taxes

Deferred Tax Liabilities

Deferred taxes as of December 31, 2015 of €298 million (prior year €370 million) primarily relate to differences in recognized amounts of equity investments. The reduction of €72 million is a result of the reduction in the deferred taxes recognized with respect to a change to the internal corporate structure in 2012 (€69 million) and the receipt of deferred tax assets due to the merger with Schaeffler Beteiligungsholding which became effective December 31, 2015 (€3 million).

Tax Provisions

Tax provisions primarily relate to the potential impact of tax audits, uncertain liabilities for real estate transfer tax for prior years and corporate and trade tax payments for the current tax year.

As of June 30, 2016, the Issuer's tax provisions primarily consisted of uncertain liabilities for corporate income and trade tax for prior years (€98 million) and uncertain liabilities for real estate transfer tax (€3 million). As of December 31, 2015 and 2014, the Issuer's tax provisions were €101 million relating primarily to identical reasons.

Selected Financial Information of the Schaeffler Group

The selected financial information contained in the following tables has been taken or derived from the unaudited consolidated condensed financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016 and the audited consolidated financial statements of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014, which are all reproduced elsewhere in this Offering Memorandum. These financial statements were prepared in accordance with IFRS. KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to Schaeffler AG's audited consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014. Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016 have been reviewed by KPMG. KPMG has issued a review report in accordance with the applicable provisions of the WpHG, in particular section 37 w para. 5 WpHG, with respect to Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016.

The historical financial information presented for the twelve-month period ended June 30, 2016 has been calculated by adding amounts for the six-month period ended June 30, 2016 to the amounts for the full year ended December 31, 2015 and subtracting the amounts for the six-month period ended June 30, 2015. The financial information for the twelve-month period ended June 30, 2016 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

The selected financial information presented below includes certain non-GAAP measures and ratios, which are used by management in monitoring Schaeffler AG's business. Non-GAAP 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 Schaeffler AG's operating results as reported under IFRS. Please see "Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures."

The selected financial information presented below should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements and the notes thereto of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014, the unaudited consolidated condensed financial statements and the notes thereto of Schaeffler AG as of and for the six-month period ended June 30, 2016 and the audited unconsolidated financial statements of the Issuer as of and for the financial year ended December 31, 2015. This information should also be read together with the sections entitled "Certain Financial Information of the Issuer" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group."

As of the Issue Date, Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries of the Issuer under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral. As a consequence, Note Holders will have no recourse to any Unrestricted Subsidiary, its assets or its properties if there is an event of default under the Indenture. Access by the Issuer to the cash flow generated by Unrestricted Subsidiaries, including Schaeffler AG and its subsidiaries, is limited to amounts actually distributed to the Issuer as dividends or other distributions. See "Risk Factors—Risks related to our Financing—The Issuer may not be able to generate sufficient cash flows to meet its debt service obligations" and "Risk Factors—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral."

Consolidated Income Statement – Schaeffler AG

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Revenue	**11,205**	**12,124**	**13,226**	**6,721**	**6,712**	**13,217**
Cost of sales	(8,029)	(8,708)	(9,448)	(4,837)	(4,792)	(9,403)
Gross profit	**3,176**	**3,416**	**3,778**	**1,884**	**1,920**	**3,814**
Research and development expenses	(611)	(622)	(720)	(350)	(378)	(748)
Selling expenses	(761)	(819)	(920)	(461)	(450)	(909)
Administrative expenses	(433)	(412)	(407)	(208)	(218)	(417)
Other income	72	49	57	19	15	53
Other expenses	(435)	(89)	(386)	(66)	(30)	(350)
Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)	**1,008**	**1,523**	**1,402**	**818**	**859**	**1,443**
Financial income[1]	217	256	327	213	112	226
Financial expenses	(641)	(875)	(874)	(550)	(265)	(589)
Financial result	**(424)**	**(619)**	**(547)**	**(337)**	**(153)**	**(363)**
Income from equity-accounted investees[1]	**2**	**–**	**–**	**–**	**–**	**–**
Earnings before income taxes	**586**	**904**	**855**	**481**	**706**	**1,080**
Income taxes	(452)	(242)	(250)	(165)	(206)	(291)
Net income	**134**	**662**	**605**	**316**	**500**	**789**
Attributable to shareholders of the parent company	127	654	591	309	494	776
Attributable to non-controlling interests	7	8	14	7	6	13

(1) Since 2015, we ceased to list income from equity-accounted investees as a separate line item in our income statement due to the minimal amounts of such income, and such income has been included as part of financial income for the fiscal years ended December 31, 2014 and 2015, as well as the six-month periods ended June 2015 and 2016.

Consolidated Statement of Financial Position – Schaeffler AG

	As of December 31,			As of June 30,
	2013	2014	2015	2016
		(audited) (in € million)		(unaudited) (in € million)
Assets				
Total non-current assets	**4,410**	**6,802**	**7,438**	**7,397**
of which intangible assets	538	555	589	585
of which property, plant and equipment	3,369	3,748	4,180	4,242
of which other financial assets[1]	202	1,978	2,123	1,922
Total current assets	**3,977**	**4,815**	**5,042**	**5,157**
of which inventories	1,536	1,713	1,812	1,914
of which trade receivables	1,676	1,900	2,023	2,266
of which other financial assets	232	343	123	119
of which cash and cash equivalents	300	636	799	572
Total assets	**8,387**	**11,617**	**12,480**	**12,554**
Shareholders' equity and liabilities				
Total shareholders' equity	**(1,966)**	**258**	**1,568**	**1,425**
Total non-current liabilities	**7,870**	**8,839**	**8,144**	**8,286**
of which provisions for pensions and similar obligations	1,510	1,984	1,942	2,358
of which financial debt	5,720	6,413	5,685	5,442
of which other financial liabilities	162	21	12	7
Total current liabilities	**2,483**	**2,520**	**2,768**	**2,843**
of which financial debt	33	1	3	4
of which trade payables	1,022	1,261	1,405	1,384
of which other financial liabilities	405	558	512	506
Total shareholders' equity and liabilities	**8,387**	**11,617**	**12,480**	**12,554**

(1) Includes the Schaeffler AG Loan Notes from the Issuer in an aggregate amount of €1,674 million as of June 30, 2016, €1,773 million as of December 31, 2015 and €1,071 million as of December 31, 2014. As of the date of this Offering Memorandum, such Schaeffler AG Loan Notes amounted to €1,674 million and are secured by share pledges over 23,250,361 common shares of Continental AG. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes).

Consolidated Statement of Cash Flows – Schaeffler AG

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
		(audited) (in € million)		(unaudited) (in € million)		(unaudited) (in € million)
Cash from operating activities[1]	1,027	900	1,372	422	777	1,727
Cash used in investing activities	(554)	(852)	(1,002)	(494)	(561)	(1,069)
Cash provided by (used in) financing activities	(582)	271	(212)	(160)	(438)	(490)
Net increase (decrease) in cash and cash equivalents	**(109)**	**319**	**158**	**(232)**	**(222)**	**168**
Cash and cash equivalents as at end of period	300	636	799	420	572	951

(1) Excluding interest payments, cash flows from operating activities amounted to €1,632 million, €1,420 million and €1,880 million for the fiscal years ended December 31, 2013, 2014 and 2015 respectively, and €801 million and €884 million for the six-month periods ended June 30, 2015 and 2016, respectively.

Other Financial and Operating Data – Schaeffler AG

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	11,205	12,124	13,226	6,721	6,712	13,217
Revenue growth (in %)	–	*8.2*	*9.1*	–	*(0.1)*	–
EBIT	1,008	1,523	1,402	818	859	1,443
EBIT margin (in %)	*9.0*	*12.6*	*10.6*	*12.2*	*12.8*	*10.9*
EBITDA (unaudited)[1]	1,660	2,172	2,096	1,161	1,217	2,152
EBITDA margin (in %) (unaudited)	*14.8*	*17.9*	*15.8*	*17.3*	*18.1*	*16.3*
Cash from operating activities	1,027	900	1,372	422	777	1,727
Cash from operating activities before net interest paid (unaudited)[2]	1,624	1,412	1,837	761	811	1,887
Capital expenditures according to cash flow statement (unaudited)[3]	(572)	(857)	(1,025)	(501)	(561)	(1,085)
Free cash flow (unaudited)[4]	473	48	370	(72)	216	658
Free cash flow before net interest paid (unaudited)[4]	1,070	560	835	267	250	818
Working capital (at the end of the period) (unaudited)[5]	2,190	2,352	2,430	2,738	2,796	2,796
Net financial debt (at the end of the period)[6]	5,453	5,778	4,889	6,245	4,874	4,874
Net financial debt at the end of the period over EBITDA for the period (x) (unaudited)[7]	3.3	2.7	2.3	2.8	2.3	2.3
Net financial debt after deducting Schaeffler AG Loan Notes (at the end of the period) (unaudited)[6]	5,453	4,078	3,116	4,630	3,200	3,200
Net financial debt after deducting Schaeffler AG Loan Notes at the end of the period over EBITDA for the period (x) (unaudited)[7]	3.3	1.9	1.5	2.1	1.5	1.5
Number of employees (in ones)	78,258	82,294	84,198	83,774	85,225	85,225

(1) 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, amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS. The EBITDA figures presented are not necessarily comparable to the performance figures published by other companies as EBITDA or the like. See "*Important Information about this Offering Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of net income to EBITDA for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Net income	**134**	**662**	**605**	**316**	**500**	**789**
Income taxes	452	242	250	165	206	209
Income from equity-accounted investees[a]	(2)	–	–	–	–	–
Financial expenses	641	875	874	550	265	589
Financial income[a]	(217)	(256)	(327)	(213)	(112)	(226)
EBIT	**1,008**	**1,523**	**1,402**	**818**	**859**	**1,443**
Depreciation, amortization and impairments	652	649	694	343	358	709
EBITDA (unaudited)	**1,660**	**2,172**	**2,096**	**1,161**	**1,217**	**2,152**

(a) Since 2015, we ceased to list income from equity-accounted investees as a separate line item in our income statement due to the minimal amounts of such income, and such income has been included as part of financial income for the fiscal years ended December 31, 2014 and 2015, as well as the six-month periods ended June 2015 and 2016.

(2) The following table sets forth our cash from operating activities before net interest paid for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Cash from operating activities	**1,027**	**900**	**1,372**	**422**	**777**	**1,727**
Interest paid	605	520	508	379	107	236
Interest received	(8)	(8)	(43)	(40)	(73)	(76)
Net interest paid (unaudited)	**597**	**512**	**465**	**339**	**34**	**160**
Cash from operating activities before net interest paid (unaudited)	**1,624**	**1,412**	**1,837**	**761**	**811**	**1,887**

(3) Capital expenditures according to cash flow statement includes capital expenditures on intangible assets and capital expenditures on property, plant and equipment. The following table sets forth our capital expenditures according to cash flow statement for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Capital expenditures on intangible assets	(18)	(50)	(48)	(18)	(10)	(40)
Capital expenditures on property, plant and equipment	(554)	(807)	(977)	(483)	(551)	(1,045)
Capital expenditures according to cash flow statement (unaudited)	**(572)**	**(857)**	**(1,025)**	**(501)**	**(561)**	**(1,085)**

(4) The following table sets forth our free cash flow and our free cash flow before net interest paid for the periods below:

	For the year ended December 31,			For the six-month period ended June 30,		For the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Cash from operating activities	1,027	900	1,372	422	777	1,727
Cash used in investing activities	(554)	(852)	(1,002)	(494)	(561)	(1,069)
Free cash flow (unaudited)	**473**	**48**	**370**	**(72)**	**216**	**658**
Interest paid	605	520	508	379	107	236
Interest received	(8)	(8)	(43)	(40)	(73)	(76)
Net interest paid (unaudited)	**597**	**512**	**465**	**339**	**34**	**160**
Free cash flow before net interest paid (unaudited)	**1,070**	**560**	**835**	**267**	**250**	**818**

(5) The following table sets forth our working capital for the dates below:

	As of December 31,			As of June 30,	
	2013	2014	2015	2015	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)	
Inventories	1,536	1,713	1,812	1,810	1,914
Trade receivables	1,676	1,900	2,023	2,215	2,266
Trade payables	(1,022)	(1,261)	(1,405)	(1,287)	(1,384)
Working capital (unaudited)	**2,190**	**2,352**	**2,430**	**2,738**	**2,796**

(6) The following table sets forth our net financial debt and our net financial debt after deducting the Schaeffler AG Loan Notes for the dates below:

	As of December 31,			As of June 30,	
	2013	2014	2015	2015	2016
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)	
Financial debt – non-current	5,720	6,413	5,685	6,653	5,442
Financial debt – current	33	1	3	12	4
Financial debt	**5,753**	**6,414**	**5,688**	**6,665**	**5,446**
Cash and cash equivalents	(300)	(636)	(799)	(420)	(572)
Net financial debt[a]	**5,453**	**5,778**	**4,889**	**6,245**	**4,874**
Schaeffler AG Loan Notes[b]	–	1,700	1,773	1,615	1,674
Net financial debt after deducting Schaeffler AG Loan Notes (unaudited)	**5,453**	**4,078**	**3,116**	**4,630**	**3,200**

(a) Includes a shareholder loan of €6 million as of December 31, 2013.

(b) Secured by share pledges over 23,250,361 common shares of Continental AG. As of the date of this Offering Memorandum, the Schaeffler AG Loan Notes amounted to €1,674 million. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes). The amount shown as of December 31, 2014 includes the principal amount of a €629 million loan note with Schaeffler Beteiligungsholding as debtor and Schaeffler AG as lender.

(7) The following table sets forth our net financial debt for dates below over EBITDA for the periods below and our net financial debt after deducting the Schaeffler AG Loan Notes for the dates below over EBITDA for the periods below:

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Net financial debt (at the end of the period)	5,453	5,778	4,889	6,245	4,874	4,874
EBITDA (for the period) (unaudited)	1,660	2,172	2,096	1,161	1,217	2,152
Net financial debt over EBITDA (x) (unaudited)[a]	**3.3**	**2.7**	**2.3**	**2.8**	**2.3**	**2.3**
Net financial debt after deducting Schaeffler AG Loan Notes (at the end of the period) (unaudited)	5,453	4,078	3,116	4,630	3,200	3,200
EBITDA (for the period) (unaudited)	1,660	2,172	2,096	1,161	1,217	2,152
Net financial debt after deducting Schaeffler AG Loan Notes over EBITDA (x) (unaudited)[a]	**3.3**	**1.9**	**1.5**	**2.1**	**1.5**	**1.5**

(a) As of the six-month periods ended June 30, 2015 and 2016, the calculation uses EBITDA for the twelve-month periods ended June 30, 2015 and 2016, respectively.

Selected Segment Information

Automotive Division

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	**8,164**	**8,986**	**9,993**	**5,069**	**5,179**	**10,103**
Cost of sales	(5,960)	(6,501)	(7,189)	(3,687)	(3,698)	(7,200)
Gross profit	**2,204**	**2,485**	**2,804**	**1,382**	**1,481**	**2,903**
EBIT	**683**	**1,238**	**1,124**	**651**	**739**	**1,212**
In % of revenue	*8.4*	*13.8*	*11.2*	*12.8*	*14.3*	*12.0*
Depreciation, amortization and impairments	(464)	(453)	(507)	(245)	(262)	(524)
Inventories[(1)]	920	1,019	1,107	1,148	1,221	1,221
Trade receivables[(1)]	1,197	1,389	1,556	1,661	1,752	1,752
Property, plant and equipment[(1)]	2,367	2,749	3,164	2,927	3,185	3,185
Additions to intangible assets and property, plant and equipment	441	755	916	351	376	941

(1) As at the end of the respective period.

Industrial Division

	As of and for the year ended December 31,			As of and for the six-month period ended June 30,		As of and for the twelve-month period ended June 30,
	2013	2014	2015	2015	2016	2016
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	**3,041**	**3,138**	**3,233**	**1,652**	**1,533**	**3,114**
Cost of sales	(2,069)	(2,207)	(2,259)	(1,150)	(1,094)	(2,203)
Gross profit	**972**	**931**	**974**	**502**	**439**	**911**
EBIT	**325**	**285**	**278**	**167**	**120**	**231**
In % of revenue	*10.7*	*9.1*	*8.6*	*10.1*	*7.8*	*7.4*
Depreciation, amortization and impairments	(188)	(196)	(187)	(98)	(96)	(185)
Inventories[(1)]	616	694	705	662	693	693
Trade receivables[(1)]	479	511	467	554	514	514
Property, plant and equipment[(1)]	1,002	999	1,016	1,015	1,057	1,057
Additions to intangible assets and property, plant and equipment	132	188	202	84	93	211

(1) As at the end of the respective period.

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group

The following discussion and analysis of the financial condition and results of operations of the Schaeffler Group are based on the unaudited consolidated condensed financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016 and the audited consolidated financial statements of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014. The consolidated financial statements of Schaeffler AG as of and for those periods were prepared in accordance with IFRS. Except as the context otherwise indicates, when discussing historical results of operations in this "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group," "Schaeffler Group," "we," "us," "our" and other similar terms are generally used to refer to the business of Schaeffler AG and its subsidiaries.

Prospective investors should read the following discussion together with Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016 and Schaeffler AG's audited consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014, which are included in this Offering Memorandum. The following discussion should also be read in conjunction with "Important Information about this Offering Memorandum—Presentation of Financial and Other Information" and "Selected Financial Information of the Schaeffler Group." 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 and related risks can be found in "Important Information about this Offering Memorandum—Forward-looking Statements" and "Risk Factors."

The Issuer holds 75.1% of Schaeffler AG's share capital (representing 100% of the voting rights), with the remaining 24.9% held by public investors. The consolidated financial information of Schaeffler AG does not include the financial results of the Issuer, most notably with respect to its 36.0% stake in the share capital of Continental AG. As of the Issue Date, Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries of the Issuer under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral. As a consequence, Note Holders will have no recourse to any Unrestricted Subsidiary, its assets or its properties if there is an event of default under the Indenture. Access by the Issuer to the cash flow generated by Unrestricted Subsidiaries, including Schaeffler AG and its subsidiaries, is limited to amounts actually distributed to the Issuer as dividends or other distributions. See "Risk Factors—Risks related to our Financing—The Issuer may not be able to generate sufficient cash flows to meet its debt service obligations" and "Risk Factors—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral." Prospective investors should therefore read the following discussion in conjunction with the audited financial statements of the Issuer included elsewhere in this Offering Memorandum and with the section entitled "Certain Financial Information of the Issuer."

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 development of the markets we serve, which we are helping to shape through

our “Mobility for tomorrow” strategic concept, our focus on the megatrends driving our business that revolves around “eco-friendly drives,” “urban mobility,” “interurban mobility” and the “energy chain.”

We are one of the largest family-controlled technology companies in the world, with around 85,000 employees and a network of manufacturing locations, R&D facilities, and distribution companies in approximately 170 locations in 50 countries (as of June 30, 2016). Our 74 manufacturing locations form the foundation of our operations. In the fiscal year ended December 31, 2015, we had revenues of €13.2 billion (€6.7 billion in the six-month period ended June 30, 2016), and EBITDA of €2.1 billion (€1.2 billion in the six-month period ended June 30, 2016).

We operate through two divisions: Automotive and Industrial. Our Automotive Division generated 76% of our revenue and 80% of our EBIT in the fiscal year ended December 31, 2015 (77% and 86%, respectively, in the six-month period ended June 30, 2016). Our Automotive Division supplies more than 65,000 products to approximately 8,000 customers globally. Our Industrial Division accounted for 24% of our revenue and 20% of our EBIT in the fiscal year ended December 31, 2015 (23% and 14%, respectively, in the six-month period ended June 30, 2016). Our Industrial Division supplies approximately 85,000 products to approximately 14,000 customers in a variety of different industrial sectors.

We distribute our products under three globally recognized brands, LuK, INA and FAG, providing high-quality products to both automotive and industrial markets through a number of distribution channels. Our LuK brand covers, among other things, 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 2013, 2014 and 2015, our revenue was impacted, in general, by economic uncertainties connected to the sovereign debt crisis in the Eurozone. After the noticeable decline of the worldwide economy in 2012, a significant economic stabilization and recovery took place in 2013. In 2014, geopolitical crises and turmoil in the financial markets slowed down this global economic recovery. In 2015, the global economy developed less dynamically than expected primarily due to the further economic slowdown in key emerging and developing countries, especially in China and Brazil. In the six-month period ended June 30, 2016, the global economy experienced weakened and more fragile momentum overall, with a weak start to the year in the United States, fragile momentum in Europe and continued economic slowdown in China. See “*Risk Factors—Risks related to our Business Operations and the Markets in which we operate—As a global supplier to the automotive and industrial sector we are exposed to substantial risks associated with the performance of the global economy in general and developments in the Eurozone, the United States and China in particular*.”

Under our matrix organization, we view our business not only in terms of divisions and functions, but have also grouped it into four regions: Europe (Western Europe, Southern Europe, Central and

Eastern Europe, Middle East, Africa and India), the Americas (the United States, Mexico, Canada and South America), Greater China (China, Hong Kong and Taiwan) and Asia/Pacific (South Korea, Japan and Southeast Asia). Momentum for revenue growth was provided by Schaeffler's Asia/Pacific region, where revenues grew by 2.0% from €664 million during the six-month period ended June 30, 2015 to €677 million during the six-month period ended June 30, 2016. Schaeffler's Europe region also contributed to our revenue growth, with revenues increasing by 1.4%, from €3,627 million during the six-month period ended June 30, 2015 to €3,679 million during the six-month period ended June 30, 2016. Revenues in Schaeffler's Greater China region increased slightly by 0.9% from €931 million during the six-month period ended June 30, 2015 to €939 million during the six-month period ended June 30, 2016. Revenues in Schaeffler's Americas region declined by 5.5% from €1,499 million during the six-month period ended June 30, 2015 to €1,417 million during the six-month period ended June 30, 2016.

Developments in the Global Automotive Market

We are a main supplier to large original equipment manufacturers ("**OEM**") and Tier 1 suppliers (*i.e.*, suppliers that sell their products directly to OEMs) 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 and consumer confidence. 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. Following the tense economic situation in the automotive markets in 2012, the Automotive Division outpaced market growth in 2013 and 2014, which was a result of the economic recovery of the automotive markets. In 2015, the Automotive Division generated growth significantly higher than the growth in the global automotive market as a result of higher demand. Our Automotive Division once again expanded considerably faster than production volumes for passenger cars and light commercial vehicles and benefited from continuing high demand for its products, especially in the key markets of China and the United States. In the six-month period ended June 30, 2016, our Automotive Division's business continued to outpace the rise in global automobile production, primarily due to the increasing value of our products installed per vehicle. From a regional perspective it was primarily high demand in China that contributed to the additional revenue. A comprehensive aftermarket business (*i.e.*, sale of spare parts and provision of services) support the growth of our Automotive revenues.

Developments in the Global Industrial Sector

Within our Industrial Division, we have customers in a variety of different sectors and sell a diverse range of applications, ranging from wind turbines to aerospace engines and dentists' drills. The high degree of diversification in our businesses as well as the stability of our aftermarket business (*i.e.*, sale of spare parts and provision of services) 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 2013, the Industrial Division was affected by overall slowing demand. In 2014, demand in the Industrial Division increased slightly, primarily driven by increased demand in our industrial aftermarket business. In 2015, the Industrial Division was affected by the lasting weakness in demand in the oil, gas, and mining sectors as well as in the aftermarket business. In the six-month

period ended June 30, 2016, the continued weakness in demand in the oil, gas, and mining sectors adversely impacted the Industrial Division's revenue.

We plan to further improve the performance of our Industrial Division through our "CORE" program, see "*Business—Strategy—Increase Profitability by Realigning our Industrial Division*."

Operating Expenses

Our key operating expenses are production costs (including raw material and energy costs), selling expenses, R&D expenses and administrative expenses.

Raw Material Costs

Most of the raw materials that we use, such as steel (flat steel or steel bars), plastics, brass, cast iron and cast aluminum, as well as non-ferrous metals, are subject to price volatility. The prices of our production materials primarily depend, directly or indirectly, on the trend in the prices of scrap steel, coking coal, iron ore and non-ferrous metals. During the fiscal years ended December 31, 2013, 2014 and 2015 and the six-month period ended June 30, 2016, prices for raw materials were subject to a slight downward trend as a result of the global deterioration in demand for raw materials, which was partly driven by the economic slowdown in China.

*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 R&D centers. For accounting purposes, such costs are predominantly expensed. Working on R&D is key to an innovative and competitive portfolio of products, which secures the Schaeffler Group's long-term profitable growth. Therefore, we are not only strengthening existing business fields, but also working on opening up new fields.

We employ approximately 7,000 people and operate a global R&D network comprising 17 R&D centers. Key locations outside Germany are China, India, Brazil and the United States. We have invested approximately 5% of our consolidated revenue in R&D in each of the fiscal years ended December 31, 2013, 2014 and 2015 and in the six-month period ended June 30, 2016 to further strengthen the foundation for promising innovations and our long-term competitive position.

The following table provides additional information on our R&D activities during the fiscal years ended December 31, 2013, 2014 and 2015 and the six-month period ended June 30, 2016:

	For the year ended December 31,			For the six-month period ended June 30,
	2013	**2014**	**2015**	**2016**
	(unaudited, unless otherwise stated)			**(unaudited)**
R&D expenses (audited and in € million)	611	622	720	378
R&D ratio (in % of revenues)	*5.5*	*5.1*	*5.4*	*5.6*
Number of R&D staff(1)	6,039	6,387	6,650	7,040

(1) Average during the respective period.

Other Expenses

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

On November 8, 2011, the EU Commission conducted an inspection of Schaeffler AG 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. In 2015, we recognized €238 million in provision for potential third party claims in connection with the EU antitrust proceedings.

We are also subject to various ongoing investigations by antitrust authorities outside the EU. There is a risk that antitrust authorities will impose additional penalties. We have recognized provisions for further expected and ongoing investigations of the South Korean and Brazilian antitrust authorities in connection with possible agreements violating antitrust law as well as for potential third party claims relating to antitrust matters, see "*Risk Factors—Legal, Regulatory and Tax Risks—We are subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims*."

Exchange Rate Fluctuations

The Schaeffler Group conducts its business in a large number of countries and several international currencies. In the fiscal year ended December 31, 2015, revenues from the two largest non-euro countries by revenue (the United States and China) accounted for 28% of our consolidated revenue. The most important currencies for the Schaeffler Group are the euro, the U.S. dollar and the Chinese Renminbi. The respective exchange rates remain volatile. Specifically, the weakening of the euro against the U.S. dollar and the Chinese Renminbi, already noticeable in 2014, continued in early 2015. Over the course of the year, the euro stabilized against the U.S. dollar while it rose slightly against the Chinese Renminbi. However, the average rates for the euro fell significantly below the prior year averages in 2015. During the six-month period ended June 30, 2016 the euro rose against the U.S. dollar and Chinese Renminbi.

As the Schaeffler Group's production capacity often matches demand on a regional basis, currency effects primarily impact currency translation, which has a considerable impact on Schaeffler AG's consolidated financial statements, as they are prepared and/or calculated in euro, as well as other Schaeffler Group key figures that are calculated in euro. Overall, currency exchange rate effects had a negative effect on the revenues generated by the Schaeffler Group during the fiscal years ended December 31, 2013 and 2014, a positive effect during the fiscal years ended December 31, 2015, and a negative effect during the six-month period ended June 30, 2016. In the fiscal year ended December 31, 2015, the Schaeffler Group's consolidated revenue increased by 3.5% excluding the impact of foreign currency translation, and 9.1% including the impact of foreign currency translation (9.0% and 8.2%, respectively, during the fiscal year ended December 31, 2014). During the six-month period ended June 30, 2016, the Schaeffler Group's consolidated revenue increased by 2.9% excluding the impact of foreign currency translation, and decreased by 0.1% including the impact of foreign currency translation.

In the future, these currency exchange rate effects may reverse and lead to a decrease or less pronounced increase in reported revenues and other key figures of the Schaeffler Group (see "*Risk Factors—Risks related to our Business Operations and the Markets in which we operate—We are exposed to risks associated with changes in exchange rates and hedging and exchange rate fluctuations could adversely affect our results of operations.*").

Financial Result

High Level of Financial Debt

Our results are significantly affected by our high level of financial debt and corresponding interest expenses. However, through various refinancing transactions we have continuously improved the costs and terms of our financing agreements over the past three years.

As of June 30, 2016, our financial debt amounted to €5,446 million (€5,442 million non-current financial debt and €4 million current financial debt), compared to €5,688 million as of December 31,

2015 (€5,685 million non-current financial debt and €3 million current financial debt), €6,414 million as of December 31, 2014 (€6,413 million non-current financial debt and €1 million current financial debt) and €5,753 million as of December 31, 2013 (€5,720 million non-current financial debt and €33 million current financial debt).

Interest expense on financial debt (including transaction costs) amounted to €448 million during the fiscal year ended December 31, 2013, €488 million during the fiscal year ended December 31, 2014, €513 million during the fiscal year ended December 31, 2015 and €145 million during the six-month period ended June 30, 2016. During the six-month period ended June 30, 2016, interest expense included €25 million in amortization of transaction costs and prepayment penalties related to the Schaeffler Group Refinancing in July 2016. In the fiscal year ended December 31, 2015, interest expense includes prepayment penalties of €173 million (prior year: €114 million) relating to the early redemption of certain Schaeffler Group Notes and the issuance of new notes with lower yields aimed at reducing our interest expenses going forward.

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—Indebtedness of the Schaeffler Group—New Schaeffler Group Facilities Agreement*."

Interest Rate Fluctuations

A large portion of our financial debt is at least partially subject to floating interest rates. While we aim to limit risks associated with interest rate changes (see "*—Interest Rate Derivatives*"), such changes may still affect our financial result.

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.

In general, 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.

Due to our refinancing activities in 2012 and 2013, we had to restructure our hedging portfolio in the fourth quarter of the fiscal year ended December 31, 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 by reducing volatility.

No new interest rate derivatives were transacted in the process of refinancing activities in 2014 and no interest rate derivatives have been entered into since 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.

Income Taxes

In the fiscal years ended December 31, 2013, 2014 and 2015, and in the six-month period ended June 30, 2016, Schaeffler AG was in substance subject to an average domestic statutory tax rate of approximately 28.3%, including corporation tax, German solidarity surcharge and trade tax. The effective tax rate during the fiscal year ended December 31, 2015 amounted to 29.2% (29.2% during the six-month period ended June 30, 2016). However, such past effective tax rates are not necessarily indicative of the Schaeffler Group's future effective tax rates. For further information on our effective tax rates in the periods under review, see "*—Results of Operations—Comparison of the Six-Month Period Ended June 30, 2015 with the Six-Month Period Ended June 30, 2016—Income*

Taxes," "*—Results of Operations—Comparison of the Fiscal Year Ended December 31, 2014 with the Fiscal Year Ended December 31, 2015—Income Taxes*" and "*—Results of Operations—Comparison of the Fiscal Year Ended December 31, 2013 with the Fiscal Year Ended December 31, 2014—Income Taxes*."

Key Factors affecting Comparability

The financial information for the periods discussed in this Offering Memorandum has been derived from the audited consolidated financial statements of Schaeffler AG as of and for the fiscal years ended December 31, 2015 and 2014.

The comparability of the financial information for the periods discussed in this Offering Memorandum has, however, been influenced by the following events, facts and developments. We believe that these factors have influenced and are likely to continue to influence the comparability of our financial information in the future.

Schaeffler Group's Regions

Until December 31, 2013, the operations of the Schaeffler Group were organized in the following regions: Europe, North America, South America and Asia/Pacific. Effective as of January 1, 2014 the Schaeffler Group's regions of operations are: Europe, Americas, Greater China and Asia/Pacific. In light of its growing importance for the global economy, Greater China was established as a separate region, while South Korea, Japan and the countries in Southeast Asia were combined to form the new region Asia/Pacific. India, previously included in the Asia/Pacific region, has become part of the region Europe, which includes Europe, the Middle East, Africa, and Russia. In addition, the former regions North and South America have been combined into the region Americas.

To ensure that regional information in our financial statements is comparable, prior year information is presented using the current year's regional organization. Therefore, the regional information for the fiscal year ended December 31, 2013 included in the audited consolidated financial statements of IBH (Schaeffler AG's legal predecessor) as of and for the fiscal year ended December 31, 2013 differs from the corresponding information in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014. Accordingly, in order to ensure comparability, in the comparison of 2014 and 2013 regional information, the 2013 regional information is derived from the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014.

Customer Allocation to Segments

The business operations of the Schaeffler Group are divided into two reporting segments in accordance with IFRS 8, the Automotive Division and the Industrial Division. Each division focuses on a specific worldwide group of customers. The allocation of customers to segments is reviewed at least annually and adjusted where necessary. In 2014, 2015 and the first half of 2016, such review resulted in the re-allocation of customers between the Automotive Division and the Industrial Division.

To ensure that segment information in our financial statements is comparable, prior year figures are presented using the current year's customer allocation. Therefore, the segment figures for the fiscal year ended December 31, 2013 included in the audited consolidated financial statements of IBH (Schaeffler AG's legal predecessor) as of and for the fiscal year ended December 31, 2013 differ from the corresponding 2013 comparative figures included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014. Accordingly, in the comparison of 2014 and 2013 segment results, the 2013 segment figures are derived from the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014. However, as the 2014 segment figures presented herein are derived from the

audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015, these 2014 segment figures have been adjusted retroactively to reflect the changes to the allocation of customers to segments that took effect in 2015. As such, the 2013 segment figures and 2014 segment figures were based on different customer allocation structures and therefore are not directly comparable.

Similarly, the segment figures for the fiscal year ended December 31, 2014 included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014 differ from the corresponding 2014 comparative figures included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015. Accordingly, in order to ensure comparability, in the comparison of 2015 and 2014 segment results, the 2014 segment figures are derived from the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015.

For the same reason, the segment figures for the six-month period ended June 30, 2015 included in the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2015 differ from the corresponding comparative figures in the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016. Accordingly, in order to ensure comparability, in the comparison of the six-month periods ended June 30, 2016 and 2015 segment results, the six-month period ended June 30, 2015 segment figures are derived from the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016.

Allocation of Procurement and Quality Assurance Expenses

Since 2015, procurement and quality assurance expenses have been reported as cost of sales, whereas such expenses were previously reported below gross profit.

To ensure that cost of sales and expenses information in our financial statements is comparable, prior year figures are presented using the current year's cost of sales and expenses allocation. Therefore, the cost of sales and expenses figures for the fiscal year ended December 31, 2014 included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014 differ from the corresponding 2014 comparative figures included in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015. Accordingly, in order to ensure comparability, in the comparison of 2015 and 2014 results, the 2014 cost of sales and expenses figures are derived from the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015. As the 2013 cost of sales and expenses figures presented herein are derived from the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014, these 2013 cost of sales and expenses figures were based on a different cost of sales and expenses allocation structure from the 2014 cost of sales and expenses figures and therefore are not directly comparable to the 2014 figures.

Allocation of Customer Payments for Development Services

In the past, customer payments for development services were presented in the consolidated income statement as service revenue. Starting in 2016, these customer payments are netted against the related development costs and reported under R&D expenses in the consolidated income statement. The change in allocation is designed to conform our presentation of these expenses to common industry practice.

To ensure that revenue and expenses information in our financial statements is comparable, prior year figures are presented using the current year's revenue and expenses allocation. Therefore, the revenue and expenses figures for the six-month period ended June 30, 2015 included in the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period

ended June 30, 2015 differ from the corresponding comparative figures for the six-month period ended June 30, 2015 included in the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016. Accordingly, in order to ensure comparability, in the comparison of the six-month periods ended June 30, 2016 and 2015 results, the six-month period ended June 30, 2015 revenue and expenses figures are derived from the unaudited consolidated financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016. The full year 2013, 2014 and 2015 revenue and expenses figures in the audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2014 and 2015 have not been adjusted retroactively to reflect this change.

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 (*i.e.*, suppliers that sell their products to Tier 1 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 materials, labor, depreciation of production machinery) as well as allocated production-related overheads.

Our raw material costs are mainly related to steel (flat steel or steel bars), plastics, brass and cast iron and cast aluminum, as well as non-ferrous metals.

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 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, increase and decrease of allowances and antitrust fines.

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. 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 U.S. dollars operations as of December 31, 2015:

	As of December 31, 2015
	(audited) (in € million)
Estimated currency risk from operations	740
Forward exchange contracts	(622)
Remaining currency risk from operations	**118**

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."

Interest income on financial debt includes interest on the Schaeffler AG Loan Notes from the Issuer.

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.

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, see "—*Financial Income*" and "—*Financial Expenses*."

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, 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.

R&D Expenses

R&D expenses include costs incurred for R&D 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.

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 2018 are based on an annual growth rate of 1.0% in each of 2015, 2014 and 2013 for each division. Depending on the underlying business and our country of operation, we use an assumed pre-tax interest rate of 13.3% in 2015, 13.7% in 2014 and 14.6% in 2013 as the weighted average cost of capital for the Automotive Division and 13.5% in 2015, 13.8% in 2014 and 14.7% in 2013 for the Industrial Division. This corresponds to a post-tax interest rate of 9.4% in 2015, 9.7% in 2014 and 10.2% in 2013 for the Automotive Division and 9.4% in 2015, 9.7% in 2014 and 10.1% in 2013 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").

These 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

If the recognition of deferred taxes is 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 carryforwards 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 represents 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 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

The following table shows our operating results for the fiscal years ended December 31, 2013, 2014 and 2015 as well as for the six-month periods ended June 30, 2015 and 2016:

	For the year ended December 31,			For the six-month period ended June 30,	
	2013	2014	2015	2015	2016
	(audited) (in € million)			(unaudited) (in € million)	
Revenue	**11,205**	**12,124**	**13,226**	**6,721**	**6,712**
Cost of sales	(8,029)	(8,708)	(9,448)	(4,837)	(4,792)
Gross profit	**3,176**	**3,416**	**3,778**	**1,884**	**1,920**
Research and development expenses	(611)	(622)	(720)	(350)	(378)
Selling expenses	(761)	(819)	(920)	(461)	(450)
Administrative expenses	(433)	(412)	(407)	(208)	(218)
Other income	72	49	57	19	15
Other expenses	(435)	(89)	(386)	(66)	(30)
EBIT	**1,008**	**1,523**	**1,402**	**818**	**859**
Financial income[(1)]	217	256	327	213	112
Financial expenses	(641)	(875)	(874)	(550)	(265)
Financial result	**(424)**	**(619)**	**(547)**	**(337)**	**(153)**
Income from equity-accounted investees[(1)]	**2**	–	–	–	–
EBT	**586**	**904**	**855**	**481**	**706**
Income taxes	(452)	(242)	(250)	(165)	(206)
Net income	**134**	**662**	**605**	**316**	**500**
Attributable to shareholders of the parent company	127	654	591	309	494
Attributable to non-controlling interests	7	8	14	7	6

(1) Since 2015, we ceased to list income from equity-accounted investees as a separate line item in our income statement due to the minimal amounts of such income, and such income has been included as part of financial income for the fiscal years ended December 31, 2014 and 2015, as well as the six-month periods ended June 2015 and 2016.

Comparison of the Six-Month Period Ended June 30, 2015 with the Six-Month Period Ended June 30, 2016

	For the six-month period ended June 30,		
	2015	2016	Change
	(unaudited) (in € million)		(unaudited) (in %)
Revenue	**6,721**	**6,712**	***(0.1)***
Cost of sales	(4,837)	(4,792)	*(0.9)*
Gross profit	**1,884**	**1,920**	***1.9***
Research and development expenses	(350)	(378)	*8.0*
Selling expenses	(461)	(450)	*(2.4)*
Administrative expenses	(208)	(218)	*4.8*
Other income	19	15	*(21.1)*
Other expenses	(66)	(30)	*(54.5)*
EBIT	**818**	**859**	***5.0***
Financial income	213	112	*(47.4)*
Financial expenses	(550)	(265)	*(51.8)*
Financial result	**(337)**	**(153)**	***(54.6)***
EBT	**481**	**706**	***46.8***
Income taxes	(165)	(206)	*24.8*
Net income	**316**	**500**	***58.2***
Attributable to shareholders of the parent company	309	494	*59.9*
Attributable to non-controlling interests	7	6	*(14.3)*

Revenue

The following table shows the revenue contributions of each of our divisions for the six-month periods ended June 30, 2015 and 2016 and the period-to-period changes in these revenue contributions:

	For the six-month period ended June 30,		
	2015	**2016**	**Change**
	(unaudited) **(in € million)**		**(unaudited)** **(in %)**
Automotive	5,069	5,179	*2.2*
Industrial	1,652	1,533	*(7.2)*
Total	**6,721**	**6,712**	***(0.1)***

Consolidated revenue decreased slightly from €6,721 million in the six-month period ended June 30, 2015 by €9 million, or 0.1%, to €6,712 million in the six-month period ended June 30, 2016. Excluding the impact of foreign currency translation, consolidated revenue increased by 2.9%. While the Automotive Division contributed revenue growth of 5.4% excluding the impact of foreign currency translation due to its revenue growth outpacing global growth in the production of passenger cars and light commercial vehicles, the Industrial Division reported a decline in revenue of 4.9% excluding the impact of foreign currency translation.

Automotive Division

The Automotive Division's revenue increased from €5,069 million in the six-month period ended June 30, 2015 by €110 million, or 2.2%, to €5,179 million in the six-month period ended June 30, 2016. Excluding the impact of foreign currency translation, revenue in the Automotive Division increased by 5.4% primarily due to its revenue growth outpacing global growth in the production of passenger cars and light commercial vehicles primarily as a result of the increasing value of our products installed per vehicle. High demand in China and the ramping up of our operations in the region contributed to the Greater China region's growth rate of 8.8% (14.2% excluding the impact of foreign currency translation). Revenue in the Asia/Pacific region was up 5.8% (9.4% excluding the impact of foreign currency translation) due to the ramping up of our operations in the region (despite vehicle production there declining by 3.3%). The Americas region reported a decrease in revenue of 3.9% (an increase of 2.4% excluding the impact of foreign currency translation), largely due to the unfavorable impact of foreign currency translation. The Europe region generated 2.4% in additional revenue (3.7% excluding the impact of foreign currency translation), primarily due to projects winding down that were not fully offset by start-ups.

Industrial Division

The Industrial Division's revenue decreased from €1,652 million in the six-month period ended June 30, 2015 by €119 million, or 7.2%, to €1,533 million in the six-month period ended June 30, 2016. Excluding the impact of foreign currency translation, revenue in the Industrial Division decreased by 4.9%. Since January 1, 2016, the Industrial Division is primarily managed based on regions due to its broad customer and business structure. All regions experienced a decline in revenue from the prior comparison period.

Revenue in the Europe region was down slightly by 1.5% (0.2% excluding the impact of foreign currency translation). Revenue trends varied widely across individual sectors. Especially the persistently low commodity prices and related weakness in the oil, gas, mining, and steel industry considerably reduced revenue in the raw materials and power transmission sectors. Rail sector and industrial distribution revenue similarly lagged considerably behind the prior year period, while the aerospace, industrial automation and offroad sectors reported revenue increases. The wind and two

wheelers sectors reported double-digit positive growth rates excluding the impact of foreign currency translation.

In the Americas region, revenue decreased by 11.3% (7.3% excluding the impact of foreign currency translation). The negative trend was primarily driven by double-digit declines in revenue in the raw materials, power transmission, rail, offroad, and industrial automation sectors. These declines were attributable to the challenging situation in the U.S. markets, particularly in the oil and gas industry. Industrial distribution also experienced percentage revenue declines in the double-digits. Excluding the impact of foreign currency translation, aerospace sector revenue rose slightly. The wind and two wheelers sectors experienced an encouraging trend, generating double-digit growth rates at constant currency.

The Greater China region reported a considerable drop in revenue of 22.2% (20.1% excluding the impact of foreign currency translation). Except for the wind and aerospace sectors, all sectors as well as industrial distribution saw double-digit declines in revenue at constant currency due to weak market requirements, the declining investing activity, and the resulting pressure on market prices.

The decrease in revenue for the Asia/Pacific region by 9.9% (4.9% excluding the impact of foreign currency translation) is primarily attributable to industrial distribution and the offroad sector.

Regions

The regional distribution (by customer location) of our revenue in the six-month periods ended June 30, 2015 and 2016 and the period-to-period changes are shown below:

	For the six-month period ended June 30,		
	2015	**2016**	**Change**
	(unaudited) **(in € million)**		**(unaudited)** **(in %)**
Europe	3,627	3,679	*1.4*
Americas	1,499	1,417	*(5.5)*
Greater China	931	939	*0.9*
Asia/Pacific	664	677	*2.0*
Total	**6,721**	**6,712**	***(0.1)***

Trends in the four Schaeffler Group regions' revenue differed in the six-month period ended June 30, 2016. Revenue in Schaeffler's Europe region was up slightly by 1.4% (2.7% excluding the impact of foreign currency translation), with the added revenue in the Automotive Division more than offsetting a slight decline in Industrial Division revenue. The Americas region reported a drop in revenue of 5.5% (an increase of 0.3% excluding the impact of foreign currency translation), primarily due to the unfavorable impact of foreign currency translation, the declining business in Brazil and lower Industrial Division revenue in the United States. The revenue trend in the Greater China and Asia/Pacific regions remained positive. Despite the unfavorable impact of foreign currency translation, these regions' revenue increased by 0.9% (5.3% excluding the impact of foreign currency translation) and 2.0% (5.9% excluding the impact of foreign currency translation), respectively, driven by the Automotive Division in both regions.

Cost of Sales

The following table shows the cost of sales of each of our divisions for the six-month periods ended June 30, 2015 and 2016 and the period-to-period changes in these costs:

	For the six-month period ended June 30,		
	2015	**2016**	**Change**
	(unaudited) (in € million)		**(unaudited) (in %)**
Automotive	(3,687)	(3,698)	*0.3*
Industrial	(1,150)	(1,094)	*(4.9)*
Total	**(4,837)**	**(4,792)**	***(0.9)***

Our cost of sales decreased from €4,837 million for the six-month period ended June 30, 2015 by €45 million to €4,792 million for the six-month period ended June 30, 2016. Our Automotive Division's cost of sales increased from €3,687 million during the six-month period ended June 30, 2015 by €11 million, or 0.3%, to €3,698 million during the six-month period ended June 30, 2016, which is less than the 2.2% revenue increase for the same period, primarily due to consistent cost improvements, a more profitable revenue mix and slightly lower material prices, partially offset by collectively bargained wage and salary increases. The Industrial Division's cost of sales decreased from €1,150 million during the six-month period ended June 30, 2015 by €56 million, or 4.9%, to €1,094 million during the six-month period ended June 30, 2016, primarily due to the unfavorable impact of volumes on fix costs, a less profitable revenue mix, and the unfavorable impact of foreign currency translation.

Gross Profit

The following table shows the gross profit of each of our divisions for the six-month periods ended June 30, 2015 and 2016 and the period-to-period changes in these profits:

	For the six-month period ended June 30,		
	2015	**2016**	**Change**
	(unaudited) (in € million, unless otherwise stated)		**(unaudited) (in %)**
Automotive			
Gross profit	1,382	1,481	*7.2*
Gross profit margin (in %)	*27.3*	*28.6*	*1.3 pts*
Industrial			
Gross profit	502	439	*(12.5)*
Gross profit margin (in %)	*30.4*	*28.6*	*(1.8) pts*
Total			
Gross profit	**1,884**	**1,920**	***1.9***
Gross profit margin (in %)	***28.0***	***28.6***	***0.6 pts***

Our gross profit increased slightly from €1,884 million for the six-month period ended June 30, 2015 by €36 million, or 1.9%, to €1,920 million for the six-month period ended June 30, 2016. During that period, the gross profit margin increased slightly from 28.0% to 28.6% due to the positive impact of volumes on fixed costs, increased production efficiency and lower raw materials prices, partially offset by collectively bargained wage and salary increases. While the Automotive Division increased its gross margin, the Industrial Division reported a decrease in gross margin.

The Automotive Division's gross profit increased from €1,382 million for the six-month period ended June 30, 2015 by €99 million, or 7.2%, to €1,481 million for the six-month period ended June 30,

2016. During the same period, the Automotive Division's profit margin increased from 27.3% by 1.3 percentage point to 28.6%.

The Industrial Division's gross profit decreased from €502 million for the six-month period ended June 30, 2015 by €63 million, or 12.5%, to €439 million for the six-month period ended June 30, 2016. Consequently, during the same period, the Industrial Division's profit margin decreased from 30.4% by 1.8 percentage points to 28.6%.

R&D Expenses

R&D expenses increased from €350 million in the six-month period ended June 30, 2015 by €28 million, or 8.0%, to €378 million in the six-month period ended June 30, 2016. Higher R&D expenses in the Automotive Division reflected increased activities aimed at offering solutions for future mobility concepts for motor vehicles, ranging from chassis innovations and optimizing the classic drive train with an internal combustion engine as well as the transmission to hybrid solutions and electric mobility applications. R&D expenses in the Industrial Division were in line with the prior year period.

In the six-month period ended June 30, 2016, R&D expenses comprised 5.6% of our revenue (in the six-month period ended June 30, 2015: 5.2%).

Selling Expenses

Selling expenses decreased from €461 million in the six-month period ended June 30, 2015 by €11 million, or 2.4%, to €450 million in the six-month period ended June 30, 2016.

Administrative Expenses

Administrative expenses increased from €208 million in the six-month period ended June 30, 2015 by €10 million, or 4.8%, to €218 million in the six-month period ended June 30, 2016.

Other Income and Other Expenses

Other income decreased from €19 million during the six-month period ended June 30, 2015 by €4 million, or 21.1%, to €15 million during the six-month period ended June 30, 2016. During the same period, other expenses decreased from €66 million by €36 million, or 54.5%, to €30 million. Other income and other expenses both regularly incorporate the impact of exchange rate fluctuations on our operating business as well as the net impact of our foreign exchange rate hedging.

EBIT

The following table shows the EBIT contributions of each of our divisions for the six-month periods ended June 30, 2015 and 2016 and the period-to-period changes in these EBIT contributions:

	For the six-month period ended June 30,		
	2015	**2016**	**Change**
	(unaudited) (in € million, unless otherwise stated)		**(unaudited) (in %)**
Automotive			
EBIT	**651**	**739**	***13.5***
EBIT margin (in %)	*12.8*	*14.3*	*1.5 pts*
Industrial			
EBIT	**167**	**120**	***(28.1)***
EBIT margin (in %)	*10.1*	*7.8*	*(2.3) pts*
Total			
EBIT	**818**	**859**	***5.0***
EBIT margin (in %)	*12.2*	*12.8*	*0.6 pts*

EBIT rose from €818 million during the six-month period ended June 30, 2015 by €41 million, or 5.0%, to €859 million during the six-month period ended June 30, 2016. The Schaeffler Group's EBIT margin of 12.8% was above the prior year period level of 12.2%. The increase in the EBIT margin by 0.6 percentage points is mainly due to higher gross profit, driven primarily by higher volumes and lower production cost, partially offset by functional costs, particularly R&D expenses.

The Automotive Division's EBIT increased from €651 million in the six-month period ended June 30, 2015 by €88 million, or 13.5%, to €739 million during the six-month period ended June 30, 2016. The Automotive Division's EBIT margin increased by 1.5 percentage points from 12.8% to 14.3%. The volume- and mix-based improvement in gross margin, increased production efficiency and lower raw materials expenses contributed to the increase while functional costs, particularly R&D expenses, had an offsetting effect.

The Industrial Division's EBIT decreased from €167 million during the six-month period ended June 30, 2015 by €47 million, or 28.1%, to €120 million for the six-month period ended June 30, 2016. The Industrial Division's EBIT margin decreased by 2.3 percentage points from 10.1% to 7.8%, mainly driven by lower volumes, the resulting lower utilization of production capacities, and a less profitable revenue mix.

Financial Result

The following table shows our financial result for the six-month periods ended June 30, 2015 and 2016 and the period-to-period changes:

	For the six-month period ended June 30,		
	2015	2016	Change
	(unaudited) (in € million)		(unaudited) (in %)
Interest expense on financial debt[1]	(362)	(145)	*(59.9)*
Interest income on shareholder loans[2]	32	33	*3.1*
Foreign exchange gains and losses	(153)	26	*>(100.0)*
Fair value changes and compensation payments on derivatives	174	(21)	*>(100.0)*
Fair value changes on embedded derivatives	(11)	(28)	*>100.0*
Interest income and expense on pensions and partial retirement obligations	(21)	(22)	*4.8*
Other	4	4	*0*
Total	**(337)**	**(153)**	***54.6***

(1) Including transaction costs.

(2) Refers to interest income received on the Schaeffler AG Loan Notes.

The Schaeffler Group's financial result improved from a net financial expense of €337 million during the six-month period ended June 30, 2015 by €184 million, or 54.6%, to a net financial expense of €153 million during the six-month period ended June 30, 2016. During that same period, the Schaeffler Group's financial result comprised total financial expense of €265 million (prior year period: €550 million) and total financial income of €112 million (prior year period: €213 million).

During the six-month period ended June 30, 2016, interest expense on financial debt amounted to €145 million (prior year period: €362 million) and includes €25 million of amortization of transaction costs and prepayment penalties incurred in connection with the Schaeffler Group Refinancing in July 2016. In the six-month period ended June 30, 2015, interest expense on financial debt included prepayment penalties of €173 million for the redemption of certain Schaeffler Group Notes.

Net foreign exchange gains on financial assets and liabilities amounted to €26 million (prior year period: net foreign exchange losses of €153 million) and resulted primarily from translating financing instruments denominated in U.S. dollar to euro. Schaeffler AG has hedged this financial debt using cross-currency derivatives and reports the resulting offsetting impact of negative €21 million (prior year period: €174 million) under "Fair value changes and compensation payments on derivatives."

During the six-month period ended June 30, 2016, changes in the fair value of embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of €28 million (prior year period: net losses of €11 million).

Interest income on loans to shareholders was €33 million (prior year period: €32 million).

Income Taxes

Income taxes for the first half of 2016 amounted to €206 million (prior year period: €165 million). The increase of €41 million resulted primarily from an increase in earnings before income taxes.

Net Income attributable to Shareholders of the Parent Company

For the reasons set forth above, net income after non-controlling interests increased from €309 million during the six-month period ended June 30, 2015 by €185 million, or 59.9%, to €494 million during the six-month period ended June 30, 2016.

Comparison of the Fiscal Year Ended December 31, 2014 with the Fiscal Year Ended December 31, 2015

	For the year ended December 31,		
	2014	2015	Change
	(audited) (in € million)		(audited) (in %)
Revenue	**12,124**	**13,226**	***9.1***
Cost of sales	(8,708)	(9,448)	*8.5*
Gross profit	**3,416**	**3,778**	***10.6***
Research and development expenses	(622)	(720)	*15.8*
Selling expenses	(819)	(920)	*12.3*
Administrative expenses	(412)	(407)	*(1.2)*
Other income	49	57	*16.3*
Other expenses	(89)	(386)	*> 100.0*
EBIT	**1,523**	**1,402**	***(7.9)***
Financial income	256	327	*27.7*
Financial expenses	(875)	(874)	*(0.1)*
Financial result	**(619)**	**(547)**	***(11.6)***
EBT	904	855	*(5.4)*
Income taxes	(242)	(250)	*3.3*
Net income	**662**	**605**	***(8.6)***
Attributable to shareholders of the parent company	654	591	*(9.6)*
Attributable to non-controlling interests	8	14	*75.0*

Revenue

The following table shows the revenue contributions of each of our divisions for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes in these revenue contributions:

	For the year ended December 31,		
	2014	2015	Change
	(audited) (in € million)		(unaudited) (in %)
Automotive	8,986	9,993	*11.2*
Industrial	3,138	3,233	*3.0*
Total	**12,124**	**13,226**	***9.1***

Consolidated revenue increased from €12,124 million in the fiscal year ended December 31, 2014 by €1,102 million, or 9.1%, to €13,226 million in the fiscal year ended December 31, 2015. Excluding the impact of foreign currency translation, consolidated revenue increased by 3.5%. The increase in consolidated revenue is primarily due to the Automotive Division, which continued to report high growth rates in the fiscal year ended December 31, 2015, driven by an increase in the value of Schaeffler products installed per vehicle. Excluding the impact of foreign currency translation, the Industrial Division's revenue decreased in the fiscal year ended December 31, 2015, primarily due to the lasting weakness in demand in the oil, gas, and mining sectors as well as in the aftermarket business.

Automotive Division

The Automotive Division's revenue increased from €8,986 million in the fiscal year ended December 31, 2014 by €1,007 million, or 11.2%, to €9,993 million in the fiscal year ended December 31, 2015. Excluding the impact of foreign currency translation, revenue in the Automotive Division increased by 5.8%. In the fiscal year ended December 31, 2015, revenue growth was primarily driven by the Greater China region (23.8%, or 6.6% excluding the impact of foreign currency translation). The Asia/Pacific (19.5%, or 10.8% excluding the impact of foreign currency translation),

the Europe (2.9%, or 2.1% excluding the impact of foreign currency translation) and the Americas (22.1%, or 13.2% excluding the impact of foreign currency translation) regions also reported strong growth. Compared to the average growth rate of regional production volumes for passenger cars and light commercial vehicles, the Automotive Division's revenue grew faster than market in all regions except for the Europe region, which was primarily due to projects winding down that were not fully offset by start-ups. The OEM business benefited particularly from the high level of demand for our products in the U.S. and strong growth in China in the first half of 2015. In addition, demand in the Asia/Pacific region picked up noticeably during the latter half of 2015. The division also profited from significant additional revenue in the aftermarket business in the Americas due to increased requirements of vehicle/automobile manufacturers and in Europe due to increased market coverage as a result of an expanded customer base. 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.

Industrial Division

The Industrial Division's revenue increased slightly from €3,138 million in the fiscal year ended December 31, 2014 by €95 million, or 3.0%, to €3,233 million in the fiscal year ended December 31, 2015. Excluding the impact of foreign currency translation, revenue in the Industrial Division decreased by 3.2%. Since January 1, 2016, the Industrial Division is primarily managed based on regions due to its broad customer and business structure. The Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial Division business in their respective markets. The market regions of the Industrial Division experienced different revenue trends. The Greater China region reported strong growth of 22.8%, or 4.1% excluding the impact of foreign currency translation, for the fiscal year ended December 31, 2015 due to the upturn in the wind subsector business. Revenue in our Asia/Pacific region decreased by 3.1%, or 11.5% excluding the impact of foreign currency translation, and revenue in our Europe region decreased by 0.1%, or 2.0% excluding the impact of foreign currency translation. Revenue in the Americas region, on the other hand, increased by 3.0%, but excluding the impact of foreign currency translation revenue decreased by 7.3%. Except for the Greater China region, revenue excluding the impact of foreign currency translation declined in all regions, which worsened in the second half of 2015.

In the fiscal year ended December 31, 2015, the Industrial Division was still primarily managed based on the business divisions of industrial applications and industrial aftermarket. Industrial applications consist of the OEM business in the industrial sector, and industrial aftermarket represented the trading, spare parts, and service businesses. In our industrial aftermarket business, revenue rose by 1.8% in the fiscal year ended December 31, 2015 compared to the fiscal year ended December 31, 2014. However, excluding the impact of foreign currency translation, revenue declined by 4.0%. The OEM business experienced revenue growth of 3.7%, but excluding the impact of foreign currency translation revenue decreased by 2.7%.

Within the OEM business, the mobility, energy and raw materials, production machinery, and aerospace sectors reported varying revenue trends. The aerospace sector reported revenue growth. However, excluding the impact of foreign currency translation, revenue declined mainly driven by the industrial gears and agricultural engineering sectors. In the motorcycle sector, on the other hand, revenue increased excluding the impact of foreign currency translation. Revenue in the energy and raw materials sector was considerably higher than in the prior year, also showing a slight increase excluding the impact of foreign currency translation. The increase was buoyed by the wind subsector (within the energy and raw materials sector) business in the Greater China and Europe regions. In contrast, the mining subsector (within the energy and raw materials sector) and the drilling equipment and conveyor systems subsector (within the production machinery sector) reported

considerably lower revenue than last year excluding the impact of foreign currency translation; reasons for the decline included decreasing demand in the oil, gas, and mining markets. The production machinery sector revenue was up slightly compared to the prior year, although it declined excluding the impact of foreign currency translation. The production machinery's most significant subsector, machine tools, and the textile and printing machinery subsectors experienced a slight decrease in revenue excluding the impact of foreign currency translation. The food processing and packaging subsectors reported a slight increase in revenue excluding the impact of foreign currency translation.

Regions

The regional distribution (by customer location) of our revenue in the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes are shown below:

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited) (in € million)		**(unaudited) (in %)**
Europe	6,908	7,054	*2.1*
Americas	2,473	2,905	*17.5*
Greater China	1,540	1,902	*23.5*
Asia/Pacific	1,203	1,365	*13.5*
Total	**12,124**	**13,226**	***9.1***

Revenue increased in each of the four regions albeit bolstered by a considerable favorable impact of currency translation. In particular, the Greater China region continued along its recent sustainable growth path and showed high growth rates, with overall growth of 23.5%.

Our Europe region grew its revenue by 2.1% despite falling oil prices as well as the sanctions and uncertainty related to the Ukraine conflict. The aftermarket business of the Automotive Division did particularly well due to increased market coverage as a result of an expanded customer base, and despite projects winding down that were not fully offset by start-ups.

Revenue growth in the Asia/Pacific region amounted to 13.5% and was particularly impacted by additional demand for the Automotive OEM business during the latter half of 2015 despite the stagnant economies of Japan and South Korea. The Americas region grew its revenue by 17.5% primarily due to the high level of demand for the Automotive OEM business in the U.S. and increased requirements of vehicle/automobile manufacturers resulted in increased Automotive aftermarket revenue, while 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, 2014 and 2015 and the year-to-year changes in these costs:

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited) (in € million)		**(unaudited) (in %)**
Automotive	(6,501)	(7,189)	*10.6*
Industrial	(2,207)	(2,259)	*2.4*
Total	**(8,708)**	**(9,448)**	***8.5***

Cost of sales increased from €8,708 million in the fiscal year ended December 31, 2014 by €740 million, or 8.5%, to €9,448 million in the fiscal year ended December 31, 2015. Cost of sales grew less than revenue, which was primarily due to consistent cost improvements and slightly lower

raw material costs in the fiscal year ended December 31, 2015 compared with the fiscal year ended December 31, 2014.

Gross Profit

The following table shows the gross profit contributions of each of our divisions for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes in these gross profit contributions:

	For the year ended December 31,		
	2014	2015	Change
	(audited) (in € million, unless otherwise stated)		(unaudited) (in %)
Automotive			
Gross profit	**2,485**	**2,804**	***12.8***
Gross profit margin (in %) (unaudited)	*27.7*	*28.1*	*0.4 pts*
Industrial			
Gross profit	**931**	**974**	***4.6***
Gross profit margin (in %) (unaudited)	*29.7*	*30.1*	*0.4 pts*
Total			
Gross profit	**3,416**	**3,778**	***10.6***
Gross profit margin (in %) (unaudited)	*28.2*	*28.6*	*0.4 pts*

Gross profit increased from €3,416 million in the fiscal year ended December 31, 2014 by €362 million, or 10.6%, to €3,778 million in the fiscal year ended December 31, 2015, with both the Automotive Division and the Industrial Division contributing to this increase. The gross profit margin increased slightly from 28.2% in the fiscal year ended December 31, 2014 by 0.4 percentage points to 28.6% in the fiscal year ended December 31, 2015. The reasons for this change include primarily cost improvements and an increasing proportion of value added locally in our growth markets and in the Automotive Division. In addition, slightly lower raw materials prices in the Industrial Division had a positive effect on our gross profit margin.

The gross profit of the Automotive Division increased from €2,485 million in the fiscal year ended December 31, 2014 by €319 million, or 12.8%, to €2,804 million in the fiscal year ended December 31, 2015. This increase was primarily due to the increase in revenue offsetting cost increases (primarily from collectively bargained wage and salary increases). Since cost of sales grew less than revenue, the gross profit margin increased slightly from 27.7% in the fiscal year ended December 31, 2014 by 0.4 percentage points to 28.1% in the fiscal year ended December 31, 2015, despite the adverse impact of currency translation in the fiscal year ended December 31, 2015. In particular, consistent cost improvements, the growing proportion of value added services locally as well as a more profitable revenue mix all positively affected profitability.

The gross profit of the Industrial Division increased from €931 million in the fiscal year ended December 31, 2014 by €43 million, or 4.6%, to €974 million in the fiscal year ended December 31, 2015. This increase was primarily due to slightly lower raw material prices compared to the prior year. Since cost of sales grew less than revenue, the gross profit margin increased slightly from 29.7% in the fiscal year ended December 31, 2014 by 0.4 percentage points to 30.1% in the fiscal year ended December 31, 2015.

R&D Expenses

R&D expenses increased from €622 million in the fiscal year ended December 31, 2014 by €98 million, or 15.8%, to €720 million in the fiscal year ended December 31, 2015. This increase primarily relates to expenses for future mobility concepts in the Automotive Division and mechatronics, sensors, and digitalization in the Industrial Division. In the Automotive Division R&D expenses largely reflect increased activities aimed at offering solutions for future mobility concepts

for motor vehicles, ranging from chassis innovations and optimizing the classic drive train with an internal combustion engine as well as the transmission to hybrid solutions and electric mobility applications. In the Industrial Division, R&D expenses reflect higher expenses for mechatronics, sensors, and digitalization.

In the fiscal year ended December 31, 2015, R&D expenses comprised 5.4% of our revenue (in the fiscal year ended December 31, 2014: 5.1%).

Selling Expenses

Selling expenses increased from €819 million in the fiscal year ended December 31, 2014 by €101 million, or 12.3%, to €920 million in the fiscal year ended December 31, 2015. Besides cost increase due to inflation, the increase was primarily due to a focused strengthening of the selling functions as well as higher revenue-related freight expenses.

Administrative Expenses

Administrative expenses decreased from €412 million in the fiscal year ended December 31, 2014 by €5 million, or 1.2%, to €407 million in the fiscal year ended December 31, 2015. Administrative expenses as a percentage of revenue decreased from 3.4% in the fiscal year ended December 31, 2014 by 0.3 percentage points to 3.1% in the fiscal year ended December 31, 2015.

Other Income and Other Expenses

The following table shows our other income for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes:

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Gains on disposal of assets	1	23	*> 100.0*
Miscellaneous income	48	34	*(29.2)*
Total	**49**	**57**	***16.3***

Other income increased from €49 million in the fiscal year ended December 31, 2014 by €8 million, or 16.3%, to €57 million in the fiscal year ended December 31, 2015.

The following table shows our other expenses for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes:

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Exchange losses	0	(40)	–
Miscellaneous expenses	(89)	(346)	*> 100.0*
Total	**(89)**	**(386)**	***> 100.0***

Other expenses increased from €89 million in the fiscal year ended December 31, 2014 by €297 million, or 333.7%, to €386 million in the fiscal year ended December 31, 2015. The increase in foreign exchange losses consist largely of exchange losses from operations and exchange losses related to forward exchange contracts. The increase in miscellaneous expenses resulted primarily from the special item of €238 million recognized in 2015 for potential third party claims in connection with the EU antitrust proceedings that were finalized in March 2014, as well as expenses of €36 million in 2015 related to the realignment of the Industrial Division.

EBIT

The following table shows the contributions to EBIT of each of our divisions for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes in these EBIT contributions:

	For the year ended December 31,		
	2014	2015	Change
	(audited) (in € million, unless otherwise stated)		(unaudited) (in %)
Automotive			
EBIT	**1,238**	**1,124**	***(9.2)***
EBIT margin (in %)	*13.8*	*11.2*	*(2.6) pts*
Industrial			
EBIT	**285**	**278**	***(2.5)***
EBIT margin (in %)	*9.1*	*8.6*	*(0.5) pts*
Total			
EBIT	**1,523**	**1,402**	***(7.9)***
EBIT margin (in %)	*12.6*	*10.6*	*(2.0) pts*

EBIT decreased from €1,523 million in the fiscal year ended December 31, 2014 by €121 million, or 7.9%, to €1,402 million in the fiscal year ended December 31, 2015. As a result, the EBIT margin decreased from 12.6% in the fiscal year ended December 31, 2014 by 2.0 percentage points to 10.6% in the fiscal year ended December 31, 2015. This decrease was primarily due to the recognition in 2015 of €238 million in provisions for potential third party claims in connection with the EU antitrust proceedings as well as €36 million related to the realignment of the Industrial Division in 2015.

The Automotive Division's total EBIT decreased from €1,238 million in the fiscal year ended December 31, 2014 by €114 million, or 9.2%, to €1,124 million in the fiscal year ended December 31, 2015. The EBIT margin decreased from 13.8% in the fiscal year ended December 31, 2014 by 2.6 percentage points to 11.2% in the fiscal year ended December 31, 2015. This decrease in the EBIT margin was attributable to the recognition in 2015 of €238 million in provisions for potential third party claims in connection with the EU antitrust proceedings as well as higher investments made in R&D and other operating expenses (for instance adjustments to staffing levels) partially offset by a slightly improved gross margin. The prior year included €22 million in legal expenses.

The Industrial Division's total EBIT decreased from €285 million in the fiscal year ended December 31, 2014 by €8 million, or 2.5%, to €278 million in the fiscal year ended December 31, 2015. The EBIT margin decreased from 9.1% in the fiscal year ended December 31, 2014 by 0.5 percentage points to 8.6% in the fiscal year ended December 31, 2015. The decrease in the EBIT margin was attributable to the expenses of €36 million in connection with the realignment of the Industrial Division. The prior year included €16 million in legal expenses.

Financial Result

The following table shows our financial results for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes:

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Financial expenses			
Interest expense on financial debt	(488)	(513)	*5.12*
Fair value changes and compensation payments on derivatives	(5)	6	*> 100.0*
Fair value changes on embedded derivatives	(66)	(96)	*45.5*
Foreign exchange losses	(244)	(224)	*(8.2)*
Interest expense on pensions and partial retirement obligations	(51)	(42)	*(17.6)*
Other	(21)	(5)	*(76.2)*
Total financial expenses	**(875)**	**(874)**	***(0.1)***
Financial income			
Interest income on shareholder loans	4	72	*> 100.0*
Fair value changes and compensation payments on derivatives	231	228	*(1.3)*
Fair value changes on embedded derivatives	11	17	*54.5*
Foreign exchange gains	0	0	*0.0*
Other	10	10	*0.0*
Total financial income	**256**	**327**	***27.7***
Financial result	**(619)**	**(547)**	***(11.6)***

Our financial result improved from a net financial expense of €619 million in the fiscal year ended December 31, 2014 by €72 million, or 11.6%, to a net financial expense of €547 million in the fiscal year ended December 31, 2015. In the fiscal year ended December 31, 2015, financial result comprised financial income of €327 million (prior year: €256 million) and financial expenses of €874 million (prior year: €875 million).

In the fiscal year ended December 31, 2015, interest expense on financial debt of €513 million (prior year: €488 million) included interest paid and accrued on our external financing arrangements of €296 million (prior year: €320 million) and prepayment penalties of €173 million (prior year: €114 million) for the redemption of certain Schaeffler Group Notes and €44 million (prior year: €44 million) in amortization of transaction costs, including those incurred in connection with past refinancing transactions.

In the fiscal year ended December 31, 2015, interest income on shareholder loans amounted to €72 million (prior year: €4 million) and resulted from interest payments from the Issuer in 2015 for the Schaeffler AG Loan Notes granted in December 2014.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of €234 million in the fiscal year ended December 31, 2015 (prior year: net gains of €226 million). This amount consisted largely of net gains on cross-currency derivatives. Changes in the fair value on embedded derivatives primarily consisted of prepayment options for external financing instruments, and resulted in net losses of €79 million in the fiscal year ended December 31, 2015 (prior year: net losses of €55 million).

In the fiscal year ended December 31, 2015, net foreign exchange losses on financial assets and liabilities amounted to €224 million (prior year: net foreign exchange losses of €244 million) and resulted primarily from translating financing instruments denominated in U.S. dollar to euro. We have hedged this financial expense using cross-currency derivatives and the resulting offsetting

impact of €234 million is reported under fair value changes and compensation payments on derivatives.

In the fiscal year ended December 31, 2015, pensions and partial retirement obligations gave rise to net interest expenses of €42 million (prior year: €51 million).

Other items generated net income of €5 million in the fiscal year ended December 31, 2015 (prior year: net expenses of €11 million).

Income Taxes

The following table shows our income tax expenses for the fiscal years ended December 31, 2014 and 2015 and the year-to-year changes:

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Current income taxes	(332)	(287)	*(13.6)*
Deferred income taxes	90	37	*(58.9)*
Income taxes	**(242)**	**(250)**	***3.3***

Income taxes increased from €242 million in the fiscal year ended December 31, 2014 by €8 million, or 3.3%, to €250 million in the fiscal year ended December 31, 2015, consisting of current tax expenses of €287 million (prior year: €332 million) and deferred tax benefit of €37 million (prior year: deferred tax benefit of €90 million).

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during 2014 and 2015. Trade tax is levied by municipalities.

The average domestic tax rate was 28.4% in the fiscal year ended December 31, 2015 (prior year: 28.3%). 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 12.5% (prior year: 12.4%). 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 2015 uses a 28.4% (prior year: 28.3%) combined trade and corporation tax rate, including solidarity surcharge, based on the consolidated financial statements of Schaeffler AG.

	For the year ended December 31,		
	2014	**2015**	**Change**
	(audited)		**(unaudited)**
	(in € million)		**(in%)**
Net income before tax	904	855	*(5.4)*
Expected tax expense	**(256)**	**(243)**	***(5.1)***
Addition/reduction due to deviating local tax bases	(8)	(7)	*(12.5)*
Foreign/domestic tax rate differences	4	14	*>100.0*
Change in tax rate and law	0	1	–
Non-recognition of deferred tax assets	6	1	*(83.3)*
Tax credits	12	6	*(50.0)*
Non-deductible expenses[1]	(29)	(26)	*(10.3)*
Taxes for previous years	21	7	*(66.7)*
Other	8	3	*(62.5)*
Reported tax expense	**(242)**	**(250)**	***3.3***

(1) Non-deductible expenses included non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries.

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 €654 million in the fiscal year ended December 31, 2014 by €63 million, or 9.6%, to €591 million in the fiscal year ended December 31, 2015.

Comparison of the Fiscal Year Ended December 31, 2013 with the Fiscal Year Ended December 31, 2014

	For the year ended December 31,		
	2013	2014	Change
	(audited) (in € million)		(audited) (in%)
Revenue	**11,205**	**12,124**	***8.2***
Cost of sales	(8,029)	(8,708)	*8.5*
Gross profit	**3,176**	**3,416**	***7.6***
Research and development expenses	(611)	(622)	*1.8*
Selling expenses	(761)	(819)	*7.6*
Administrative expenses	(433)	(412)	*(4.8)*
Other income	72	49	*(31.9)*
Other expenses	(435)	(89)	*(79.5)*
EBIT	**1,008**	**1,523**	***51.1***
Financial income(1)	217	256	*18.0*
Financial expenses	(641)	(875)	*36.5*
Financial result	**(424)**	**(619)**	***46.0***
Income from equity-accounted investees(1)	**2**	**–**	**–**
EBT	**586**	**904**	***54.3***
Income taxes	(452)	(242)	*(46.5)*
Net income	**134**	**662**	***>100.0***
Attributable to shareholders of the parent company	127	654	*>100.0*
Attributable to non-controlling interests	7	8	*14.3*

(1) Since 2015, we ceased to list income from equity-accounted investees as a separate line item in our income statement due to the minimal amounts of such income, and such income has been included as part of financial income for the fiscal years ended December 31, 2014 and 2015, as well as the six-month periods ended June 2015 and 2016.

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:

	For the year ended December 31,		
	2013	2014	Change
	(audited) (in € million)		(unaudited) (in%)
Automotive	8,164	8,986	*10.1*
Industrial	3,041	3,138	*3.2*
Total	**11,205**	**12,124**	***8.2***

Consolidated revenue increased from €11,205 million in the fiscal year ended December 31, 2013 by €919 million, or 8.2%, to €12,124 million in the fiscal year ended December 31, 2014. Excluding the impact of foreign currency translation, consolidated revenue increased by 9.0%. The Automotive Division continued to report high growth rates in the fiscal year ended December 31, 2014, driven by product ramp-ups and new customer projects. The Automotive Division gained additional market share worldwide. The Industrial Division's revenue increased slightly in the fiscal year ended December 31, 2014, driven primarily by our industrial aftermarket business.

Automotive Division

The Automotive Division's revenue increased from €8,164 million in the fiscal year ended December 31, 2013 by €822 million, or 10.1%, to €8,986 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%), Americas (8.0%) and Asia/Pacific (7.0%) 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, the Automotive Division's 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.

Industrial Division

The Industrial Division's revenue increased slightly from €3,041 million in the fiscal year ended December 31, 2013 by €97 million, or 3.2%, to €3,138 million in the fiscal year ended December 31, 2014. Excluding the impact of foreign 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 subsectors. 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 subsectors, remained weak. Revenue in the printing machinery subsector 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 subsector experienced a strong upward trend in the Greater China region compared to 2013, decreases in the mining subsector, primarily in the Americas region, and declining revenue volumes in the metal production and processing subsector 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.

Regions

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:

	For the year ended December 31,		
	2013[1]	2014	Change
	(audited) (in € million)		(unaudited) (in %)
Europe	6,526	6,908	*5.9*
Americas	2,359	2,473	*4.8*
Greater China	1,190	1,540	*29.4*
Asia/Pacific	1,130	1,203	*6.5*
Total	**11,205**	**12,124**	***8.2***

(1) We realigned our regions effective January 1, 2014, see *"—Key Factors affecting Comparability—Schaeffler Group's Regions*." The regional distribution of our revenue for the fiscal year ended December 31, 2013 is presented based on the 2014 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, with overall growth of 29.4%. 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 5.9% 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 amounted to 6.5% and 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. This led to overall revenue growth of the Americas region of 4.8%.

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:

	For the year ended December 31,		
	2013	2014	Change
	(audited) (in € million)		(unaudited) (in %)
Automotive	(5,960)	(6,501)	*9.1*
Industrial	(2,069)	(2,207)	*6.7*
Total	**(8,029)**	**(8,708)**	***8.5***

Cost of sales increased from €8,029 million in the fiscal year ended December 31, 2013 by €679 million, or 8.5%, to €8,708 million in the fiscal year ended December 31, 2014. Personnel-related structural measures at the production locations in Schweinfurt and Wuppertal resulted in 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:

	For the year ended December 31,		
	2013	2014	Change
	(audited) (in € million, unless otherwise stated)		(unaudited) (in %)
Automotive			
Gross profit	**2,204**	**2,485**	***12.7***
Gross profit margin (in %) (unaudited)	*27.0*	*27.7*	*0.7 pts*
Industrial			
Gross profit	**972**	**931**	***(4.2)***
Gross profit margin (in %) (unaudited)	*32.0*	*29.7*	*(2.3) pts*
Total			
Gross profit	**3,176**	**3,416**	***7.6***
Gross profit margin (in %) (unaudited)	*28.3*	*28.2*	*(0.1) pts*

Gross profit increased from €3,176 million in the fiscal year ended December 31, 2013 by €240 million, or 7.6%, to €3,416 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 decreased slightly from 28.3% in the fiscal year ended December 31, 2013 by 0.1 percentage points to 28.2% in the fiscal year ended December 31, 2014.

The gross profit of the Automotive Division increased from €2,204 million in the fiscal year ended December 31, 2013 by €281 million, or 12.7%, to €2,485 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 0.7 percentage points to 27.7% 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 €972 million in the fiscal year ended December 31, 2013 by €41 million, or 4.2%, to €931 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 32.0% in the fiscal year ended December 31, 2013 by 2.3 percentage points to 29.7% 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 €11 million, or 1.8%, to €622 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 R&D. 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 5.1% 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 €58 million, or 7.6%, to €819 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 from €433 million in the fiscal year ended December 31, 2013 by €24 million, or 4.8%, to €412 million in the fiscal year ended December 31, 2014. Administrative expenses as a percentage of revenue decreased from 3.9% in the fiscal year ended December 31, 2013 by 0.5 percentage points to 3.4% in the fiscal year ended December 31, 2014.

Other Income and Other Expenses

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

	For the year ended December 31,		
	2013	**2014**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Exchange gains[1]	35	–	–
Reversal of provisions[1]	1	–	–
Reduction of allowances[1]	3	–	–
Gains on disposal of assets	3	1	*(66.7)*
Miscellaneous income[1]	30	48	*60.0*
Total	**72**	**49**	***(31.9)***

(1) For 2014, miscellaneous income includes exchange gains, reversal of provisions, and reduction of allowances, which were listed separately for 2013.

Other income decreased from €72 million in the fiscal year ended December 31, 2013 by €23 million, or 31.9%, to €49 million in the fiscal year ended December 31, 2014. The change resulted primarily from a decrease in exchange gains realized in 2013 on foreign exchange contracts hedging receivables and liabilities denominated in U.S. dollars, partially offset by a reversal of the unutilized portion of the provision for the investigations of the EU antitrust authorities in 2014.

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

	For the year ended December 31,		
	2013	**2014**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Increase in allowances[1]	(6)	–	–
Losses on disposal of assets[1]	(4)	–	–
Miscellaneous expenses[1]	(425)	(89)	*(79.1)*
Total	**(435)**	**(89)**	***(79.5)***

(1) For 2014, miscellaneous expenses include increase in allowances and losses on disposal of assets, which were listed separately for 2013.

Other expenses decreased from €435 million in the fiscal year ended December 31, 2013 by €346 million, or 79.5%, to €89 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 South Korean and Brazilian antitrust authorities. Miscellaneous other expenses included expenses for commissions for guarantees.

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:

	For the year ended December 31,		
	2013	**2014**	**Change**
	(audited) **(in € million, unless otherwise stated)**		**(unaudited)** **(in %)**
Automotive			
EBIT	**683**	**1,238**	***81.3***
EBIT margin (in %)	*8.4*	*13.8*	*5.4 pts*
Industrial			
EBIT	**325**	**285**	***(12.3)***
EBIT margin (in %)	*10.7*	*9.1*	*(1.6) pts*
Total			
EBIT	**1,008**	**1,523**	***51.1***
EBIT margin (in %)	*9.0*	*12.6*	*3.6 pts*

EBIT increased from €1,008 million in the fiscal year ended December 31, 2013 by €515 million, or 51.1%, to €1,523 million in the fiscal year ended December 31, 2014. As a result, the EBIT margin increased from 9.0% in the fiscal year ended December 31, 2013 by 3.6 percentage points to 12.6% 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 €683 million in the fiscal year ended December 31, 2013 by €555 million, or 81.3%, to €1,238 million in the fiscal year ended December 31, 2014. The EBIT margin increased from 8.4% in the fiscal year ended December 31, 2013 by 5.4 percentage points to 13.8% 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 €325 million in the fiscal year ended December 31, 2013 by €40 million, or 12.3%, to €285 million in the fiscal year ended December 31, 2014. The EBIT margin decreased from 10.7% in the fiscal year ended December 31, 2013 by 1.6 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:

	For the year ended December 31,		
	2013	2014	Change
	(audited) (in € million)		(unaudited) (in %)
Financial expenses			
Interest expense on financial debt	(448)	(488)	*8.9*
Fair value changes and compensation payments on derivatives[1]	(99)	(5)	*(94.9)*
Fair value changes on embedded derivatives[1]	–	(66)	–
Foreign exchange losses	0	(244)	*> (100.0)*
Amortization of cash flow hedge accounting reserve[2]	2	–	–
Interest expense on pensions and partial retirement obligations	(50)	(51)	*2.0*
Other[2]	(46)	(21)	*(54.3)*
Total financial expenses	**(641)**	**(875)**	***(36.5)***
Financial income			
Interest income on shareholder loans	–	4	–
Fair value changes and compensation payments on derivatives[1]	114	231	*> 100.0*
Fair value changes on embedded derivatives[1]	–	11	–
Foreign exchange gains	88	0	*(100.0)*
Other[3]	15	10	*(33.3)*
Total financial income	**217**	**256**	***18.0***
Financial result	**(424)**	**(619)**	***(46.0)***

(1) For 2013, fair value changes and compensation payments on derivatives includes fair value changes on embedded derivatives, which were listed separately for 2014.

(2) For 2014, other financial expenses include amortization of cash flow hedge accounting reserve, which were listed separately for 2013.

(3) Includes income from equity-accounted investees for the fiscal year ended December 31, 2014, which was included as a separate line item for the fiscal year ended December 31, 2013.

Our financial result declined from a net financial expense of €424 million in the fiscal year ended December 31, 2013 by €195 million, or 46.0%, to a net financial expense of €619 million in the fiscal year ended December 31, 2014. In the fiscal year ended December 31, 2014, financial result comprised financial income of €256 million (prior year: €217 million) and financial expenses of €875 million (prior year: €641 million).

In the fiscal year ended December 31, 2014, interest expense on financial debt of €488 million (prior year: €448 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 IHO Beteiligungs.

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 certain Schaeffler Group Notes 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, 2014, 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.

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

Other items generated net expenses of €11 million in the fiscal year ended December 31, 2014 (prior year: €31 million).

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:

	For the year ended December 31,		
	2013	**2014**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Current income taxes	(310)	(332)	*7.1*
Deferred income taxes	(142)	90	*> (100.0)*
Income taxes	**(452)**	**(242)**	***(46.5)***

Income taxes decreased from €452 million in the fiscal year ended December 31, 2013 by €210 million, or 46.5%, to €242 million in the fiscal year ended December 31, 2014, consisting of current tax expenses of €332 million (prior year: €310 million) and deferred tax benefit of €90 million (prior year: deferred tax expenses of €142 million).

As a corporation, Schaeffler AG 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: 28.1%) combined trade and corporation tax rate, including solidarity surcharge, based on the consolidated financial statements of Schaeffler AG.

	For the year ended December 31,		
	2013	2014	Change
	(audited) (in € million)		(unaudited) (in %)
Net income before tax	586	904	*54.3*
Expected tax expense	**(164)**	**(256)**	***56.1***
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)	6	*> (100.0)*
Tax credits	7	12	*(71.4)*
Non-deductible expenses[1]	(217)	(29)	*(86.6)*
Taxes for previous years	(26)	21	*> (100.0)*
Other	(7)	8	*> (100.0)*
Reported tax expense	**(452)**	**(242)**	***(46.5)***

(1) 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 offsetting impact of capitalizing 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 "*Risk Factors—Legal, Regulatory and Tax Risks—Tax audits may lead to a substantial increase of our tax burden for past periods*."

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 €127 million in the fiscal year ended December 31, 2013 by €527 million, or 415.0%, to €654 million in the fiscal year ended December 31, 2014.

Liquidity and Capital Resources

For the fiscal years ended December 31, 2013, 2014, 2015 as well as for the six-month periods ended June 30, 2015 and 2016, our principal source of liquidity was cash generated from operating activities. As of June 30, 2016, we had cash and cash equivalents totaling €572 million as well as a credit line from the Old Schaeffler Group Facilities Agreement of €1,000 million, of which €13 million was utilized as of June 30, 2016, primarily in the form of letters of credit. We expect to meet our working capital, capital expenditures according to cash flow statement, dividend payment and investment requirements for the next twelve months primarily through cash flows from operating activities. 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.

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

	For the year ended December 31,			For the six-month period ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
		(audited) **(in € million)**		**(unaudited)** **(in € million)**	
Operating Activities					
EBIT	1,008	1,523	1,402	818	859
Interest paid	(605)	(520)	(508)	(379)	(107)
Interest received	8	8	43	40	73
Income taxes paid	(378)	(277)	(358)	(158)	(161)
Dividends received	1	1	0	0	0
Depreciation, amortization and impairments	652	649	694	343	358
(Gains) losses on disposal of assets	1	1	(18)	0	1
Changes in:					
Inventories	(101)	(108)	(75)	(41)	(112)
Trade receivables	(108)	(142)	(79)	(245)	(264)
Trade payables	227	129	38	53	89
Provisions for pensions and similar obligations	(44)	(27)	(9)	6	(19)
Other assets, liabilities and provisions	366	(337)	242	(15)	60
Cash from operating activities[(1)]	**1,027**	**900**	**1,372**	**422**	**777**
Investing activities					
Proceeds from disposals of property, plant and equipment	15	8	26	8	1
Capital expenditures on intangible assets	(18)	(50)	(48)	(18)	(10)
Capital expenditures on property, plant and equipment	(554)	(807)	(977)	(483)	(551)
Other investing activities	3	(3)	(3)	(1)	(1)
Cash used in investing activities	**(554)**	**(852)**	**(1,002)**	**(494)**	**(561)**
Financing activities					
Dividends paid to shareholders and non-controlling interests	(1)	(1)	(251)	(251)	(329)
Proceeds from issuing shares	0	0	810	0	0
Receipts from loans	27	727	207	215	1
Repayments of loans	(649)	(429)	(1,175)	(209)	(208)
Change in financial allocation account with the Issuer	(91)	0	–	–	–
Other financing activities	132	(26)	197	85	98
Cash provided by (used in) financing activities	**(582)**	**271**	**(212)**	**(160)**	**(438)**
Net increase (decrease) in cash and cash equivalents	**(109)**	**319**	**158**	**(232)**	**(222)**
Effects of foreign exchange rate changes on cash and cash equivalents	(24)	17	5	16	(5)
Cash and cash equivalents as at beginning of period	433	300	636	636	799
Cash and cash equivalents as at end of period	**300**	**636**	**799**	**420**	**572**

(1) Excluding interest payments, cash flows from operating activities amounted to €1,632 million, €1,420 million and €1,880 million for the fiscal years ended December 31, 2013, 2014 and 2015, respectively, and €801 million and €884 million for the six-month periods ended June 30, 2015 and 2016, respectively.

Liquidity

Cash Flows for the Six-Month Periods Ended June 30, 2015 and 2016

Cash from Operating Activities

The Schaeffler Group's cash flows from operating activities increased from €422 million for the six-month period ended June 30, 2015 by €355 million, or 84.1%, to €777 million for the six-month period ended June 30, 2016, primarily due to significantly lower interest payments as well as higher EBITDA. The decrease in interest paid during the six-month period ended June 30, 2016 primarily reflects prepayment penalties of €173 million for the redemption of certain Schaeffler Group Notes in the first half of 2015.

Cash used in Investing Activities

Driven by higher capital expenditure, cash used in investing activities rose from €494 million during the six-month period ended June 30, 2015 by €67 million, or 13.6%, to €561 million during the six-month period ended June 30, 2016.

We incurred capital expenditures on intangible assets and property, plant and equipment of €561 million for the six-month period ended June 30, 2016, more than the corresponding amount for the six-month period ended June 30, 2015 of €501 million.

The Schaeffler Group's capex ratio for intangible assets and property, plant and equipment was 8.4% of consolidated revenue in the six-month period ended June 30, 2016 (prior year period: 7.5%).

Cash provided by/(used in) Financing Activities

Cash outflow for financing activities increased by €278 million, from €160 million during the six-month period ended June 30, 2015 to €438 million during the six-month period ended June 30, 2016. This increase is primarily due to €328 million of ordinary dividend and special dividend paid to Schaeffler AG's shareholders and €207 million used to partially prepay the Old Schaeffler Group Facilities Agreement and to terminate the related cross-currency derivatives in May 2016. €245 million of the €329 million in dividends paid during the second quarter of 2016 represent the dividend paid to the Issuer while €83 million represent the dividend paid to shareholders of the free float. The prior year period amount was due to a refinancing of certain Schaeffler Group Notes resulting in cash inflows of €204 million that were used to finance transaction costs and the prepayment penalty for the redemption of these notes. The prepayment penalty in the amount of €173 million is included in cash flows from operating activities. Furthermore, other financing activities in the six-month period ended June 30, 2016 include a cash inflow of €98 million received by Schaeffler AG from the Issuer in partial repayment of an outstanding Schaeffler AG Loan Note (prior year period: €85 million). For additional information on this Schaeffler AG Loan Note, see "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes.*"

Cash Flows for the Fiscal Years Ended December 31, 2014 and 2015

Cash from Operating Activities

Cash flows from operating activities increased by €472 million, or 52.4%, from €900 million in the fiscal year ended December 31, 2014 to €1,372 million in the fiscal year ended December 31, 2015. The increase was primarily due to an improvement in operating activities in 2015. In addition, the prior year amount was affected by the payment of the EU antitrust penalty of €371 million. The increase in cash flows from operating activities was also due to lower interest paid and higher interest received in 2015 compared to 2014. The increase was partially offset by income taxes paid, which increased by €81 million to €358 million (prior year: €277 million) in the fiscal year ended December 31, 2015.

Cash used in Investing Activities

Cash outflow for investing activities increased from €852 million in the fiscal year ended December 31, 2014 by €150 million, or 17.6%, to €1,002 million in the fiscal year ended December 31, 2015, driven by higher capital expenditures on intangible assets and property, plant and equipment. This increase was also due to an expansion of capacity and functionalities as well as product start-ups and necessary asset replacements. The increase in investing activities is designed to facilitate future growth.

We incurred capital expenditures on intangible assets and property, plant and equipment of €1,025 million for the fiscal year ended December 31, 2015, more than the corresponding amount for the fiscal year ended December 31, 2014 of €857 million.

This increase was primarily due to an expansion of capacity at manufacturing locations in our growth regions, new product start-ups as well as equipment replacements, rationalizations, and the addition of functionalities to maintain our quality and the reliability of supply and increase productivity. Of the €1,025 million in total capital expenditures on intangible assets and property, plant and equipment, we invested €556 million in Europe, primarily focusing on expanding capacity and functionalities in order to strengthen our competitive position and €170 million, €250 million and €49 million in our Americas, Greater China and Asia/Pacific regions, respectively.

Cash provided by/(used in) Financing Activities

Cash flows from financing activities changed from an inflow of €271 million in the fiscal year ended December 31, 2014 by €483 million to a cash outflow of €212 million in the fiscal year ended December 31, 2015, primarily due to a refinancing of certain Schaeffler Group Notes, dividends paid to shareholders and non-controlling interests and the partial prepayment of the Old Schaeffler Group Facilities Agreement. Refinancing certain Schaeffler Group Notes resulted in cash inflows of €204 million that were used to finance transaction costs and prepayment penalties. The payments of the prepayment penalties and transaction costs are included in cash flows from operating activities. €250 million of the €251 million in dividends paid represented the dividend paid to the Issuer. Furthermore, other financing activities include cash inflows of €197 million received by Schaeffler AG from the Issuer in partial repayment of a Schaeffler AG Loan Note. The IPO resulted in cash inflows, net of transaction costs, of €810 million that were used to partially prepay the Old Schaeffler Group Facilities Agreement. Total net partial prepayments made during 2015 amounted to €1,175 million.

Cash Flows for the Fiscal Years Ended December 31, 2013 and 2014

Cash from Operating Activities

Cash flows from operating activities decreased by €127 million, or 12.4%, from €1,027 million in the fiscal year ended December 31, 2013 to €900 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, which impacted the change in other assets, liabilities and provisions, and the prepayment penalty of €114 million paid in connection with the refinancing transaction completed in May 2014. The favorable impact of the €515 million increase in EBIT to €1,523 million (prior year: €1,008 million) and the €186 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 €121 million in the fiscal year ended December 31, 2014, as compared to a cash inflow of €18 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 an expansion of capacity and functionalities as well as product start-ups and necessary asset replacements.

We incurred capital expenditures on intangible assets and property, plant and equipment of €857million for the fiscal year ended December 31, 2014, more than the corresponding amount for the fiscal year ended December 31, 2013 of €572 million.

This increase was primarily due to an expansion of capacity at manufacturing locations in our growth regions, new product start-ups as well as equipment replacements, rationalizations, and the addition of functionalities to maintain our excellent quality and the reliability of supply and increase productivity.

Cash provided by/(used in) Financing Activities

Cash flows from financing activities changed from an outflow of €582 million in the fiscal year ended December 31, 2013 by €853 million to a cash inflow of €271 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 funds of €171 million were used to partially prepay debt, financed largely by a loan of €168 million from the Issuer. In addition, cash of €26 million was used in other financing activities.

Capital Resources

The following table shows an overview of our available liquidity for the following dates:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(unaudited, unless otherwise stated) (in € million)			(unaudited) (in € million)
Cash and cash equivalents (audited)	300	636	799	572
Credit lines and available financing from banks	951	966	976	987
Total	**1,251**	**1,602**	**1,775**	**1,559**

At June 30, 2016, cash and cash equivalents was €572 million, a decrease of €277 million, or 28.4%, from €799 million at December 31, 2015, due to an increase in the cash used by investing activities as well as an increase of cash used in financing activities. As of June 30, 2016, credit lines and available financing from banks in the amount of €987 million were available to us, primarily in the form of letters of credit.

At December 31, 2015, cash and cash equivalents amounted to €799 million (prior year: €636 million) and consisted primarily of bank balances. €198 million (prior year: €172 million) of this amount related to countries with foreign exchange restrictions and other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted. At December 31, 2015, cash and cash equivalents of €449 million (prior year: €296 million) were pledged as collateral under loan and bond agreements.

At December 31, 2014, cash and cash equivalents was €636 million, an increase of €336 million, or 112.0%, from the prior period, mainly due to cash provided by financing activities.

Financial Debt

Sources of Financing

As of June 30, 2016, our financial debt amounted to €5,446 million (€5,442 million non-current financial debt and €4 million current financial debt), compared to €5,688 million as of December 31, 2015, (€5,685 million non-current financial debt and €3 million current financial debt), €6,414 million as of December 31, 2014 (€6,413 million non-current financial debt and €1 million current financial debt) and €5,753 million as of December 31, 2013 (€5,720 million non-current financial debt and €33 million current financial debt). This decrease between December 31, 2015 and June 30, 2016 mainly relates to the partial prepayment of the Old Schaeffler Group Facilities Agreement and the impact of translating the financial debt denominated in U.S. dollar to euro. The decrease between December 31, 2014 and December 31, 2015 was mainly due to partial repayments of the Old Schaeffler Group

Facilities Agreement from proceeds from the IPO, partially offset by the impact of translating the financial debt denominated in U.S. dollar to euro.

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

New Schaeffler Group Facilities Agreement

As of June 30, 2016, the Old Schaeffler Group Facilities Agreement had a carrying amount of €417 million.

On July 18, 2016, we entered into a new €2,300 million syndicated term loan and revolving credit facilities agreement (the "**New Schaeffler Group Facilities Agreement**") consisting of:

- a €1,000 million term loan facility ("**New Schaeffler Group Term Facility**"), accrued interest on which is payable in cash and which matures (subject to an uncommitted extension option for an extension of the final maturity date by one year) on the fifth anniversary of the date of the New Schaeffler Group Facilities Agreement; and
- a €1,300 million revolving credit facility (the "**New Schaeffler Group Revolving Facility**" and, together with the New Schaeffler Group Term Facility, the "**New Schaeffler Group Facilities**"), accrued interest on which is payable in cash and which matures (subject to an uncommitted extension option for an extension of the final maturity date by up to two years) on the fifth anniversary of the date of the New Schaeffler Group Facilities Agreement.

For a detailed description of the New Schaeffler Group Facilities Agreement, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—New Schaeffler Group Facilities Agreement*."

On July 29, 2016, Schaeffler AG partially drew its €1,000 million New Schaeffler Group Term Facility to pay down its €417 million outstanding balance under the Old Schaeffler Group Facilities Agreement, together with cash on balance and €35 million in proceeds received from the close-out of cross-currency hedging arrangements Schaeffler AG entered into in connection with the Old Schaeffler Group Facilities Agreement. On August 18, 2016, Schaeffler AG used the remaining commitments under the New Schaeffler Group Term Facility to redeem €600 million (or 100.0%) in aggregate principal amount of its 4.25% senior secured notes due 2018 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 29, 2013 (the "**Redeemed Schaeffler Group April 2013 Notes**").

Schaeffler Group Notes

As of June 30, 2016, the Schaeffler Group Notes had a carrying value of €5,020 million. For more information on the Schaeffler Group Notes, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes.*"

On August 18, 2016, Schaeffler Finance B.V. redeemed the Redeemed Schaeffler Group April 2013 Notes. The redemption was funded with drawings under the New Schaeffler Group Facilities.

As of the date of this Offering Memorandum, Schaeffler Finance B.V., a wholly owned subsidiary of Schaeffler AG, had the following notes outstanding:

- $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 29, 2013 (the "**Outstanding Schaeffler Group 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 by Schaeffler Finance

B.V. pursuant to an indenture dated May 14, 2014 (together, the "**Schaeffler Group May 2014 Senior Secured Notes**"), and €500 million in aggregate principal amount of 3.25% senior notes due 2019 issued by Schaeffler Finance B.V. pursuant to an indenture dated May 14, 2014 (the "**Schaeffler Group May 2014 Senior Notes**" and, together with the Schaeffler Group May 2014 Senior Secured Notes, the "**Schaeffler Group May 2014 Notes**"); and

- €400 million in aggregate principal amount of 2.50% senior secured notes due 2020, €600 million in aggregate principal amount of 3.25% senior secured notes due 2025 and $600 million in aggregate principal amount of 4.75% senior secured notes due 2023 issued by Schaeffler Finance B.V. pursuant to an indenture dated April 13, 2015 (together, the "**Schaeffler Group April 2015 Notes**" and, together with the Outstanding Schaeffler Group April 2013 Notes and the Schaeffler Group May 2014 Notes, the "**Schaeffler Group Notes**").

Schaeffler AG intends to use the funds it receives from the Issuer as a result of the full repayment of the Schaeffler AG Loan Notes with the net proceeds of the Offering and its drawings under the Issuer Facilities Agreement, to redeem the Outstanding Schaeffler Group April 2013 Notes and the repayment of other outstanding indebtedness. See "*Use of Proceeds*."

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 June 30, 2016, our financial debt amounted to €5,446 million, of which €4,949 million was secured. Financial debt of €4 million had a term of up to one year, and financial debt of €5,442 million had a term of more than one year.

The following table summarizes the principal payments we were obligated to make as of June 30, 2016 under current and non-current debt obligations after giving *pro forma* effect to the Transactions and the Schaeffler Group Refinancing, see "*Capitalization*."

	Payments due by period						
	Total	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
				(unaudited) (in € million)			
New Schaeffler Group Facilities	**1,000**	–	–	–	–	–	**1,000**
Schaeffler Group Notes	**3,671**	–	–	–	**1,000**	**400**	**2,271**
EUR Notes	*2,500*	–	–	–	*1,000*	*400*	*1,100*
USD Notes(1)	*1,171*	–	–	–	–	–	*1,171*
Other financial debt(2)	9	4	5	–	–	–	–
***Pro forma* Financial debt (current and non-current)**	**4,680**	**4**	**5**	–	**1,000**	**400**	**3,271**

(1) For presentational purposes, unless otherwise indicated, any U.S. dollar amounts have been converted into euro at an exchange rate of $1.1102 to €1.00 as of June 30, 2016.

(2) Includes € 4 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 June 30, 2016 (except as otherwise indicated) after giving *pro forma* effect to the Transactions and the Schaeffler Group Refinancing:

	Payments due by period			
	Total	**Up to 1 year**	**1-5 years**	**More than 5 years**
		(unaudited) (in € million)		
Financial debt[1]	4,680	4	2,036	2,640
Operating lease obligations[2]	126	56	64	6
Trade payables	1,384	1,384	–	–
Other non-derivative financial liabilities	455	448	7	–
Non-derivative financial liabilities	**6,645**	**1,892**	**2,107**	**2,646**
Derivative financial liabilities	**58**	**58**	**–**	**–**
Total	**6,703**	**1,950**	**2,107**	**2,646**

(1) Only includes payments of principal.

(2) As of December 31, 2015.

Non-recognized contingent liabilities and other obligations

As of June 30, 2016, we had contingent liabilities of €25 million (as of December 31, 2015: €23 million), consisting primarily of claims raised by current and former employees as well as possible reassessments issued by foreign (*e.g.*, Indian and Brazilian) tax authorities. Due to the remote probability of an outflow of resources, these liabilities do not meet the conditions to be recognized as provisions. In addition, we are subject to several industrywide antitrust investigations. Apart from potential penalties from antitrust authorities, there is also a risk that third parties may claim damages resulting from antitrust proceedings that are either ongoing or have been finalized. As of December 31, 2015, we recognized provisions for a portion of these investigations and potential claims for damages, see "*—Key Factors affecting Results of Operations—Operating Expenses—Other Expenses*." Additional penalties or claims for damages cannot be ruled out, but cannot currently be estimated. See "*Risk Factors—Legal, Regulatory and Tax Risks—We are subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims*." As of June 30, 2016, our contingent liabilities position in connection with investigations for possible agreements violating antitrust laws and third party claims for damages as well as legal cases were largely unchanged.

Antitrust Investigations

Since 2011, various antitrust authorities, including in the United States, have been investigating several manufacturers of bearings and other products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted practices violating antitrust laws. Schaeffler AG conducted 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, Regulatory and Tax 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 June 30, 2016:

	As of June 30, 2016				
	Germany	United States	United Kingdom	Other	Total
			(unaudited) (in € million)		
DBO[1]	2,310	241	224	267	3,042
Plan assets	(149)	(170)	(232)	(145)	(696)
Funded status (in %)	***6***	***70***	***104***	***54***	***23***
Statement of financial position					
Provisions for pensions (liabilities net of related plan assets)	(2,161)	(71)	(4)	(122)	(2,358)
Pension assets (plan assets net of related liabilities)	0	0	12	0	12
Net balance sheet obligations	**(2,161)**	**(71)**	**8**	**(122)**	**(2,346)**

(1) Including other employee benefits similar to pensions.

We grant our employees various types of pension benefits (comprising defined contribution and defined benefit plans). 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. As of June 30, 2016, 70% (73% as of December 31, 2015) of pension obligations in the U.S. and 104% (113% as of December 31, 2015) of pension obligations in the United Kingdom were covered by plan assets.

As of June 30, 2016, the net provision for pensions and similar obligations in the statement of financial position comprises a defined benefit obligation of €3,042 million and a market value of plan assets of €696 million. This is presented in the statement of financial position as a provision for pensions and similar obligations of €2,358 million. Some overfunded plans lead to plan assets of €12 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 decreased to 1.8% as of June 30, 2016 (2.6% as of December 31, 2015). The resulting revaluation of our obligations under defined benefit pension plans resulted in actuarial losses of €413 million in the six-month period ended June 30, 2016, which were recognized in the consolidated statement of comprehensive income and are reported under accumulated other comprehensive income net of deferred taxes.

Share Capital of Schaeffler AG

Prior to the IPO, the issued share capital of Schaeffler AG amounted to €600 million, divided into 60 million registered no-par-value shares. Prior to the IPO, the Issuer held 83.3% of Schaeffler AG's share capital and IHO Beteiligungs held 16.7% of Schaeffler AG's share capital. In preparation for the IPO, on September 8, 2015, Schaeffler AG's extraordinary shareholders' meeting resolved to re-divide Schaeffler AG's 60 million registered no-par-value shares. Each registered no-par-value share representing an interest in share capital of €10 was replaced by 10 registered no-par-value shares representing an interest in share capital of €1.00 (10-for-1 share split). This change re-divided Schaeffler AG's share capital into 600 million registered common no-par-value shares, of which 500 million registered no-par-value shares were held by the Issuer and 100 million registered no-par-value shares were held by IHO Beteiligungs. Following the re-division, all of Schaeffler AG's shares were converted to bearer shares. The extraordinary shareholders' meeting also resolved to convert the shares held by IHO Beteiligungs into 100 million common non-voting bearer shares with preferred dividend payments with no par value (*Stückaktien*). Furthermore, the extraordinary

shareholders' meeting resolved to increase Schaeffler AG's share capital through the issuance of 66 million common non-voting bearer shares with preferred dividend payments with no par value (*Stückaktien*) against cash contributions. Thereafter, Schaeffler AG's share capital amounted to €666 million divided into 500 million common voting bearer shares (all held by the Issuer and representing 100% of the voting rights and 75.1% of the share capital) and 166 million common non-voting bearer shares with preferred dividend payments, each with a notional value of €1.00.

Following the IPO and the Secondary Offering, the Issuer holds 75.1% of Schaeffler AG's share capital (representing all of the voting rights), and the remaining 24.9% of Schaeffler AG's share capital (representing all of the non-voting shares) are held by public investors.

Dividend Policy of Schaeffler AG

Schaeffler AG aims to balance the expectations of investors with regard to dividend payments with the profit retention requirements of Schaeffler AG to secure its capital base and to support its ambition for long-term continuity and value creation. Schaeffler AG intends to pay dividends in the ordinary course of business of between 25% and 35% of the Schaeffler Group's annual net income. However, there can be no assurance with respect to any given year that Schaeffler AG will pay dividends in this amount or at all.

The holders of the non-voting shares benefit from preferred dividend payments of €0.01 per share starting with the fiscal year ending December 31, 2015. In determining whether or not to declare a dividend, the Board of Managing Directors will take into account its view of the general business environment and market conditions, the Schaeffler Group's operating results, its operating cash flow, its investment and capital management initiatives, its future funding and financing requirements, its ambition to maintain a sound and solid capital structure, taxation considerations, any contractual, legal or regulatory restrictions on the payment of dividends and any other factors that it may deem relevant.

On April 22, 2016, the shareholders of Schaeffler AG agreed to pay out a dividend for 2015 consisting of an ordinary dividend of €35 cents per non-voting share and €34 cents per voting share, and a one-time special dividend of €15 cents per share, for a total dividend pay-out of €328 million.

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. Schaeffler AG's policies on credit risk are outlined in a Schaeffler Group guideline.

Interest Rate Risk

Due to the New Schaeffler Group Term Facility, the Schaeffler Group is, in principle, subject to an interest rate risk relating to fluctuations in the EURIBOR. However, the New Schaeffler Group Facilities Agreement provides for an interest rate floor of zero. As such, our interest rate risk is presently not hedged with specific instruments (*e.g.*, interest rate swaps, caps and collars). Interest

rate risk, market values of potential interest rate derivatives and the development of interest rate markets are continually monitored and reported to the Chief Financial Officer of the Schaeffler Group.

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 a portion of the Schaeffler Group's external financial debt denominated in a currency other than euro. The largest transaction foreign currency risks result from exchange rate fluctuations of the U.S. dollar and Chinese Renminbi. Potential foreign currency fluctuations have an effect on revenue as well as on purchase costs.

The following table sets forth the Schaeffler Group's material currency risk exposures from operations by currency based on face values as of December 31, 2015:

	As of December 31, 2015			
	USD	**CNY**	**RON**	**HUF**
		(audited) **(in € million)**		
Estimated currency risk from operations	740	491	(211)	(123)
Forward exchange contracts	(622)	(336)	156	92
Remaining currency risk from operations	**118**	**155**	**(55)**	**(31)**

Foreign exchange risks are managed centrally by corporate treasury, using various hedging instruments, such as forward exchange contracts and options. Specific exchange rate exposures and exchange rate effects on earnings are continuously monitored and evaluated as part of a regular reporting program and risk management system.

Industry

In this Offering Memorandum, we rely on and refer to information regarding our business and the industry in which we operate and compete. All automotive and industrial market data is based on or derived from reports provided by independent, widely-used and respected industry research providers.

Markets

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 continuously variable automatic transmissions 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 a weight of more than six tons. In 2015, approximately 88.7 million light vehicles were produced globally (*source*: Company estimates based on IHS Automotive (June 2016)).

The automotive production value chain is broken down into OEMs, such as Daimler AG, Ford Motor Company, Toyota Motor Corporation and Volkswagen AG, and automotive part suppliers, such as the Schaeffler Group, BorgWarner Inc., Continental AG and ZF Friedrichshafen AG. The automotive part supplier market 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. 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 volumes. 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 increasingly strict standards for CO_2 emissions) also having an impact. Other specific factors that can influence automotive production include changing demographics (*e.g.*, population growth, 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:

Market Trends

The automotive industry is currently impacted by a number of key market trends which primarily derive from regulations, technological developments 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 represents 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 driving experience, for example, through noise and vibration control (*e.g.*, dual mass flywheels, balancer shaft 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 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 the 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 that 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 demand for light vehicles in emerging markets. Due to 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 who have strong relationships with leading global premium car makers, such as Audi, BMW and Mercedes, are likely to achieve 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 our regions for the 2013-2020 period, as well as compound annual growth rates ("**CAGR**") in production for 2013-2015 and 2016-2020:

	Production of light vehicles								CAGR	
	2013	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2013-2015**	**2016E-20E**
	(units in millions)								(in %)	
Europe	24.4	25.3	26.5	27.6	28.6	29.6	30.9	31.4	*4.2*	*3.3*
Americas	20.5	20.7	20.4	20.6	20.9	21.1	21.7	22.0	*(0.2)*	*1.7*
Greater China	21.4	23.1	24.0	25.4	26.2	27.3	28.7	30.1	*5.9*	*4.3*
Asia/Pacific	18.4	18.3	17.8	17.7	17.9	18.0	18.0	17.9	*(1.6)*	*0.3*
Total	**84.7**	**87.4**	**88.7**	**91.3**	**93.6**	**96.0**	**99.3**	**101.4**	***2.3***	***2.7***

(*source*: Company estimates based on IHS Automotive (June 2016))

Overall, the automotive industry developed positively from 2013 to 2015. Global production of passenger cars and light commercial vehicles grew at a CAGR of 2.3%. In 2015, total global production amounted to 88.7 million.

From 2016 to 2020, growth in light vehicle production is expected to be led primarily by the Greater China region (CAGR of 4.3%) and the Europe region (CAGR of 3.3%). The Americas region is expected to grow with a CAGR of 1.7% from 2016 to 2020, while in the Asia/Pacific region, light vehicle production is expected to remain at a stable level (CAGR of 0.3%). In total, global light vehicle production volume is expected to grow at a CAGR of 2.7% from 2016 to 2020.

Automotive – Aftermarket

The automotive aftermarket supplies automotive products through a wide-ranging 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 and 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 (*e.g.*, dimensions, average age and composition of vehicles on the road, mileage and technological development of 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 in previous 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 Industrial Division serves a wide range of customers and has a highly fragmented customer base. We supply around 60 different industrial sectors through the aerospace, energy and raw materials, mobility, production machinery and our industrial aftermarket business. 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, including bearings for the automotive industry. 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) (*source:* The Freedonia Group Inc., World Bearings Report (September 2014)).

The industrial bearings market is highly consolidated. We are one of the major global Tier 1 suppliers, along with JTEKT Corp., NSK Ltd., NTN Corp., SKF AB and The Timken Co. 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 services. 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 key market trends, 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 that improve energy efficiency will increase. Wherever mechanical work is done and objects are in motion, the rolling bearing, a universal and commonly 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. High-quality products can reduce maintenance expenses, lower friction and condition monitoring, shut-down times and the cost of ownership.
- ***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 and especially the rapidly expanding Chinese market, which has grown with a CAGR of 6.3% from 2004 to 2014 (*source*: Company research (July 2016)).

- ***New applications**:* Examples of new applications are high-speed trains, railway condition monitoring, tracking systems for solar energy, hydro power generation, medical diagnostic equipment, intelligent bearings for agriculture machinery and transportation industries.

Historical and Forecast Development

In the period from 2004 to 2014, the global bearing market grew by a CAGR of 2.9%. During this period, the bearing market in the Greater China region increased with a CAGR of 6.3%. The Asia/Pacific region grew by a CAGR of 2.3%. Europe and the Americas grew by CAGRs of 2.1% and 2.0%, respectively (*source:* Company research (July 2016)).

For the period from 2016 to 2020, we expect the global bearing market to grow by a CAGR of 0.5% in 2016 to 2020 (*source*: Company research ((July 2016)).

Industrial – Aftermarket

The industrial aftermarket supplies industrial products through a wide-ranging 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 growth drivers. 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 (*e.g.*, 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 various regions will benefit disproportionally 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

Key trends in the industrial aftermarket include:

- ***Services, consultancy and training**:* We offer a wide range of services relevant to the lifecycle of a rolling bearing (regardless of whether we manufactured the bearing arrangement) from installation to maintenance to the reconditioning of rolling bearings. Companies that wish to build up their knowledge in the areas of rolling bearings and condition monitoring also have access to our training and consultancy portfolio.
- ***Online condition monitoring**:* During the operational phase, our experts provide support through services in the fields of condition monitoring and corrective maintenance. In order to increase machine availability, we also offer a wide range of systems for condition monitoring and also perform remote monitoring for our customers. This minimizes the risk of breakdowns for machines that are difficult to access or critical in the event of a failure, such as cruise ships and wind turbines. A condition-based maintenance strategy helps to reduce maintenance costs, improves plant availability and ensures product quality.

Competition

We have leading market positions in most regions, especially in Europe and North America. We compete with a large number of other companies in our business divisions.

Automotive Division

Our key competitors in the Automotive Division are (in alphabetical order): (i) Aisin Seiki Co. Ltd., BorgWarner Inc., Denso Corp., Hilite International Inc. and Litens Automotive Group (a subsidiary of Magna International Inc.) in our engine business division, (ii) Aisin Seiki Co. Ltd, EXEDY Corp., Jatco Ltd., Valeo SA and ZF Friedrichshafen AG in our transmission business division, (iii) Iljin Bearing Co. Ltd., JTEKT Corp., NSK Ltd., NTN Corp. and SKF AB in our chassis business division and (iv) Federal-Mogul Holdings Corp., Gates Corporation, SKF AB, Valeo SA and ZF Friedrichshafen AG in our automotive aftermarket business. Schaeffler AG also competes with a range of vehicle manufacturers for example in electric mobility applications.

Industrial Division

Our key competitors in the Industrial Division are (in alphabetical order): (i) NSK Ltd., NTN Corp., SKF AB, THK Co. Ltd. and The Timken Co. in our Industrial OEM business division and (ii) JTEKT Corp., NSK Ltd., NTN Corp., SKF AB and The Timken Co. in our industrial aftermarket business.

Business

The Issuer is a holding and finance company and does not conduct any business operations of its own. The main assets of the Issuer are 500,000,000 common shares in Schaeffler AG (representing 100% of the voting shares and 75.1% of the total share capital of Schaeffler AG) and 71,990,458 common shares in Continental AG (representing 36.0% of the total share capital of Continental AG). The operating business as described throughout this Offering Memorandum relates to the Schaeffler Group.

The Issuer

The Issuer is a holding and finance company underpinned by two main assets, a 75.1% stake (representing 100% of the voting rights) in Schaeffler AG and a 36.0% stake in Continental AG. Both Schaeffler AG and Continental AG are market-leading global manufacturing companies headquartered in Germany and listed on the Frankfurt Stock Exchange. As of August 31, 2016, Schaeffler AG had a market capitalization (including voting and non-voting shares) of €8,798 million (based on the volume weighted average price per non-voting share of Schaeffler AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Schaeffler AG Share Value**")), and Continental AG had a market capitalization of €36,701 million (based on the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Continental Share Value**")). We believe that the Issuer's "two pillar" model represents strategic value, benefiting from exposure to its two complementary underlying assets and from the Schaeffler family's history of value creation. The stable and profitable operations of its underlying assets have provided the Issuer with strong recurring cash flows. In the twelve-month period ended June 30, 2016, the Issuer received aggregate dividends in the amount of €515 million, comprising €245 million from Schaeffler AG and €270 million from Continental AG.

Schaeffler Group 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 development of the markets we serve, which we are helping to shape through our "Mobility for tomorrow" strategic concept, our focus on the megatrends driving our business that revolves around "eco-friendly drives," "urban mobility," "interurban mobility" and the "energy chain."

We are one of the largest family-controlled technology companies in the world, with around 85,000 employees and a network of manufacturing locations, R&D facilities and distribution companies in approximately 170 locations in 50 countries (as of June 30, 2016). Our 74 manufacturing locations form the foundation of our operations.

In the fiscal year ended December 31, 2015, we had revenues of €13.2 billion (€6.7 billion in the six-month period ended June 30, 2016) and EBITDA of €2.1 billion (€1.2 billion in the six-month period ended June 30, 2016). We believe that we are among the top three manufacturers in each of our core sectors worldwide and we have a large presence in rapidly growing emerging markets, such as China (the Greater China region accounted for 14% of our consolidated revenue during the six-month period ended June 30, 2016 and 12% of our employees as of June 30, 2016) and the rest of Asia. We believe that our industry-leading technology platform, high product quality, long-standing and diversified customer relationships, broad distribution channels, global production footprint and extensive product and service offering position us well for future growth.

We operate through two divisions:

- ***Automotive Division:*** Our Automotive Division generated 76% of our revenue and 80% of our EBIT in the fiscal year ended December 31, 2015 (77% and 86%, respectively, in the six-month period ended June 30, 2016). We supply more than 65,000 products to approximately 8,000 customers globally. We develop and manufacture state-of-the-art products for engine, transmission and chassis systems. As a partner of 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 more fuel-efficient 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 extensive technical expertise for the entire drive train.
- ***Industrial Division:*** Our Industrial Division accounted for 24% of our revenue and 20% of our EBIT in the fiscal year ended December 31, 2015 (23% and 14%, respectively, in the six-month period ended June 30, 2016). We supply approximately 85,000 products to approximately 14,000 customers in a variety of different industrial sectors. 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 an extensive aftermarket offering (*i.e.*, sale of spare parts and provision of services) for both of our divisions, which includes the distribution of spare parts and services to customers worldwide. Our aftermarket services provide essential sales support functions and generate attractive margins as well as stable and recurring revenues. In the fiscal year ended December 31, 2015, 22% of our consolidated revenue was generated from our aftermarket business (21% in the six-month period ended June 30, 2016).

We distribute our products under three globally recognized brands, LuK, INA and FAG, providing high-quality products to both automotive and industrial markets through a number of distribution channels. Our LuK brand covers, among other things, 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. Our business activities are divided into four regions: Europe (Western Europe, Southern Europe, Central and Eastern Europe, the Middle East, Africa and India), the Americas (the United States, Canada Mexico and South America), Greater China (China, Hong Kong and Taiwan) and Asia/Pacific (Japan, South Korea and Southeast Asia). In addition to the traditional core markets in Europe (53% of our consolidated revenue in the fiscal year ended December 31, 2015 and 55% in the six-month period ended June 30, 2016) and the Americas (22% of our consolidated revenue in the fiscal year ended December 31, 2015 and 21% in the six-month period ended June 30, 2016), our business is increasingly significant in key growth markets, such as Greater China and Asia/Pacific, which together accounted for 25% of our consolidated revenue in the fiscal year ended December 31, 2015 and 24% in the six-month period ended June 30, 2016. Following our integrated “in the region, for the region” approach, we have built a global manufacturing footprint with each of our plants having a strong regional foothold. As of June 30,

2016, we operated 48 plants in Europe, 14 in the Americas, seven in Greater China and five in Asia/Pacific. All our plants are certified under international standards for quality and environmental protection.

Competitive Strengths

We believe that the following competitive strengths have been the primary drivers of our success in the past and will continue to set us apart from our competitors in the future:

German Precision Engineering and Manufacturing Company with Leading Global Positions across Portfolio Based on Quality, Technology and Innovation

We have a long tradition of precision engineering and manufacturing expertise, particularly in the area of high-precision mechanical components and systems. This expertise has enabled us to gain leading positions across our core sectors, and we believe that each of our businesses in these sectors is positioned among the top three globally in its market in terms of market share measured by revenue. Based on our research, we believe our Automotive Division is a leader in the engine, transmission and chassis systems sector, with top positions in particular in engine valve train components, dual mass flywheels and ball screw drives for electrical power steering. Additionally, we believe our Industrial Division holds the top three market positions across a broad range of the industries it serves, and that we hold the number two position in the global bearings market. We support OEMs throughout their full product lifecycle, from taking part in the early stages of product development to providing critical engineering application know-how, and are therefore regarded as a key partner.

Quality and reliability are the key attributes of our products and services, as many of our products are mission-critical to the performance, durability and safety of the equipment in which they are installed. Providing superior product quality to our customers is therefore key to our business model and paramount to our success. A holistic quality management system in all of our locations, including all manufacturing plants worldwide, ensures compliance with our high quality 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, and we believe that we achieve failure rates that are significantly lower than the industry average.

Our technology leadership is also one of our key competitive advantages, and our product innovations have formed the backbone of our success for many decades. The strong innovative ability provided by our leading technology platform, which includes approximately 7,000 R&D staff and 17 R&D centers worldwide, is illustrated by the continuous increase in the number of our patent applications in recent years. With 2,334 patent applications in 2015, 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 June 30, 2016, we held around 24,000 patents and patent applications.

Our commitment to the highest industry quality standards and technological prowess are underlined by the numerous awards and certifications our products and services have received, including multiple awards from major automobile manufacturers such as Volvo, Ford, Nissan, Toyota and General Motors and a total of 24 quality awards in 2015, as well as the German Innovation Award 2016.

Strong Long-Term Growth Track Record of 5% Annually Driven by Global Expansion and Increased Product Content with Attractive Market Outlook

Key long-term growth drivers in our core markets are trends towards urbanization, fuel efficiency, renewable energy, safety and comfort, globalization and emission reductions. In particular, European legislation limiting CO_2 emissions causes OEMs to focus on the optimization of efficiency, friction reduction and value train variability for conventional drive trains. We believe that these reflect our core competencies and therefore expect to be able to increase our content per vehicle and to be able to achieve above market growth.

Our successful response to the above trends to date has contributed to strong long-term growth across our portfolio, with our Automotive Division's sales volumes in the fiscal year ended December 31, 2015 having increased at significantly greater rates than underlying automotive production. The consistency of our above market growth is demonstrated by the fact that our consolidated revenue increased by a compound annual growth rate of around 5% between the fiscal year ended December 31, 2006 and the fiscal year ended December 31, 2015.

Our growth track record has been driven by our global expansion and successful business model, which has enabled us in many cases to increase the percentage of the value of our end customer's product that is composed of products supplied by us. Given the leading market positions held by both our Automotive Division and our Industrial Division, we believe that we are well placed to benefit from the growth drivers in the markets that we serve. In particular, we expect to benefit from the robust growth outlook for automotive production and global bearings, see "*Industry—Markets—Automotive—OEM—Historical and Forecast Market Development*" and "*Industry—Markets—Industrial—OEM—Historical and Forecast Development*." As a result, we believe that we are well-positioned to maintain above average market growth and profitability in the future and to benefit from the trends in our industry, see "*—Strategy—Strategic Objectives—Focus on Innovative Components and Systems to drive Global Industry Trends*."

Our global expansion has provided us with a network of manufacturing facilities, R&D facilities and distribution companies in approximately 170 locations in 50 countries. We have had a presence at many of our worldwide locations for many years, and we are continuing to expand, with plans to open additional facilities or expand existing locations in all of our regions. As a result of our global presence, which has enabled us to locate plants and other facilities in close proximity to our customers and so benefit from relatively inexpensive just-in-time logistics, we are very well positioned in key growth markets, in particular in the Greater China and Asia/Pacific regions, and have been present for decades in high-growth countries, such as China, South Korea and India, where automotive production is expected to increase in the medium-term.

We also regard our markets as particularly attractive because of our customers' demand for high-quality engineered solutions and suppliers with extensive industry and engineering expertise. Consistently increasing technological requirements lead to growing demand for our technologically-advanced products, as they are more and more integrated into the respective end-applications. We believe that we are well positioned to meet these demands. Globally, we have been able to increase our content per vehicle (*i.e*., the Schaeffler Group's annual automotive revenues, excluding aftermarket revenues, truck revenues and other revenues (*e.g.*, tooling, R&D charges) as well as currency translations, divided by the respective number of light vehicles produced per year) with a CAGR of approximately 6% from 2010 to 2015. With regard to our regions, we have been able to increase our content per vehicle with a CAGR of 3%, 11%, 16% and 8% from 2010 to 2015 in our Europe, Americas, Greater China and Asia/Pacific regions, respectively. Additionally, as our products are critical to the overall performance, safety and durability of the end-product and generally represent only a small percentage of the overall costs of the end-product, the primary criteria for purchasing decisions by our customers are quality and technological excellence rather than price alone.

Very Strong Market Position through Unmatched Production Competence, Global Manufacturing Footprint and Worldwide R&D Capabilities, Supported by Continuous Investment and R&D Spend

Our production competence, innovative design capability and superior quality are key competitive advantages.

Our manufacturing facilities and processes are among the most efficient in the industry, allowing us to supply approximately 65,000 products and system solutions through our Automotive Division and approximately 85,000 products and system solutions through our Industrial Division. 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. In addition, we believe that our outstanding know-how in materials, such as steel, our know-how in surface technology and 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 design and manufacture a number of our tools in-house and this provides us with unique know-how regarding high-precision manufacturing processes. Furthermore, we perform all quality-related work in-house, which is designed to ensure that our products maintain a consistently high standard of quality, as demonstrated by the numerous quality awards we have won from our customers. We operate more than 20 technology centers which focus on creating proprietary products and systems and provide unique manufacturing know-how to our manufacturing locations.

Our production competence and superior product quality are reinforced by our global manufacturing footprint, which forms the foundation of our operations and includes 74 facilities in over 20 countries. Moreover, our integrated "in the region, for the region" approach has enabled us to build a geographically diversified global footprint while ensuring that each of our plants and facilities has a strong regional foothold and is 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 international trade flows while making us less susceptible to market risks in any single country or region. We also benefit from low-cost production (*e.g.*, 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.

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, and we continuously invest in our products, services and processes to ensure that we remain a market leader. Our worldwide R&D capabilities include the approximately 7,000 R&D staff and 17 R&D centers worldwide that are developing new products, customer product applications, technologies, processes and methods for market-driven solutions. Over the last three years, our capital expenditures have averaged approximately 7% of our consolidated revenue. These capital expenditures were primarily made for the start of new production, expanding capacity and localizations in order to ensure future growth and customer proximity. Similarly, in each of the fiscal years ended December 31, 2013, 2014 and 2015, we spent approximately 5% of our consolidated revenue on R&D to continuously improve our products and to position us at the forefront of our industry in terms of innovation and quality of design, with the amount of our R&D expenditure increasing from €611 million in the fiscal year ended December 31, 2013 to €720 million in the fiscal year ended December 31, 2015.

Attractive and Resilient Business Portfolio Delivering Above Average Profitability and Strong Cash Returns

Our attractive business portfolio ensures that 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 products and system solutions to both OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in a variety of different sectors, selling approximately 85,000 products and system solutions for a diverse range of applications ranging from wind turbines to aerospace engines and tool machines.

Our customer base is also diversified. Our products are sold to OEMs, Tier 1 and Tier 2 suppliers, aftermarket distributors and service providers in a variety of different sectors. 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. Our key customers include top-tier OEMs in the global automotive industry as well as leading industrial OEMs. As of June 30, 2016, we sold our products to approximately 8,000 automotive customers and 14,000 industrial customers in approximately 150 countries worldwide. During the six-month period ended June 30, 2016, the Automotive Division’s top ten customers represented 60% of its revenues and the Industrial Division’s top ten customers represented 17% of its revenues. We believe this diversification mitigates counterparty risk and is broader than that of our peers.

Our products are often part of platforms that are in service for several years, thereby requiring continuous aftermarket support and providing a resilient revenue stream. In the fiscal year ended December 31, 2015, aftermarket revenue from replacement parts and services represented 21% of our consolidated revenue.

This high degree of diversification and the stability of our aftermarket business support the resilience of our revenues and profitability. Each of our end-markets is influenced by different economic factors, making us less vulnerable to adverse changes in the macroeconomic environment or fluctuations of a particular economic parameter in any of our market segments.

As a result of this diversification and our focus on our leading positions 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, we have been able to preserve cash in downturns while maintaining a high level of profitability through effective management of working capital and capital expenditures as well as cost reductions. Our EBIT margin amounted to 11% in the fiscal year ended December 31, 2015, above the average margins achieved by our key competitors in the bearings and automotive supplier industries. Additionally, over the last five fiscal years we have achieved an average EBITDA margin of 18%. As a result, we generated on average cash flow from operating activities of €1.1 billion per year during that same period.

Strong Management Combining Deep Industrial Expertise with Superior Capital Markets Track Record

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 also demonstrated its ability to achieve long-term profitable growth and establish the Schaeffler Group as one of the technology, quality and innovation leaders in the industry.

Our well-established investor relations and treasury functions have significant capital markets experience and a superior financing track record that includes many successful bond issuances since January 2012. Most recently in October 2015, our management successfully conducted Schaeffler AG’s IPO and listing on the Frankfurt Stock Exchange.

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.

"Mobility for tomorrow" Strategic Concept

We have developed our "Mobility for tomorrow" strategic concept based on the trends driving our business, including urbanization, population growth, increasing technological complexity and digitalization, a focus on renewable energy and the availability of resources, and globalization and product affordability. Under this concept, we focus on four areas: "eco-friendly drives," "urban mobility," "interurban mobility" and "energy chain" across all of our divisions, regions and functions. We actively participate in shaping these focus areas with our own R&D activities and provide our customers and business partners with an attractive product range from a position as an innovation and technology leader.

Over the last few years, we have worked on further developing the "Mobility for tomorrow" strategic concept and on backing it with strategic initiatives that will be operationalized in the "Agenda 4 plus 1," which documents our 20 flagship initiatives for the next five years focusing on five key elements: customer focus, operational excellence, financial flexibility, leadership and talent management as well as long-term competitiveness and value creation. We are explicitly following an integrated approach, pooling our expertise across divisions, regions and functions. The wide acceptance with which our strategic concept was met by our customers, business partners, senior management and employees around the world confirms to us that we have chosen a promising route with our "Mobility for tomorrow" strategic concept.

Eco-friendly Drives

Given the increasing focus on energy efficiency and emissions, 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 and able to meet increasingly stringent regulatory requirements. With our broad range of products, we follow a multi-faceted strategy, serving all areas from improving and optimizing 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 "E-Wheel Drive" wheel hub 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, which are mainly attributable to a limitation of 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 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 to solutions for solar and hydro power.

Strategic Objectives

The "Mobility for tomorrow" strategic concept comprises four key areas and related sub-strategies regarding business fields, regions, and functions, and is designed to help us achieve our strategic objectives. Our growth strategy is based on targeted investments in R&D as well as improvements of our production system. Maintaining an adequate debt-to-EBITDA ratio and generating appropriate positive cash flows 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.

We also intend to leverage our efficient production capabilities in order to expand our share in the market for high-volume standard parts such as standard bearings.

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 market trends in the automotive and industrial sectors. The nature of these trends is primarily social, such as urbanization and population growth, technological, such as increasing complexity and digitalization, environmental, such as renewable energy and scarcity of resources, and economic, such as globalization and affordability. To capitalize on these trends, we are developing from a components and mechanical systems supplier to a mechatronic systems supplier.

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 continuously working to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient. To further enhance our electric mobility products and services, we plan to invest approximately €500 million in R&D from now to

2020 and double the number of employees in R&D and manufacturing related to mechatronics, hybrid technologies and electric mobility. We are also shifting R&D spending from hardware design to mechatronics and software driven solutions.

Focus on Rapidly Growing Markets

We continue to expand our international presence in growth markets, particularly in the Greater China region which has become a growth driver for both our divisions. Approximately 22% of all additions to intangible assets and property, plant and equipment in the six-month period ended June 30, 2016 were made in the Greater China region. We expect the share of our sales with local Chinese OEMs to increase faster than with non-Chinese OEMs and, as a consequence, our content per car with Chinese OEMs is expected to increase more rapidly. In line with our "in the region, for the region" approach, we are opening or expanding local plants. For example, we started the construction of a new greenfield manufacturing site in Thailand in February 2015 and in the Czech Republic in November 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 range of solutions. We plan to further diversify our product range across various markets in order to minimize dependence on individual markets. This approach also involves expanding our expertise in offering system solutions and services.

Focus on Aftermarket Business

In addition, our products are usually part of platforms that are in service for several years, thereby requiring continuous aftermarket support. As the size of our installed base increases and ages, demand for replacement parts increases. As a result, because of the increasing size of our installed base, the high service levels associated with most of the equipment in which our products are installed, the switching costs faced by customers and our strong positioning in the replacement part market, we are well positioned to grow our revenues from the aftermarket business in the future. Our aim is therefore to expand our aftermarket business by increasingly targeting wholesalers and providers of repairs and maintenance services with respect to replacement parts. We are also aiming to grow our aftermarket operations in the Greater China and Asia/Pacific regions, which are currently more limited in scope than our aftermarket business in Europe and the Americas. In addition to reducing revenue volatility, expanding our aftermarket business will also help generate additional business opportunities (for instance in condition monitoring).

Increase Profitability by Realigning our Industrial Division

On August 10, 2015, the Board of Managing Directors decided to realign our Industrial Division. The realignment is aimed at improving the efficiency and competitive position of our industrial business for the long term in order to facilitate profitable growth. The realignment program is titled "CORE." The key elements of this program are realigning the organizational structure towards stronger customer orientation and streamlining the leadership structure in order to improve efficiency and reduce costs. In addition, we aim to optimize the Industrial Division's product portfolio and speed up supply to the market.

Following the realignment, our Industrial Division OEM business is primarily managed based on regions due to its broad customer and business structure, and no longer based on treating global business divisions and their business units as profit centers as was the case until December 31, 2015. On this basis, our Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial Division business in their respective markets. Within the regions, the Industrial business is grouped into eight sector clusters: power transmission, industrial automation, wind, raw materials, aerospace, rail, offroad and two wheelers. The distribution business rounds out the Industrial Division's business.

The realignment also comprises changes aimed at more efficient cooperation of functional units, both within the Industrial Division and when interfacing with the functional units external to the Industrial Division. These changes will have to take into account that, unlike in the Automotive Division, only a relatively small proportion of products is developed within the Industrial Division and manufactured in production facilities managed directly by the Industrial Division. The majority of the products is supplied by the "Bearing & Components Technologies" unit as an internal supplier. The realignment is also designed to ensure that functional units cooperate more efficiently, particularly with respect to the interfaces between sales, product and application development and operations. As part of this program, we expect to reduce the Industrial Division workforce by up to 500 jobs in a socially acceptable manner, particularly in Germany and the rest of Europe.

In addition to these structural changes, measures taken to optimize the product portfolio and speed up supply to the market are aimed at improving the Industrial Division's competitive position and opening up opportunities for further growth. These measures include expanding the high-volume business with standard rolling bearings, especially in Asia. An example of this is the global product relaunch of "Generation C" ball bearings. Further advancing customer-specific engineering solutions and products and actively shaping technology trends such as digitization in engineering are also included in the "CORE" program. In addition, in order to meet global market requirements, the Industrial Division will gradually increase localization in its main growth markets and increase the speed of its reaction to the market by optimizing its supply chain. Existing projects to improve market supply and ability to deliver, such as new European distribution centers, will be continued. We believe that the "CORE" program will help us strengthen the Industrial Division in the context of our integrated business model, focus it on future challenges, and return to a path of lasting profitable growth. Our ambition is to increase the EBIT margin of our Industrial Division to 11-13% by 2020.

Our History

In 1946, brothers Dr. Wilhelm Schaeffler and Dr. Georg Schaeffler established INA (*Industrie-Nadellager*) in Herzogenaurach, Germany. LuK (*Lamellen- und Kupplungsbau*) GmbH was founded in 1965 in Bühl, Germany (in cooperation with INA), and later managed as a 50/50 joint venture. After the death of the founders (Dr. Wilhelm Schaeffler died in 1981 and Dr. Georg Schaeffler died in 1996), Maria-Elisabeth Schaeffler-Thumann, Dr. Georg Schaeffler's widow, and her son Georg F. W. Schaeffler took charge of the family business to continue their life's work. In 1999, the Schaeffler Group acquired from Valeo S.A. the 50% of LuK that it did not yet own. In 2001, INA acquired FAG (*FAG Kugelfischer Georg Schäfer AG*). Since 2002, INA, FAG and LuK have been the main brands owned by the Schaeffler Group.

In July 2008, the then existing Schaeffler group initiated an acquisition of Continental AG via a public tender offer, which was financed primarily by external debt. Following this acquisition, it focused on the gradual improvement of its debt profile. In 2011, the then existing Schaeffler group took a key step in this direction, when it significantly reduced its financial debt and achieved a considerable improvement of the terms and conditions of its financing by selling some of its stake in Continental AG. In 2012, the then existing Schaeffler group also debuted on the capital markets by completing its first ever bond offering.

Following this debut, the Schaeffler Group also focused on its internal processes. The continuous optimization efforts that had been initiated after the acquisition of Continental AG culminated in several initiatives and changes in 2013 and 2014: the Schaeffler Group initiated its "Mobility for tomorrow" strategic concept, focusing on four areas: "eco-friendly drives," "urban mobility," "interurban mobility" and "energy chain." It modernized its leadership structure by implementing the multi-dimensional matrix organization that comprises the Board of Managing Directors and the executive board as well as realigning its regions. Furthermore, the Schaeffler Group was once again able to significantly reduce its indebtedness. In addition, it initiated the "ONE Schaeffler" program, which combines its most important improvement initiatives, in order to standardize structures and processes within the Schaeffler Group. All of these initiatives went hand in hand with a cultural change based on the Schaeffler Group's core principles: transparency, trust and teamwork. The initiatives of the "ONE Schaeffler" program were largely completed by the end of 2015. Certain initiatives were transferred to the "Agenda 4 plus 1," which documents our 20 flagship initiatives for the next five years focusing on five key elements: customer focus, operational excellence, financial flexibility, leadership and talent management as well as long-term competitiveness and value creation.

On October 8, 2015, Schaeffler AG conducted its initial public offering (the "**IPO**") and on October 9, 2015 became listed on the Frankfurt Stock Exchange under the ticker symbol SHA. Following the secondary offering of the shares of Schaeffler AG by IHO Beteiligungs on April 5, 2016 (the "**Secondary Offering**"), the Issuer holds 75.1% of Schaeffler AG's share capital (representing 100% of its voting rights), with the remaining 24.9% (all non-voting shares) held by public investors. Proceeds from the IPO and the Secondary Offering were largely used by Schaeffler AG and IHO Beteiligungs to partially repay their respective debts and delever the business.

Our Divisions

We operate through two divisions, the Automotive Division and the Industrial Division:

Automotive Division

As of June 30, 2016, our Automotive Division offered approximately 65,000 products and system solutions for engines, transmissions, chassis and related products under our brands INA, LuK and FAG, supplemented by an extensive 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 have to be dynamic, powerful, quiet and fuel efficient, but also comfortable and safe.

Our Automotive Division accounted for 76% of our consolidated revenue and 80% of EBIT in the fiscal year ended December 31, 2015 and for 77% of our consolidated revenue and 86% of EBIT in the six-month period ended June 30, 2016.

Customers

As of June 30, 2016, we supplied our products and system solutions to approximately 8,000 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 revenues related to business with OEMs (which includes sales to OEMs, Tier 1 and Tier 2 suppliers) both in the fiscal year ended December 31, 2015 and in the six-month period ended June 30, 2016, respectively. The remaining 17% of revenues was generated with non-OEM customers by our aftermarket business.

Customers are serviced and supplied by our worldwide sales organizations and production sites in all regions.

Products

The Automotive Division comprises three sectors with a distinctive product and service portfolio: (i) engine systems, (ii) transmission systems and (iii) chassis systems. These sectors are supported by our automotive aftermarket business. During the fiscal year ended December 31, 2015, our Automotive Division generated approximately 28% of its revenues with bearings-related products, while 72% of its revenues were generated with non-bearings-related products.

Engine Systems

The engine systems business focuses on precision components for the drive unit of vehicles, 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. The engine systems business accounted for approximately 26% the Automotive Division's revenues during the fiscal year ended December 31, 2015 (26% during the six-month period ended June 30, 2016).

Transmission Systems

Through our transmission systems business, we provide numerous 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 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. The transmission systems business accounted for approximately 42% of the Automotive Division's revenues during the fiscal year ended December 31, 2015 (42% during the six-month period ended June 30, 2016).

Chassis Systems

The product portfolio of our chassis systems business 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 higher 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. The chassis systems business accounted for approximately 15% of the Automotive Division's revenues during the fiscal year ended December 31, 2015 (15% during the six-month period ended June 30, 2016).

Automotive Aftermarket

Our automotive aftermarket business comprises the brands INA, FAG, LuK and Ruville in the replacement parts business worldwide. The product range covers applications in clutch and release systems, engine and transmission applications, and chassis applications. In addition, our automotive aftermarket business offers a wide variety of services, including, for example, various means of transferring knowledge, such as practice-oriented training courses, advice provided by our repair hotline or our online garage portal, "RepXpert," as well as the development of specialized tools. Our automotive aftermarket business accounted for approximately 17% of the Automotive Division's

revenues during the fiscal year ended December 31, 2015 (17% during the six-month period ended June 30, 2016).

Sales

In the six-month period ended June 30, 2016, the Automotive Division's top ten customers represented approximately 60% of its revenues. 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 and advertising in industry-specific magazines, support our sales initiatives and complement our market approach.

Our sales channels are our OEM customers and our extensive aftermarket network. OEM customers 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 differ in each country, depending on the respective economic and financial situation as well as national custom.

Industrial Division

As of June 30, 2016, the Industrial Division offered approximately 85,000 products and system solutions under the INA and FAG brands for applications used in a variety of different sectors, providing rolling and plain bearings, guides and direct drives. During the fiscal year ended December 31, 2015 our Industrial Division generated approximately 87% of its revenues with bearings-related products, while 13% of its revenues were generated with non-bearings-related products.

The Industrial Division accounted for 24% of our consolidated revenue and 20% of our EBIT in the fiscal year ended December 31, 2015 and 23% of our consolidated revenue and 14% of our EBIT in the six-month period ended June 30, 2016.

Until December 31, 2015, the Industrial Division was primarily managed based on two global business divisions and their business units as profit centers: Industrial Applications, which consisted of the OEM business in the industrial sector, and Industrial Aftermarket, which represented the trading, spare parts, and service business. Since January 1, 2016, the Industrial Division has been primarily managed based on regions due to its broad customer and business structure. The Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

The Europe region accounted for 56% of the Industrial Division's revenues during the fiscal year ended December 31, 2015 (60% during the six-month period ended June 30, 2016). The Americas region accounted for 19% of the Industrial Division's revenues during the fiscal year ended December 31, 2015 and during the six-month period ended June 30, 2016. The Greater China region accounted for 15% of the Industrial Division's revenues during the fiscal year ended December 31, 2015 (12% during the six-month period ended June 30, 2016). The Asia/Pacific region accounted for 10% of the Industrial Division's revenues during the fiscal year ended December 31, 2015 (9% during the six-month period ended June 30, 2016).

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.

Industrial sectors

Within the regions, the Industrial business is grouped into eight sector clusters: power transmission, industrial automation, wind, raw materials, aerospace, rail, offroad and two wheelers. The realignment along sectors that include all Industrial customers of the OEM and maintenance, repair and operations business is aimed at significantly increasing transparency in the Industrial Division. The distribution business rounds out the Industrial Division's business.

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 *Industrial Automation* sector provides solutions for bearings that are used in mechanical engineering, such as the textile, printing, food processing and packaging industry. The product portfolio includes rotary table bearings, screw drive bearings, linear guidance systems and high-precision bearings for main spindles.

The *Wind* sector provides bearing supports for wind turbines along with condition monitoring systems, lubricants, a fitting service 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.

The *Raw Materials* sector provides solutions for normally "heavy duty" rolling bearing applications in the raw material extraction, preparation and processing, steel and non-ferrous metals, and cellulose and paper industries. Our rolling bearing and service concepts extend the lifecycle of machines and reduce the lifecycle costs.

The *Aerospace* sector develops and manufactures rolling bearing systems with integrated components for aircraft and spacecraft construction. The product range comprises high-precision bearing components for aircraft and spacecraft construction. The product range comprises high-precision bearing components for aircraft and helicopter engines.

The *Rail* 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 *Offroad* 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.

The *Two-Wheelers* 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.

Industrial Aftermarket

Our Industrial Aftermarket is responsible for the spare parts and service business with end customers and distributors in all significant industrial sectors. Our focus is on ensuring the supply of high-quality products, application solutions, and services to its customers. In addition, we offer systems

for condition monitoring of plants and we perform remote monitoring for its customers, effectively increasing customers' system availability.

Sales

In the six-month period ended June 30, 2016, the Industrial Division's top ten customers represented approximately 17% of its 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 and advertising in industry-specific magazines, support our sales initiatives and complement our market approach.

Our sales channels are through OEMs, maintenance repair and overhaul of aircrafts and our extensive distribution network. OEM and selected airline customers are mainly served directly. The main part of the maintenance, repair and overhaul of aircrafts 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. Due to the fact that 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 customs.

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 €720 million in 2015, €622 million in 2014 and €611 million in 2013, or approximately 5% of our consolidated revenue in each period.

As of June 30, 2016, we employed approximately 7,000 R&D staff and operated 17 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 with customers of the automotive industry, mechanical engineering and aerospace in all key areas of product development. We use tools, such as simulation and rapid prototyping, to develop 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 provides us with valuable insights that allow us to further develop and improve our products. 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.*, social 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, of 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 EU starting in 2021. Therefore, the growing need for mobility will have to be met using fewer 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 more and 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 is 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 we are continuously seeking to secure further patents on our developments.

As of June 30, 2016, we held around 24,000 patents and patent applications. In 2015, we applied for 2,334 new patents, placing us second among Germany's most innovative companies according to the German Patent and Trademark Office (DPMA, *Deutsches Patent- und Markenamt*).

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, see "*Risk Factors—Legal, Regulatory and Tax Risks—We could be unsuccessful in adequately protecting our intellectual property and technical expertise*" and "*Risk Factors—Legal, Regulatory and Tax Risks—There is a risk*

that we infringe on the intellectual property rights of third parties and could therefore be forced to change our product offering or be exposed to additional costs."

IT and Digitalization

As part of our "Mobility for tomorrow" strategic concept and to increase the value we provide to our customers, in 2015 we set up a new department, the Digitalization Coordination Office, dedicated to promoting and driving digitalization within the organization, emphasizing the relevance of digitalization throughout the organization. With its own "Digital Agenda," this department will actively tackle and help shape concepts of the future such as Industry 4.0, internet of things, big data, cloud, analytics and new business models. In order to comprehensively prepare for the digital age and to ensure the right priorities are set, we are in the process of establishing a central project management to implement the "Digital Agenda." This agenda comprises five building blocks of product, equipment, processes, data analysis and simulation and digital user experience, and approximately 70 digitalization scenarios developed using an interdisciplinary approach. A "Digital Program Office" specifically set up for this purpose aggregates the scenarios developed and takes them forward. For example, we are creating products, such as the anti-roller stabilizer and bearings for high speed trains that potentially could sense road or track conditions and transmit such data to a cloud network.

Quality

Our product expertise and comprehensive quality management enable us to consistently ensure a very high level of quality. We have received numerous awards from customers and internationally recognized certifications. Nearly all of our plants are certified under globally recognized quality standards such as ISO 9001:2008 or ISO TS 16949:2009. These certifications played a role in us receiving 24 quality awards in 2015, such as the "Volvo Car Quality Excellence Award" and Nissan's "Global Quality Award."

Our comprehensive quality management system is based on a central management handbook containing regulations and prescribed processes applicable group-wide. Compliance with and monitoring of these requirements are guaranteed by audits and reviews, which ensure a uniform global level of quality. In addition, each unit has managers specifically responsible for quality or other quality experts working closely with the relevant management in order to ensure that the quality management system in the manufacturing facilities and locations is continuously improved.

We have continued to develop and reinforce the interaction of error prevention and error detection activities. The benchmark for this is the "zero defects principle" in place at all of our locations, which stands for process stabilization and continuous improvement. It facilitates the early detection and elimination of weaknesses. The thorough implementation of the "zero defect principle" guarantees top process reliability and product quality across all stages of our work, from design and manufacturing through to service.

We also have a program, "Fit for Quality," ensuring a systematic approach to achieving the highest quality with the objective of "zero defects." The program defines policies and rules of conduct for the day-to-day work of all employees. It provides guidance and orientation on how to prevent errors to begin with or how to permanently eliminate them. The program was developed further in 2015. The objective is to deeply root the "Fit for Quality" program in our culture.

In order to better understand the markets' requirements and customers' needs with respect to safe products and to better reflect these in our processes, we have initiated a communication platform, the "Product Safety Network," that includes a large number of companies and is supported by the industry associations VDA, VDMA, and ZVEI. The "Product Safety Network" is run under the auspices of the Federal Ministry for Economic Affairs and Energy. Its members are companies with a broad spectrum of technical and electromechanical products. The goal of the network is to continuously

improve their collective activities with respect to product safety issues in the interest of consumers. The focus is primarily on the fields of passenger transport and mechanical engineering and plant construction. A periodic product safety conference is designed to facilitate sharing of information across the network. We hosted the first product safety conference in January 2015.

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 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 of our divisions. As of June 30, 2016, we operated 74 manufacturing plants in more than 20 countries worldwide, the vast majority of which are owned by us.

Our headquarters are located in Herzogenaurach, Germany. We own the area and the building.

The following table provides an overview of our most important plants in order of size of property:

Location	Size of property (unaudited) (in thousand square meters)
Schweinfurt, Germany	336.1
Herzogenaurach, Germany	327.6
Sorocaba, Brazil	161.3
Brasov, Romania	151.3
Kysucke Nove Mesto, Slovakia	119.1
Taicang, China	111.0
Bühl, Germany	107.1
Skalica, Slovakia	103.1
Wuppertal, Germany	100.1
Homburg, Germany	84.9

Purchasing of Raw Materials and Energy Resources

In the six-month period ended June 30, 2016, purchases of production materials (raw materials and components) comprised €2.6 billion. Steel is the principal raw material used in many of our products. We purchase raw materials from global suppliers 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 six-month period ended June 30, 2016.

Prices of raw materials and energy resources are subject to change or curtailment 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. Prices for flat products, such as hot-rolled and cold-rolled strip, are generally fixed for shorter periods.

For a detailed description of the risk associated with raw materials and energy supply, see "*Risk Factors—Risks related to our Business Operations and the Markets in which we operate—We depend on a limited number of key suppliers for certain products and inability to source products from these suppliers, particularly due to supply interruptions, could adversely affect our operations*" and "*Risk Factors—Risks related to our Business Operations and the Markets in which we operate—We are exposed to fluctuations in prices of raw materials and energy, which may lead to higher production and manufacturing costs.*"

Information Technology Systems

The Schaeffler Group's information technology infrastructure is characterized by a high level of standardization. Our information technology 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 computer-aided design.

Our Regions

As of January 1, 2014, our business activities have been divided into four regions – Europe, the Americas, Greater China and Asia/Pacific – which in turn have been divided into various sub-regions and countries. In light of its growing global economic importance, China along with Hong Kong and Taiwan was designated as a separate region named Greater China. South 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, the Americas. In the fiscal year ended December 31, 2015, we generated 53% of our consolidated revenue in Europe, 22% in the Americas, 14% in Greater China and 10% in Asia/Pacific. In the six-month period ended June 30, 2016, we generated 55% of our consolidated revenue in Europe, 21% in the Americas, 14% in Greater China and 10% in Asia/Pacific. Following our integrated "in the region, for the region" approach, we have built a global manufacturing footprint with each of our plants having a strong regional foothold. As of June 30, 2016, we operated 48 plants in Europe, 14 in the Americas, seven in Greater China and five in Asia/Pacific.

Employees

The following table shows the headcount as of December 31, 2013, 2014 and 2015 and as of June 30, 2016 in our functional areas:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
Number of Employees		(unaudited)		(unaudited)
Production	61,587	64,558	66,757	67,606
Research and Development	6,166	6,532	6,791	7,040
Selling	6,102	6,338	6,550	6,517
General Administration	4,403	4,866	4,100	4,062
Total	**78,258**	**82,294**	**84,198**	**85,225**

Our headcount rose by 2.3% to 84,198 during the fiscal year ended December 31, 2015 and further increased by 1.2% to 85,225 during the six-month period ended June 30, 2016.

The following table shows the headcount as of December 31, 2013, 2014 and 2015 and as of June 30, 2016 for each of the regions in which we operate:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
Region		(unaudited)		(unaudited)
Europe	55,392	57,607	58,600	59,367
Americas	12,146	12,229	12,625	12,578
Greater China	8,068	9,741	10,216	10,509
Asia/Pacific	2,652	2,717	2,757	2,771
Total	**78,258**	**82,294**	**84,198**	**85,225**

The number of employees of the Schaeffler Group as of the date of this Offering Memorandum does not differ significantly from the number of employees as of June 30, 2016.

Relationships with Unions and Works Councils

A significant number of 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 employee representative bodies such as works councils (*Betriebsräte*).

In Germany, we are a member of several regional employers' associations (*Arbeitgeberverbände*) (pertaining to the metal and electrical industry). We are therefore subject to various collective bargaining agreements of these associations. Furthermore, we are subject to collective bargaining agreements in various other countries (*e.g.*, China, South Korea and Slovakia).

According to German law, our German employees established a group works council (*Konzernbetriebsrat*) at the level of Schaeffler AG for all employees at our German Schaeffler Group companies and separate local works councils (*Betriebsräte*) for each German plant. Further, the employees of Schaeffler Group companies in Europe are represented by a European works council (*Europäischer Betriebsrat*) at the level of Schaeffler AG.

Schaeffler Technologies AG & Co. KG entered into a framework social plan (*Rahmensozialplan*) with its company works council which would apply to future personnel measures for operational reasons at Schaeffler Technologies AG & Co. KG and certain German entities of the Schaeffler Group with which Schaeffler Technologies AG & Co. KG forms joint establishments (*Gemeinschaftsbetriebe*) in Germany. Employees affected by such measures would be entitled to certain benefits (*e.g.*, severance payments, wage protection in the event of relocations or qualification measures). The framework social plan may be terminated with three months' notice to the end of each half-year without any consequences.

We have a close and constructive relationship with the representative bodies of our employees and the competent unions, evidenced by the fact that we have not experienced any disruptions from strikes or work stoppages in recent years.

Pensions

The Schaeffler Group has defined benefit and defined contribution pension plans for its employees.

We provide defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of June 30, 2016, our total pension obligations (defined benefit obligation) amounted to €3,042 million. As of June 30, 2016, our net pension obligations for defined benefit pension plans (defined benefit obligation less pension plan assets, funded status) amounted to €2,346 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 and real estate.

For further information on our pension obligations, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group—Contractual and Other Obligations—Pension Obligations*."

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, 2013, 2014 and 2015 can mainly be categorized as investments in organic growth (*i.e.*, investments in production facilities, equipment and software).

Additions to Intangible Assets and Property, Plant and Equipment in the fiscal years ended December 31, 2013, 2014 and 2015

Our capital expenditures, measured as additions to intangible assets and property, plant and equipment in the fiscal years ended December 31, 2013, 2014 and 2015 amounted to €573 million, €943 million and €1,118 million, respectively. Our capital expenditures are made to secure growth and customer proximity and involve production start-ups, capacity expansions and localizations. We financed these investments primarily with funds from operating cash flows.

In the fiscal year ended December 31, 2013, we invested €441 million in our Automotive Division and €132 million in our Industrial Division. In the fiscal year ended December 31, 2014, we invested €755 million in our Automotive Division and €188 million in our Industrial Division. In the fiscal year ended December 31, 2015, we invested €916 million in our Automotive Division and €202 million in our Industrial Division.

Additions to Intangible Assets and Property, Plant and Equipment in the six-month period ended June 30, 2016

Our capital expenditures, measured as additions to intangible assets and property, plant and equipment in the six-month period ended June 30, 2016 amounted to €469 million and mainly related to expand capacity and realize new product start-ups in the Automotive Division. In the six-month period ended June 30, 2016, we invested €376 million in our Automotive Division and €93 million in our Industrial Division.

Environment, Compliance, 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.

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 investigations 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, see "*Risk Factors—Legal, Regulatory and Tax Risks—We could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.*"

Compliance

We have adopted a worldwide risk management and compliance program that is aimed at preventing corruption, fraud and other criminal or unauthorized behavior by our employees, consultants, agents and suppliers. We periodically evaluate the effectiveness of the design and operation of our internal controls over financial reporting. Based on these evaluations, we may conclude that enhancements, modifications or changes to internal controls are necessary or desirable. In 2015, for example, we received information about fraudulent transactions to the detriment of the Schaeffler Group committed by employees at one department of our Industrial Division in Europe, which prompted us to launch a full review of the incidents. As a result of the review and a subsequently initiated compliance investigation across a number of countries, which is still ongoing, we became aware of incidents of unlawful payments in Turkey and potential unlawful payments in certain other countries, in particular Russia, Belarus and Ukraine. The relevant board members and employees are no longer employed by us and we are claiming damages from the wrongdoing former board members and employees. These cases are also the subject of investigations by the competent German prosecution authorities. Also see "*Risk Factors—Legal, Regulatory and Tax Risks—Our risk management and compliance controls and procedures may fail to prevent or detect corruption, fraud, other criminal or unauthorized behavior or violations of trade and economic sanctions rules.*"

All countries in which we operate have adopted complex laws, regulations, technical rules and standards, in particular in regards to 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.

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, various antitrust authorities, including authorities in the United States, have been investigating several manufacturers of bearings and other products, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements and concerted

practices violating antitrust laws. We are cooperating with antitrust authorities in the context of these investigations.

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

- ***EU***: On March 19, 2014, the European Commission issued a decision under which we were required to pay €370.5 million. This penalty was paid in the second quarter of 2014.
- ***United States***: The U.S. Department of Justice served a grand jury subpoena on Schaeffler Group USA Inc. on November 9, 2011. In September 2012, Schaeffler Group USA Inc. submitted documents and information to the U.S. Department of Justice. So far, Schaeffler Group USA Inc. has not received a response.
- ***South Korea***: The Korean Fair Trade Commission fined our South Korean subsidiary Schaeffler Korea Corporation approximately €12 million by order delivered March 10, 2015 for collusion regarding imported bearings for the industrial aftermarket and approximately €5 million by order delivered May 8, 2015 regarding automotive bearings. Both fines were paid in 2015, but Schaeffler Korea Corporation filed appeals against both decisions. In the industrial bearings case, Schaeffler Korea Corporation won the appeal. However, the Korean Fair Trade Commission appealed this decision of the court. In March 2016, the Korean Fair Trade Commission started another investigation against Schaeffler Korea Corporation for alleged collusion regarding alternator bearings, which it ceased in July 2016. In 2015, the South Korean public prosecutor initiated a criminal proceeding against Schaeffler Korea Corporation for the alleged collusions, which it ceased in July 2016. The Korean Fair Trade Commission expressed its intention that one further investigation against Schaeffler Korea Corporation might be initiated. However at this time no such proceeding has been initiated.
- ***Brazil***: On September 17, 2014, the Brazilian antitrust authority, CADE, raided our Brazilian subsidiary. CADE alleged price coordination and exchange of sensitive information with regard to automotive clutches. In addition, CADE started an investigation into alleged antitrust violations relating to bearings and clutch-facing products. We are cooperating with CADE. On July 29, 2015, our Brazilian subsidiary settled the bearings cartel case by agreeing to pay approximately Brazilian Real 61 million (approximately €18 million at the time). On September 16, 2015, our Brazilian subsidiary also settled the clutches cartel case by agreeing to pay approximately Brazilian Real 37 million (approximately €9 million at the time). Both fines were paid in 2015. On July 27, 2016, our affected German subsidiary settled the clutch-facings case by agreeing to pay Brazilian Real 699,216 (approximately €198,000). Employees of Schaeffler Brazil who have been investigated have the opportunity to join any settlement. They are facing criminal prosecution as well with respect to certain of the alleged antitrust violations. In connection with these investigations, some employees have filed labor law claims against our Brazilian subsidiary for damages.
- ***Spain***: On December 4, 2014, the Spanish Competition Authority imposed a fine in the amount of €1 million against Schaeffler Iberia, S.L.U., and the Issuer with respect to alleged antitrust law infringements in the railway bearings sector. Both companies filed an appeal against this decision.
- ***India***: On December 15, 2015, FAG Bearings India Ltd. received a questionnaire from the local cartel authorities regarding the bearings market. On January 27, 2016, FAG Bearings India Ltd. responded to the questionnaire and has since initiated an internal investigation.

If any competent antitrust authority concludes that we participated in anti-competitive practices, it may seek to impose a fine. Furthermore, prosecutors may initiate criminal proceedings against us or our employees. In addition, we may be exposed to substantial follow-on civil damage claims from both direct and indirect purchasers of bearings or other affected products. As of December 31, 2015, we had established provisions in the amount of €238 million for such claims in connection with the

above-mentioned decision of the European Commission. Since then, we have signed settlement agreements with three customers and are currently in discussions with a number of customers regarding compensation claims they have raised. Since May 2012, several class action lawsuits have been filed by plaintiffs in the United States and Canada against various Schaeffler Group companies and certain other defendants in the context of the U.S. Department of Justice investigation. The plaintiffs seek damages in an unspecified amount, attorneys' fees and an injunction against the defendants. Schaeffler Group USA Inc. has settled some class actions with indirect purchasers for an unsubstantial amount, while other class actions are still pending. Moreover, our customers are increasingly requiring that provisions be included in sourcing contracts entitling the respective customer to liquidated damages (*pauschalisierter Schadensersatz*) in the event of antitrust violations. As a result, if such clauses are enforceable and if in the future we were to be found to have engaged in any antitrust violations, we may be contractually required to pay substantial liquidated damages, which could make follow-on civil damage claims even more likely.

For more information on the risks associated with antitrust investigations, see "*Risk Factors—Legal, Regulatory and Tax 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, violations 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 annually. 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 in any proceedings currently ongoing would not have a material adverse effect on our business, financial condition and results of operations.

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. Furthermore, 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 national and international levels (especially by the EU), to the level of technical sophistication, the increased need for safety and the 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 EU and since we generate a significant portion of our turnover within the EU, the following description focuses on legal acts of particular relevance adopted by European institutions. Several of these legal 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, Japan and China, three markets outside the EU that are important for us from a sales perspective.

Regulatory Framework for our Operations and Products in Europe

The industrial sites operated by us have to comply with several environmental and regulatory requirements, which can be enforced by the authorities and to a certain extent by competitors (*e.g.*, via the competition laws) or by environmental non-governmental organizations based on their broader access and action rights. In addition, environmental liabilities can occur due to public or civil environmental laws. In the following paragraphs, the main legal sources in the EU 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 directives 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, planning law and building regulations, waste disposal, nature protection, occupational health and safety and, in the case of permits under water law, use and disposal of water. As a general rule, the permits cover most 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 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, and 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 "**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 for the Non-Ferrous Metals Industries, which was adopted by the European Commission in 2001, is currently under review (final draft dated October 2014). A commission implementing decision (2016/1032), *i.e.*, the BAT conclusions, for the non-ferrous metals industries was published in June 2016.

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 characteristic 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 so that later installations are decommissioned. Upon cessation of activities, the operator will be required to restore the environmental status established in 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, BlmSchG*), 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 requirements on VOC in the IED; hence, we are obliged to comply with its requirements as implemented by national laws. On January 7, 2014 the IED replaced 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**"). The requirements on VOC in the IED in particular relate to substitution of hazardous substances as well as control and monitoring of emissions. The IED does not explicitly provide stricter emission limits for VOC than the VOC Directive. 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 Directive (EU) 2015/1127 of July 10, 2015 (the "**Waste Framework Directive**") redefined the legal framework on waste treatment within the EU. We have to comply with the requirements of the Waste Framework Directive as implemented by the national laws. This relates in particular to the disposal of waste from production processes. The measures provided for in the Waste Framework Directive apply to all substances or objects which the holder discards or intends or is required to discard. They do not apply to gaseous effluents, waste waters and some other types of waste which are subject to specific EU rules.

The Waste Framework Directive introduced a 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 lifecycle thinking on the overall impacts of the generation and management of such waste.

EU member states must ensure that any original waste producer or holder carries out the treatment of waste himself or has the treatment handled by a dealer or an establishment or undertaking which carries out waste treatment or arranges treatment by a public or private waste collector in compliance with the waste hierarchy and without endangering human health and without harming the environment.

In principle, EU member states have to require any establishment or undertaking intending to carry out waste treatment to obtain a permit from the competent authority. Specific activities not subject to a permit requirement need prior registration with public authorities. In accordance with the "polluter pays" principle, the cost of waste management must be borne by the original waste producer or by the current or previous waste holders.

Furthermore, 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 reuse 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. The European Commission presented a new circular economy strategy on December 2, 2015, in particular covering waste. This strategy plan sets out a concrete EU mandate to support the transition towards a circular economy.

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 other 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 policies can contribute to protect soil. This is the case with many provisions in the existing environmental 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 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 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 in control of the premises may be held liable by the authorities to undertake such measures which often result in 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 soil or groundwater contamination. Furthermore, 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 in evident cases of circumvention of liability for soil and groundwater contamination. In all cases of liability for soil and groundwater contamination, what actually caused an existing contamination may be subject to controversy. Although the competent authorities are allowed to issue 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. 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 for reimbursement. Furthermore, contractual agreements may protect a party 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 EU 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 30, 2014 (the “**Water Framework Directive**”), includes a comprehensive approach to water protection. By means of the Water Framework Directive, the EU provides for the management of inland surface waters, groundwater, transitional waters and coastal waters in order to prevent and reduce pollution, promote sustainable water use, protect the aquatic environment, improve the status of aquatic ecosystems and mitigate the effects of floods and droughts. 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 national provisions implementing the 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. 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. Furthermore, EU member states must apply environmental quality standards to all priority substances. This is set out in Directive 2008/105/EC of the European Parliament and the Council of December 16, 2008, last amended by Directive 2013/39/EU of August 12, 2013, 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 EU 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, ("**Seveso-III Directive**"), 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 Seveso-III Directive.

According to the Seveso-III 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.

The EU member states have to ensure that appropriate safety distances between establishments covered by the Seveso-III Directive and residential areas, buildings and areas of public use, recreational areas, and, as far as possible, major transport routes are maintained. 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 Seveso-III Directive had to be transposed into German law by May 31, 2015, however, transposition is still pending. On April 27, 2016, the German government passed the draft of a law to implement the Seveso-III Directive in particular by changing the German Federal Immission Control Act (*Bundes-Immissionsschutzgesetz,*

BImSchG) and the German Environmental Impact Assessment Act (*Gesetz über die Umweltverträglichkeitsprüfung, UVPG*). According to information by the German Government, the parliamentarian legislation procedure for the transposition of the Seveso-III Directive is supposed to be completed in 2016.

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 annexes to the ELD are liable for fault-based damage to protected species and natural habitats, to water and 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 2016/1017 of June 23, 2016). 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, secondly on June 1, 2008, thirdly on August 1, 2008 and lastly on June 1, 2009, to streamline and improve the former legislative framework on chemicals of the EU. Its main objectives include improving the protection of human health and the environment from the risks that can be posed by chemicals and ensuring the free circulation of substances on the internal market of the EU.

REACH places greater responsibility on the industry to manage the risks that chemicals may pose to health and the environment. Other legislation regulating chemicals (for example, on cosmetics and 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 REACH 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, Regulatory and Tax Risks—Our operations are subject to stringent laws and regulations, particularly under applicable environmental laws*, *the violation of which could lead to significant liabilities*" and "*Risk Factors—Legal, Regulatory and Tax Risks—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 Implementing Decision (EU) No 2016/629 of April 20, 2016, establishes a common regime for all aspects of the inland transport of dangerous goods, by road, rail and inland waterways within the EU and incorporates the ADR into European law.

Employee Health and Safety

Under national and international provisions, in most jurisdictions we are obliged to take measures related to health and safety at work. In general, compliance with employment safety regulations is subject to regulatory supervision.

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 2015/758 of April 29, 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 51 parties and 137 UNECE regulations annexed to it until today.

Most UNECE 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 vehicle regulations, the World Forum for Harmonization of Vehicle Regulations ("**WP.29**") adopted in its 169th session from 21 to 24 June 2016 the Revision 3 of the 1958 Agreement. The overall objective of this reform is to accommodate the needs of countries with emerging automotive industries and markets and to promote the principle of mutual recognition of certificates ("tested once, accepted everywhere"), while at the same time ensuring and maintaining the highest levels of safety and environmental performance. The WP.29 invited the representative of EU to proceed with the notification process.

Additionally, the WP.29 agreed in the mentioned session, *inter alia*, on the revision of a broad range of UNECE regulations, in order to reflect the experiences and technical developments of the past years. In view of laying down uniform provisions concerning the approval of Brake Assist Systems ("**BAS**"), Electronic Stability Control ("**ESC**"), Tyre Pressure Monitoring Systems ("**TPMS**") and Tyre Installation, the WP.29 adopted four new UNECE regulations. These amendments and new regulations have to be incorporated in the EU legislative framework of EU type approval, *inter alia*, in an updated Annex IV of Directive 2007/46/EC.

The type-approval legislative framework as set up by Directive 2007/46/EC is continuously subject to amendments resulting in more and more stringent regulations. For example, the 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 2016/1004 of June 22, 2016) 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 concerning type-approval for the deployment of the eCall in-vehicle system based on the 112 emergency service amending Directive 2007/46/EC are set out in the Regulation (EU) 2015/758 of the European Parliament and of the Council of April 29, 2015.

The provisions of Regulation (EU) No 168/2013 of the European Parliament and of the Council of January 15, 2013 establishing approval and market surveillance requirements for motorbikes/mopeds and squads in the EU entered into force on January 1, 2016. They aim to upgrade EU's functional safety and environmental requirements for L-category vehicles as a prerequisite for vehicle registration.

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 36 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."

Furthermore, 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 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. This 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 at each step will be 1 db(A) or 2 db(A) depending on the technically permissible maximum laden mass.

Furthermore, the test method for vehicle noise emissions established under 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, manufacturers shall install acoustic vehicle alerting systems 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) No 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, Regulation 443/2009 sets a target of 95g of carbon dioxide per km for the new car fleet in the EU. 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) No 510/2011 of the European Parliament and of the Council of May 11, 2011, as last amended by Regulation (EU) No 404/2014 of February 17, 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. Furthermore, in respect of each calendar year from 2014 onwards, manufacturers exceeding their individual target have to pay an excess emissions premium.

Regulation 443/2009 and Regulation 510/2011 both 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, as 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. Furthermore, 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 EU 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 the Directive 2015/1513 of the European Parliament and of the Council of September 9, 2015, 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. The last amendment involved the limitation of the contribution of biofuels and bioliquids produced from food and the increase of the minimum greenhouse gas saving threshold for biofuels and bioliquids produced in new installations.

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 (see 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. Furthermore, 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 2016/774/EU of May 18, 2016 ("**Directive 2000/53/EC**"), stipulates measures to prevent waste arising from end-of-life vehicles and to promote the collection, reuse and recycling of vehicle components. Waste prevention is the priority objective of Directive 2000/53/EC. 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, reuse, recovery and recycling of end-of-life vehicles; (iii) increase the use of recycled materials in vehicle manufacture; and (iv) ensure that components of vehicles placed on the market after July 1, 2003, do not contain mercury, hexavalent chromium, cadmium or lead, except in a limited number of applications.

Product Safety and Liability

Product Safety

We have to comply with requirements on product safety unless specific provisions apply (*e.g.*, as regards automotive products).

Directive 2001/95/EC of the European Parliament and the Council of December 3, 2001, as last amended by Regulation (EC) No 596/2009 of the European Parliament and of the Council of June 18, 2009, on general product safety applies in the absence of specific provisions among the 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.

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 (see proposal of the European Commission COM (2013) 78 final of February 13, 2013). Furthermore, 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 (see proposal of the European Commission COM (2013) 75 final of February 13, 2013). The European Parliament approved the two proposals with amendments on first reading on April 15, 2014. The

commission partially agreed to the amendments on first reading in the European parliament on July 9, 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 EU, 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 the manufacturer of a finished product, the producer of any raw material or the manufacturer of a component part and any person who, by putting his name, trademark or other distinguishing feature on the product presents himself as its producer. Any person who imports into the EU a product for sale, hire, leasing or any form of distribution in the course of his business shall be deemed to be a producer. Where the producer of the product cannot be identified, each supplier of the product is treated as its producer unless he informs the injured person of the identity of the producer or of the person who supplied him with the product. The same applies in the case of an imported product, if this product does not indicate the identity of the importer. "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 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 all enterprises except for small or medium-sized enterprises to carry out energy audits. The German legislation implemented this Directive through a Federal law on energy services (*Gesetz über Energiedienstleistungen und andere Energieeffizienzmaßnahmen*). Accordingly, energy audits are, as a rule, mandatory on a four-year basis.

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 4/2016 of January 5, 2016, 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 2016/5 of January 5, 2016 ("**Regulation 748/2012**"). Furthermore, detailed requirements for the maintenance of aeronautical products are included in Commission Regulation (EU) No 1321/2014 of November 26, 2014, as last amended by Commission Regulation (EU) No 2015/1536 of September 16, 2015, the successor of the Commission Regulation (EC) No 2042/2003 of November 20, 2003.

Under Regulation 748/2012, an organization responsible for the design of products, parts and appliances related to aircraft requires a design organization approval ("**DOA**") according to Annex I to Regulation 748/2012 (so-called "**Part 21**"), Subpart J. The holder of DOA is entitled to perform design activities under Part 21 within the scope approved in DOA. Furthermore, 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. 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.

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 has been adopted. The Directive 2016/797 of the European Parliament and of the Council of May 11, 2016, extends the scope of the Directive and the TSIs, as a rule, to the entire rail system within the EU.

As regards the high-speed railway system, TSI for the rolling stock subsystem were adopted on May 30, 2002 (Commission Decision 2002/735/EC), and revised by Commission Decision 2008/232/EC of February 21, 2008, which has been repealed by Commission Regulation (EU) No 1302/2014 of November 18, 2014. The Commission Regulation (EU) No 1302/2014 of November 18, 2014 in turn has been repealed by the Commission Regulation (EU) No 2016/919 of May 27, 2016.

Concerning the conventional railway system, TSI relating to locomotives and passenger rolling stock were adopted by Commission Decision 2011/291/EU on April 26, 2011, as amended by Commission Decision 2012/464/EU of July 23, 2012 which has been repealed by Commission Regulation (EU) No 1302/2014 of November 18, 2014. The Commission Regulation (EU) No 1302/2014 of November 18, 2014 in turn has been repealed by the Commission Regulation (EU) No 2016/919 of May 27, 2016. In

addition, TSI on freight wagons have been established by Commission Regulation (EU) No 321/2013 of March 13, 2013, last amended by Commission Regulation (EU) No 2015/924 of June 8, 2015. TSI concerning noise have been issued by Commission Decision 2011/229/EU of April 4, 2011 which has been repealed by Commission Regulation (EU) No 1304/2014 of November 26, 2014.

Applicable technical standards for the TSI are published by the European Railways Agency on a regular basis.

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 had to transpose Directive 2014/88/EU into national law by July 30, 2015. Furthermore, Directive 2004/49/EC was subject to a recast by the Directive 2016/798 of the European Parliament and of the Council of May 11, 2016. The intent of this recast was 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.

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. Furthermore, 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 Medical Devices Directive. 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

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 U.S. 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 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, motor coaches 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: (i) manufacturers who sell more than 500 vehicles annually in the United States; (ii) manufacturers of child restraint systems; and (iii) 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 United States 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 the United States where the fatal consequences have been caused by the manufacturer's vehicle parts or components and (ii) to report all fatal accidents outside the United States 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 the United States. 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 U.S. 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 3 million Japanese Yen for the person(s) responsible for the violation, and a fine of up to 200 million Japanese Yen 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 Economy, 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 1 million Japanese Yen. However, so far there are no precedents of such disclosures, any further measures taken by the METI or its reactions 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 the 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 on December 21, 2001 and December 16, 2008, respectively. According to these 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 the People's Republic of China released the Administrative Regulations for Recalls of Defective Automobile Products (the "**Recall Regulation**") on October 22, 2012, which requires us to recall any defective products as defined by the administrative rules and regulations. The Recall Regulation covers the initiation, implementation and reporting procedures for recalls of the defective product. On January 17, 2013, the State Administration of Quality Supervision, Inspection and Quarantine ("**AQSIQ**") issued the Opinions on General Administration of Quality Supervision, Inspection and Quarantine Regarding Several Issues Concerning Implementation of Recall Regulations (the "**AQSIQ Opinion**"). The AQSIQ Opinion elaborates that the defects that subject the products to recall procedure are those resulting from design, manufacturing, labelling or other reasons, common to the same batch, model or type of automobiles, and posing risks to personal or property safety.

As soon as a defect is confirmed, the producer of the product in question must cease production, distribution, sale and/or import and export of the defective products, and must recall those that are in the market. If a producer fails to do so, the product quality control administration of the State Council has the powered to order the producer who fails to comply with the recall procedure to carry out the recall. Upon receiving such order, the producer must take immediate measures including correction or supplementation of marks, repair, replacement, or return of products towards eliminating all defects. The producer must also bear all expenses incurred in eliminating the defects and in shipping/delivering the defective products. If a producer of defective products remains to not to comply with the Recall Regulations, the producer is subject to administrative fines of a maximum amount of RMB 1 million or 10% of the total value of defective products. In addition, the Producer may face punitive administrative actions including revoking its regulatory permits and business licenses.

AQSIQ promulgated the Measures for Implementing the Recall Regulations (the "**Implementing Measures**") on November 27, 2015 (effective from January 1, 2016), which imposes explicit responsibilities on the producers of automotive parts and components, including notifying PRC authorities and relevant car makers in case of potential safety defects on products. In the event of any administrative investigation against defective products, the product quality control administration of the State Council has the power to enter the premises of any automotive parts and components producers, automobile producers and operators, to conduct onsite searches, to review and duplicate relevant materials and records, and to question any entity or individual about possible defects of automobiles. Automotive parts and component producers who do not cooperate in these procedures are subject to administrative fines of a maximum amount of RMB 30,000.

In addition, if the administrative authority suspects that a prepotrator who violates the Recall Regulation or the Implementing Measures may have commited crime, the authority may report the case to criminal procecutionin accordance with the criminal law.

Three Guarantees of Automobiles and Related Parts

On December 29, 2012, the 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 Chinese Renminbi 30,000.

Technical Standards

Compulsory Product Certification

According to Provisions on the Administration of Compulsory Product Certification (the "**Provisions**") promulgated by the AQSIQ on July 3, 2009, products listed in the official catalog, to be updated from time to time, must pass the certification process 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, 2014, the Certification and Accreditation Administration promulgated the Catalogue Description and Definition for Compulsory Product Certification, under which automobile as a whole and several types of automotive components are listed and are therefore required to pass the certification process to receive a CCC.

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 August 29, 2015, 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 lists 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 the 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 Entry 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.

Export Control Regulations and Economic Sanctions

We manufacture products (*e.g.*, bearings and power transmissions) which may be subject to restrictions under EU, U.S. and other applicable export control regulations. Such regulations include commodity, embargo and sanction regulations. Applicable sanctions regulations may generally restrict us from engaging in business in or with designated countries, entities or individuals.

In terms of commodity controls, we manufacture to a limited extent products subject to dual-use controls (*e.g.*, EU Dual-Use, U.S. Export Administration Regulations). Council Regulation (EU) No 428/2009 of May 5, 2009 (last amended by Regulation (EU) 2015/2420 of October 12, 2015), for example, sets forth an EU-wide regime for the control of exports and transfer, brokering and transit of dual-use items. Annex I of this Regulation includes a comprehensive list of dual-use goods which contain, for example, 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.

In addition, some of our products are destined for military applications subject to national military goods controls (*e.g.*, EC-GASP Munitions List, United States Munitions List). We therefore have to observe the applicable export control regulations of the relevant country of manufacture and the relevant country of dispatch. Such deliveries require permits for shipments. Applicable export control regulations may limit or prohibit the export of such products if specific countries, entities, individuals or end-users are the destination of such shipments.

Furthermore, 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 exported, re-exported or made in a country where such regulations apply, or to our operations in countries where such sanctions are applicable.

We have procedures and other measures in place to ensure compliance with applicable export control laws and regulations. Relevant transactions are generally reviewed and authorized or denied, as the case may be, in line with applicable regulations. If required, necessary licenses and/or permits are obtained before conducting such transactions.

In 2015, however, we discovered that some of our subsidiaries had made some limited sales into Iran and some of our distributors may have supplied Schaeffler products to Cuba, which may not have been in full compliance with sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC. Upon discovery of these potential violations, we undertook remedial actions to help ensure compliance with applicable sanctions laws, including discontinuing all sales into Iran, and voluntarily reported these incidents to OFAC. Following the lifting of a number of sanctions targeting Iran in January 2016, we recommenced limited sales into Iran in compliance with applicable sanctions programs. See "*Risk Factors—Legal, Regulatory and Tax Risks—Our risk management and compliance controls and procedures may fail to prevent or detect corruption, fraud, other criminal or unauthorized behavior or violations of trade and economic sanctions rules*."

Laws on State Aid

Within the EU, state aid may be granted by the EU, the EU member states or through state resources 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 EU ("**TFEU**"), aid granted by a member state 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 EU insofar as it affects trade between member states save as otherwise provided in the TFEU.

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 state aid measure as prohibited aid, it may order that various measures be taken by the EU member state concerned. 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), if the Commission has not been notified in advance regarding a contract that entails 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 ancillary provisions, *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 the ancillary provisions set out in the decision of the institution granting the state aid, the aid may be clawed back by the institution that granted the aid.

Management

Management of the Issuer

The Issuer's main governing body is its board of managing directors. The board of managing directors of the Issuer consists of Georg F.W. Schaeffler, Maria-Elisabeth Schaeffler-Thumann, Klaus Rosenfeld and Klaus Deiβenberger.

Georg F.W. Schaeffler and Maria-Elisabeth Schaeffler-Thumann are members of the Supervisory Board of Schaeffler AG, and Klaus Rosenfeld is CEO and a member of the Board of Managing Directors of Schaeffler AG. Klaus Deiβenberger also holds the position of general counsel of Schaeffler AG.

The following table sets forth certain information concerning the members of the Issuer's board of managing directors:

Name	Age	Position
Georg F. W. Schaeffler	51	Managing director
Maria-Elisabeth Schaeffler-Thumann	75	Managing director
Klaus Rosenfeld	50	Managing director
Klaus Deiβenberger	61	Managing director

Georg F. W. Schaeffler is a co-owner of the Issuer. 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 the 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 a co-owner of the Issuer. She studied medicine at Vienna University. 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. She is also a member of the supervisory board of Continental AG.

Klaus Rosenfeld is the Chief Executive Officer of Schaeffler AG and was, until April 1, 2015, its 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. Mr. Rosenfeld is also a member of the supervisory board of Continental AG and a member of its audit committee.

Klaus Deiβenberger is the General Counsel of Schaeffler AG. He studied law at the University of Würzburg and economics at the University of Hagen. He joined FAG Kugelfischer Georg Schäfer KGaA as legal counsel in 1984. In 1992, he joined INA Wälzlager Schaeffler KG ("**INA**") as head of the legal department. Since 2005, following the merger of the activities of Luk, INA and FAG, he serves as General Counsel of the Schaeffler Group.

Management of Schaeffler AG

Schaeffler AG's governing bodies are the Board of Managing Directors, the Supervisory Board and the shareholders' meeting. The powers and responsibilities of these governing bodies are governed by the German Stock Corporation Act (*Aktiengesetz*), the Articles of Association and the bylaws of the Board of Managing Directors and the Supervisory Board.

Board of Managing Directors

The Board of Managing Directors manages Schaeffler AG's business in accordance with the law, the Articles of Association and the bylaws of the Board of Managing Directors and the Supervisory Board, taking into account the resolutions of the shareholders' meeting. The Board of Managing Directors represents Schaeffler AG in its dealings with third parties. The Board of Managing Directors is required to implement and maintain appropriate risk management and risk controlling measures, including setting up a monitoring system in order to ensure that any developments that could potentially endanger the continued existence of Schaeffler AG can be identified early. In addition, the Board of Managing Directors must report regularly to the Supervisory Board on the performance and the operations of Schaeffler AG. The Board of Managing Directors is also required to present to the Supervisory Board for its approval, no later than at the last Supervisory Board meeting of each fiscal year, certain business planning matters (including financial investment and personnel planning) for the following fiscal year.

The Supervisory Board advises the Board of Managing Directors in the management of Schaeffler AG and monitors its management activities. The Board of Managing Directors may not transfer management tasks to the Supervisory Board. However, pursuant to the Articles of Association in combination with the bylaws of the Supervisory Board, the Board of Managing Directors must obtain the consent of the Supervisory Board for certain transactions or actions, including transactions or actions that involve fundamental changes to Schaeffler AG's net assets, financial position or results from operation.

The Supervisory Board appoints the members of the Board of Managing Directors and has the right to remove them for good cause. Simultaneous membership on the Board of Managing Directors and the Supervisory Board is prohibited.

The members of the Board of Managing Directors and the Supervisory Board owe duties of loyalty and due care to Schaeffler AG. In discharging these duties, the members of the governing bodies are required to take into account a broad range of interests, including those of Schaeffler AG, its shareholders, its employees and its creditors. The Board of Managing Directors must also take into account the rights of shareholders to equal treatment and equal information. If the members of the Board of Managing Directors or the Supervisory Board fail to discharge their duties, they are jointly and severally liable to Schaeffler AG for damages.

A D&O insurance policy, which provides for a deductible for the members of the Board of Managing Directors and the Supervisory Board, protects the members of the Board of Managing Directors and Supervisory Board against claims for damages.

The Board of Managing Directors consists of Schaeffler AG's CEO and the officers heading Schaeffler AG's divisions and functions. The Board of Managing Directors is directly responsible for managing Schaeffler AG, setting objectives and the strategic direction, and managing the implementation of the growth strategy.

The following table sets forth certain information concerning the members of the Board of Managing Directors*:*

Name	Age	Position	Appointed Until
Klaus Rosenfeld	50	CEO	06/30/2019
Prof. Dr. Peter Gutzmer	62	Chief Technology Officer and Deputy CEO	12/31/2019
Dr. Ulrich Hauck	52	CFO	03/31/2018
Norbert Indlekofer/Matthias Zink(1)	58	Co-CEO Automotive with responsibility for Transmission Systems, Automotive Aftermarket and Automotive Research and Development	12/31/2016
Oliver Jung	54	Chief Operating Officer	09/30/2018
Prof. Dr. Peter Pleus	62	Co-CEO Automotive with responsibility for Business Development, Global Key Account Management, Engine Systems and Chassis Systems	12/31/2018
Dr. Stefan Spindler	55	CEO Industrial	04/30/2018
Corinna Schittenhelm	49	Chief Human Resources Officer	12/31/2018

(1) On March 11, 2016, the Supervisory Board appointed Matthias Zink as successor of Norbert Indlekofer effective January 1, 2017.

Klaus Rosenfeld is the Chief Executive Officer and was, until April 1, 2015, the 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. Mr. Rosenfeld is also a member of the supervisory board of Continental AG and a member of its audit committee.

Prof. Dr. Peter Gutzmer is the 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 AG powertrain and president of Continental AG's business unit engine systems. Since 2001, he has served as a member of the Board of Managing Directors. He also serves as a member of Continental AG's supervisory board.

Dr. Ulrich Hauck is the Chief Financial Officer. 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 a German Certified Public Accountant and tax consultant at Deloitte.

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. Since 2009, Mr. Indlekofer and Prof. Dr. Peter Pleus have been jointly responsible for the Automotive Division of the entire Schaeffler Group. At his own request, Mr. Indlekofer's contract was not extended beyond December 31, 2016.

Oliver Jung is the 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 board of managing directors, where he was responsible for production and quality management. Mr. Jung joined the Schaeffler Group in 2008 and took over responsibility for corporate production technology in 2011. In 2013, Mr. Jung assumed additional responsibilities for corporate purchasing and corporate logistics. In 2015, he also became responsible for the Schaeffler Group's whole bearings business.

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 board of managing directors for the Automotive Division. In 2005, he became president of the engine systems business division. Since 2009, Prof. Dr. Pleus, together with Norbert Indlekofer, have been jointly responsible for the Automotive Division of the entire Schaeffler Group.

Dr. Stefan Spindler serves as CEO Industrial. He studied mechanical engineering at the Technical University of Munich. He previously worked for Motoren-und Turbinen-Union Friedrichshafen GmbH and Liebherr Machines Bulle S.A., Switzerland. In 2002, Dr. Spindler became a member of the board of managing directors of MAN Diesel SE. Following the merger of MAN Diesel and MAN Turbo, he became Chief Technology Officer on the board of managing directors of the new MAN Diesel & Turbo SE. Since 2010, Dr. Spindler has been a member of the board of managing directors of Bosch Rexroth AG. He joined the Schaeffler Group in 2015.

Corinna Schittenhelm is the Chief Human Resources Officer. She studied business administration. She held various positions at Siemens Mobile Phones, Siemens company VDO AG (Continental AG today) and OSRAM Licht AG where she was responsible for human resources management. She was appointed Chief Human Resources Officer at Schaeffler AG in January 2016.

Matthias Zink is the president of the Transmission Systems business division and on March 11, 2016, he was appointed to be a member of the Board of Managing Directors, as successor of Norbert Indlekofer effective January 1, 2017. He studied mechanical engineering at the University Karlsruhe with a focus on automotive engineering, and joined LuK as a graduate engineer in the testing department in 1994. He was appointed head of Business Unit Clutch Systems in 2006. In 2012, he was appointed President of Schaeffler Automotive Asia/Pacific until 2014 following his appointment as President of the Transmission Systems business division.

The members of the Board of Managing Directors may be reached at Schaeffler AG's office at Schaeffler AG, Industriestraße 1-3, 91074 Herzogenaurach, Germany.

Remuneration of the Board of Managing Directors

Total remuneration of the Board of Managing Directors for the fiscal year ended December 31, 2015, as reported under IFRS, amounted to €19.9 million, including €16.6 million in short-term benefits and €0 million in long-term benefits. Expenses of €3.3 million were recognized in the fiscal year ended December 31, 2015 for post-employment benefits.

In September 2015, in connection with the IPO, the service agreements of seven members of the Board of Managing Directors were amended in the course of establishing a new compensation system. The remuneration provided for in the amended service agreements came into effect with the IPO and was applied with retroactive effect from January 1, 2015. Compensation paid to the members of the Board of Managing Directors includes both non-performance-related and performance-related components. The non-performance-related compensation comprises the base salary along with other remuneration such as pensions. The performance-related compensation consists of the short-term incentive program and the long-term incentive program based on the continued service with Schaeffler AG and certain key performance indicators. Each member of the Board of Managing Directors that has signed an amended service agreement received a sign-on bonus in an amount equal to the base salary of the respective member.

Under the new compensation system, the members of the Board of Managing Directors receive annual base salaries of €600,000, with the CEO receiving twice that amount. The salaries are paid out in twelve monthly installments. In addition, the amended service agreements provide for a fixed

target bonus for each member of the Board of Managing Directors of between €600,000 and €1,200,000. Depending on the extent to which certain pre-agreed key performance indicators and targets are met, each member of the Board of Managing Directors may receive up to 150% of the respective fixed target bonus. The members of the Board of Managing Directors also participate in a long-term incentive plan (the "**LTIP**"). Under this compensation scheme, each member of the Board of Managing Directors will receive phantom stock with a value of between €650,000 and €1,300,000 at the time such phantom stock is awarded. Furthermore, the members of the Board of Managing Directors are entitled to pension payments. The individual pension claims vary depending, *inter alia*, on the tenure and the eligible compensation basis of the respective member of the Board of Managing Directors with Schaeffler AG.

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 the Schaeffler Group's 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	53	Regional CEO, Europe
Andreas Schick	46	Regional CEO, Asia/Pacific
Bruce Warmbold	61	Regional CEO, Americas
Dr. Yilin Zhang	53	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. From 2001 to 2005, he worked as CFO in South Korea and in 2006 assumed the responsibility as CFO Asia/Pacific. At the 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 additionally acts as automotive president for Schaeffler Asia/Pacific. 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 the business unit transmission applications. During 2009 and 2010, he took a special assignment to introduce MOVE into the Schaeffler Group. 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 the University of Hanover 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 AG 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

Pursuant to Section 11(1) of the Articles of Association, Sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*) and the German Co-Determination Act (*Mitbestimmungsgesetz*), the Supervisory Board consists of 20 members. Given the number of employees employed by Schaeffler AG and the Schaeffler Group, Schaeffler AG is subject to statutory co-determination law. In accordance with the German Co-Determination Act (*Mitbestimmungsgesetz*), ten members are elected by the shareholders and ten members are elected by the employees.

The Supervisory Board reaches a quorum if ten members are present. Resolutions of the Supervisory Board are passed with simple majority, unless otherwise mandated by law. In case of a tied vote, the chairman of the Supervisory Board shall have the casting vote. This also applies to elections. If the chairman of the Supervisory Board has not been elected or if he abstains from voting, a tied vote is deemed to be a rejection of the resolution.

Section 100(5) of the German Stock Corporation Act (*Aktiengesetz*) requires the Supervisory Board to have at least one independent member with expertise in the fields of accounting or auditing. Members of the Supervisory Board are considered to be independent if such members have no business or personal relations with Schaeffler AG, its Board of Managing Directors, controlling shareholders or related parties which could cause a substantial and not merely temporary conflict of interest. As concerns the Supervisory Board, Dr. Siegfried Luther is considered to possess the required expertise and independence.

The following table sets forth certain information concerning the members of the Supervisory Board:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	51	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson)	75	Partner of INA-Holding Schaeffler GmbH & Co. KG
Jürgen Wechsler (Deputy Chairperson)	60	Regional Director of IG Metall Bavaria
Prof. Dr. Hans-Jörg Bullinger	72	Senator of Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V.
Dr. Holger Engelmann	51	CEO of Webasto SE
Prof. Dr. Bernd Gottschalk	73	Managing Partner of AutoValue GmbH
Norbert Lenhard	59	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	72	Corporate consultant
Dr. Reinold Mittag	59	Attorney and union secretary with the executive board of IG Metall
Yvonne Münch	36	Head of Purchasing at Magdeburg plant
Barbara Resch	41	Collective Agreement Coordinator of IG Metall Bayern
Stefanie Schmidt	42	Chairwoman of the works council, Wuppertal plant, Schaeffler Technologies AG & Co. KG
Dirk Spindler	52	Chairman of the corporate spokesmen committee of the executive staff, Schaeffler AG, Senior Vice President R&D Processes, Methods and Tools
Robin Stalker	58	CFO of adidas AG
Jürgen Stolz	51	Chairman of the works council of LuK GmbH & Co. KG, Bühl
Salvatore Vicari	50	Chairman of the local works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG
Dr. Otto Wiesheu	71	President of the Economic Advisory Board of Union e.V. in Bavaria
Prof. KR Ing. Siegfried Wolf	58	Chairman of the Board of Russian Machines Corporation
Jürgen Worrich	61	Chairman of the European works council, the Schaeffler Group
Prof. Dr.-Ing. Tong Zhang	56	Director of Clean Energy Automotive Engineering Center, Tongji University, Shanghai, China

Georg F. W. Schaeffler is a co-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 the 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 a co-owner of the Schaeffler Group. She studied medicine at Vienna University. 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. She is also a member of the supervisory board of Continental AG.

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 and has been acting as regional director of Bavaria since 2010.

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 and 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/Autovalue GmbH.

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 the 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 has worked in several finance-related departments of Bertelsmann AG and, from 1990 to 2005, he was a member (2002-2005 vice chairman) of the board of managing directors, 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. Since 2007, he has also been a member of the supervisory board of Evonik Industries AG and a member of its audit committee.

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 Unions (DGB). He holds various law degrees as well as a doctorate in law from the University of Bielefeld.

Yvonne Münch is the head of purchasing at Magdeburg plant. She studied business administration and economics at Magdeburg-Stendal Technical College. Since completing a Bachelor of Science in 2013, Yvonne Muench has been responsible for the Purchasing and Logistics department at the Magdeburg plant. She has been a member of the Economic Committee of Schaeffler Technologies AG & Co. KG since 2008.

Barbara Resch serves as the collective agreement coordinator of IG Metall Bayern since May 2016. She began training in 1991 as a communication electronics technician at Agfa in Peissenberg. She worked as the trade union secretary for IG Metall at the Weilheim office and, after that, worked as the trade union secretary for IG Metall at the Schweinfurt office. In 2015, Barbara Resch was chosen to be the second authorized representative at the IG Metall Schweinfurt office.

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 the 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 the Schaeffler Group and has been head of product development for the

Industrial Division since 2013. In 2016, he was appointed as head of R&D Processes, Methods and Tools.

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, Dr. Wiesheu was the Bavarian state minister for Economic Affairs, Transport and Technology. From 2006 until 2009, he was a member of the board of managing directors of Deutsche Bahn AG.

Prof. KR Ing. Siegfried Wolf serves as the Chairman of the Board of Russian Machines Corporation. Prof. KR Ing. Wolf trained at Philips as a tool and die-maker and holds an engineering degree. From 2005 to 2010, Prof. KR Ing. 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 and CEO at Magna Steyr AG & Co. KG. Prior to joining Magna, Prof. KR Ing. Wolf worked as General Manager and Vice President at Hirtenberger AG and as Assistant Director, Quality Control, at Vereinigte Metallwerke Wien. Prof. KR Ing. 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 Computer Aided Design.

Prof. Dr.-Ing. Tong Zhang is the director of Clean Energy Automotive Engineering Center, Tongji University, Shanghai, China. Prof. Dr.-Ing. 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. Dr.-Ing. Zhang joined the Clean Energy Automotive Engineering Center of Tongji University in Shanghai as vice director and became its director in 2011.

The members of the Supervisory Board may be reached at Schaeffler AG's office at Schaeffler AG, Industriestraße 1-3, 91074 Herzogenaurach, Germany.

Remuneration of the Supervisory Board

Remuneration paid to members of the Supervisory Board amounted to €1.9 million during the fiscal year ended December 31, 2015. There were no provisions for pensions and similar obligations for these persons as of December 31, 2015.

Supervisory Board Committees

The Supervisory Board may form committees from among its members and charge them with the performance of specific tasks. The committees' tasks, authorizations and processes are determined

by the Supervisory Board. Where permissible by law, important powers of the Supervisory Board may also be transferred to the committees. The Supervisory Board has established and currently maintains a general committee, an audit committee, a mediation committee and a nomination committee.

Executive Committee (Präsidialausschuss)

The executive committee is responsible for preparing the Supervisory Board meetings and decisions of the Supervisory Board regarding matters relating to the Board of Managing Directors. The executive committee gives recommendations for the appointment and dismissal of members of the Board of Managing Directors. Furthermore, its approval is required for the conclusion, amendment or termination of the employment contracts of members of the Board of Managing Directors. Thus, the executive committee also acts as Schaeffler AG's remuneration committee.

The following table sets forth the current members of the Supervisory Board's executive committee:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	51	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	75	Partner of INA-Holding Schaeffler GmbH & Co. KG
Norbert Lenhard	59	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG
Barbara Resch	41	Collective Agreement Coordinator of IG Metall Bayern
Jürgen Wechsler	60	Regional Director of IG Metall Bavaria
Prof. KR Ing. Siegfried Wolf	58	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 the 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 (*Aktiengesetz*). Furthermore, the committee discusses draft condensed 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 Supervisory Board's audit committee:

Name	Age	Position
Dr. Siegfried Luther (Chairman)	72	Corporate Consultant
Georg F. W. Schaeffler	51	Partner of INA-Holding Schaeffler GmbH & Co. KG
Dr. Reinold Mittag	59	Attorney and union secretary with the executive board of IG Metall
Robin Stalker	58	CFO of adidas AG
Salvatore Vicari	50	Chairman of the works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG
Jürgen Worrich	61	Chairman of the European works council, the Schaeffler Group

Mediation Committee (Vermittlungsausschuss)

The mediation committee's task pursuant to the German Co-Determination Act (*Mitbestimmungsgesetz*) is to nominate candidates for the Board of Managing Directors in case the required majority is not reached in the first round of voting. The mediation committee consists of the chairman of the Supervisory Board and his deputy, as well as one member elected by the shareholders' representatives and one member elected by the employees' representatives.

The following table sets forth the current members of the Supervisory Board's mediation committee:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	51	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	75	Partner of INA-Holding Schaeffler GmbH & Co. KG
Norbert Lenhard	59	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	60	Regional Director of IG Metall Bavaria

Nomination Committee

The nomination committee, established within the meaning of Section 5.3.3 of the German Corporate Governance Code, is responsible for proposing suitable candidates to Schaeffler AG's shareholders' meeting for election to the Supervisory Board. The nomination committee consists of the chairman of the Supervisory Board along with three other members of the Supervisory Board. These members are also shareholder representatives as stipulated by Section 5.3.3 of the German Corporate Governance Code.

The following table sets forth the current members of the Supervisory Board's nomination committee:

Name	Age	Position
Georg F. W. Schaeffler (Chairman)	51	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	75	Partner of INA-Holding Schaeffler GmbH & Co. KG
Dr. Holger Engelmann	51	CEO of Webasto SE
Prof. Dr. Bernd Gottschalk	73	Managing Partner of AutoValue GmbH

Shareholders of Schaeffler AG

All of the voting shares in Schaeffler AG (75.1% of the total issued share capital) are indirectly held by Maria-Elisabeth Schaeffler-Thumann (20%) and Georg F. W. Schaeffler (80%). The Issuer directly holds all of the voting shares in Schaeffler AG. All of the non-voting shares in Schaeffler AG (24.9% of the total issued share capital) are held by public investors. For further details regarding the shareholders of Schaeffler AG, including intermediate holding companies, see "*Summary—Summary of our Corporate and Debt Structure*."

Certain Relationships and Related Party Transactions

Transactions of the Issuer

Notes Proceeds Loan

On or about the Issue Date, the Issuer will on-lend part of the net proceeds from the Offering to IHO Beteiligungs under a notes proceeds loan in the amount of €880 million (the "**Notes Proceeds Loan**"). The Notes Proceeds Loan will have a term of three years and bear cash interest at a rate of 2.50% per annum. The Notes Proceeds Loan will be secured by shares in Continental AG held by IHO Beteiligungs with a market value of 200% of the principal loan amount on the disbursement date of the Notes Proceeds Loan. The Issuer intends to assume the obligations of IHO Beteiligungs under the Notes Proceeds Loan at a later date. See "*Use of Proceeds*."

Schaeffler AG Loan Notes

As part of an internal reorganization in December 2014, Schaeffler AG issued new shares to IHO Beteiligungs in exchange for a contribution in kind from IHO Beteiligungs that consisted of collateralized loan notes held by IHO Beteiligungs: a loan note issued by the Issuer amounting to €1,071 million and a loan note issued by Schaeffler Beteiligungsholding with a principal amount of €629 million. As of December 31, 2014, the Issuer's financial debt primarily consisted of the €1,071 million loan note. In 2015, the Issuer had repaid principal on its loan note in the amount of €197 million plus accrued interest, which amount is not available to be redrawn. On August 31, 2015, in connection with the amendment of a manual cash management and offsetting agreement between the Issuer and Schaeffler AG, an amount of €270 million outstanding under the agreement was converted into a loan note owing from the Issuer to Schaeffler AG. In addition, on September 1, 2015, the Issuer replaced Schaeffler Beteiligungsholding as the debtor of the loan note issued by Schaeffler Beteiligungsholding. The three loan notes owing from the Issuer to Schaeffler AG are together referred to as the "**Schaeffler AG Loan Notes**." As of December 31, 2015, the Issuer's financial debt primarily consisted of the three Schaeffler AG Loan Notes which amounted to €1,773 million. As of June 30, 2016, the Issuer's financial debt primarily consisted of three Schaeffler AG Loan Notes which amounted to €1,674 million and are secured by share pledges over 23,250,361 common shares of Continental AG. Upon full repayment of the Schaeffler AG Loan Notes in connection with the Transactions, the share pledges over the common shares in Continental AG will be released. For further information about the Schaeffler AG Loan Notes, see "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*."

The Issuer intends to use a portion of the proceeds from the Offering and its drawings under the Issuer Term Facility to fully repay amounts outstanding under the Schaeffler AG Loan Notes. See "*Use of Proceeds*."

Manual Cash Management and Offsetting Agreement

On March 11, 2015, IHO Beteiligungs and the Issuer concluded a manual cash management and offsetting agreement. As of June 30, 2016, a loan in the principal amount of €276 million granted by the Issuer to IHO Beteiligungs was outstanding under the manual cash management and offsetting agreement. On September 5, 2016, the manual cash management and offsetting agreement was terminated. In connection with the termination, the Issuer declared a dividend in the amount of €276 million to IHO Beteiligungs, and the Issuer and IHO Beteiligungsholding set off the outstanding balance of IHO Beteiligungsholding under the agreement against the dividend entitlement on a cashless basis.

Intercompany Service Agreement

On December 18, 2014, the Issuer entered into an intercompany service agreement with IHO Holding GmbH & Co. KG (currently named Schaeffler Holding GmbH & Co. KG) pursuant to which IHO Holding GmbH & Co. KG provides certain accounting, tax and reporting services to the Issuer for an annual fee of less than €0.2 million.

Transactions of the Schaeffler Group

Schaeffler AG Loan Notes

Schaeffler AG is the lender under the three Schaeffler AG Loan Notes with the Issuer as the debtor. For a description of the Schaeffler AG Loan Notes, see "*Description of Other Indebtedness—Indebtedness of the Issuer—Schaeffler AG Loan Notes*" and "*—Transactions of the Issuer—Schaeffler AG Loan Notes.*"

Joint Procurement Cooperation Agreement

On March 27, 2009, Continental AG entered into a joint procurement cooperation agreement (the "**Cooperation Agreement**") with IHO Holding GmbH & Co. KG (currently named 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, IHO 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 a worldwide purchasing cooperation. The goal of the Cooperation Agreement is to strengthen the market and negotiation position of both parties by cumulating their purchasing volumes, allowing them to jointly negotiate lower prices and to achieve advantageous conditions, including procuring higher quality and higher performance from suppliers.

However, the actual purchase of the mutually sourced products is conducted independently by each party and for the respective party's own account.

The Cooperation Agreement will be renewed automatically for consecutive twelve month periods unless cancelled by prior written notice given at least 90 days prior to the end of the respective term.

Relationships with Members of the Board of Managing Directors and the Supervisory Board and Close Members of their Families

For an overview of the compensation and the shareholdings of the members of the Board of Managing Directors and the Supervisory Board, see "*Management—Management of Schaeffler AG*" and "*Management—Shareholders of Schaeffler AG.*"

In the fiscal years ended December 31, 2013, 2014 and 2015 and between January 1, 2016 and the date of this Offering Memorandum, certain members of the Board of Managing Directors, the Supervisory Board and close members of their respective families have acquired and/or sold notes issued by the Schaeffler Group and/or received interest payments in regard to such notes.

General Information on the Issuer

Formation, Incorporation, Trade Name and Registered Office

Schaeffler Verwaltung Zwei GmbH (to be renamed IHO Verwaltungs GmbH) (until October 23, 2014, Schaeffler AG, until October 13, 2011, Schaeffler GmbH and, until June 28, 2010, Schaeffler Verwaltung Zwei GmbH), a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany, was formed on September 29, 2009 and is registered in the Commercial Register of the Fürth Local Court (*Amtsgericht*) under HRB 14734. The Issuer's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

Share Capital

The issued capital of the Issuer amounts to €500,025,000 divided into 500,025,000 shares with a nominal value of €1.00 each, all of which are fully paid up. The Issuer is a wholly owned subsidiary of IHO Beteiligungs. As of the Issue Date, all of the Issuer's subsidiaries, *i.e.*, Schaeffler AG and its subsidiaries, will be Unrestricted Subsidiaries (as defined in the Indenture) of the Issuer. As a result, Schaeffler AG and its subsidiaries or any future subsidiaries that are designated as Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any collateral securing the Notes.

Corporate Purpose

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

The Issuer is a holding company and does not hold any material assets other than 75.1% of the issued share capital of Schaeffler AG and 36.0% of the issued share capital of Continental AG.

Fiscal Year and Term of the Issuer

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

Financial Statements

The Issuer prepares audited unconsolidated financial statements for each fiscal year. The Issuer is not required to produce any consolidated financial statements or any interim financial statements. Pursuant to section 291 of the HGB, the Issuer is exempt from consolidating the financial results of Schaeffler AG due to the fact that the financial results of the Issuer and Schaeffler AG are consolidated in the financial statements of INA-Holding Schaeffler GmbH & Co. KG, the ultimate parent company of the Issuer and Schaeffler AG.

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.

Trend Information

There has been no material adverse change in the prospects of the Issuer since December 31, 2015.

Description of Other Indebtedness

Indebtedness of the Issuer

Issuer Facilities Agreement

On September 7, 2016, the Issuer as borrower entered into a syndicated term loan and revolving credit facilities agreement (the "**Issuer Facilities Agreement**") providing for credit facilities in the aggregate amount of €800 million with, among others, Bank of America Merrill Lynch International Limited, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and HSBC Bank plc as mandated lead arrangers and bookrunners, Deutsche Bank Luxembourg S.A. as facility agent and Deutsche Bank AG, Filiale Luxemburg as security trustee and the mandated lead arrangers and certain of their affiliates named therein as original lenders.

Pursuant to the terms and conditions of the Issuer Facilities Agreement, the lenders have made or, as the case may be, will make available to the Issuer the following credit facilities:

a €600 million term loan facility (the "**Issuer Term Facility**") which matures on the fifth anniversary of the date of the Issuer Facilities Agreement, September 7, 2021; and

a €200 million revolving credit facility (the "**Issuer Revolving Facility**," and together with the Issuer Term Facility, the "**Issuer Facilities**") which matures on the fifth anniversary of the date of the Issuer Facilities Agreement, September 7, 2021.

The Issuer Term Facility will be available for drawings until the date falling six months after the date of the Issuer Facilities Agreement. The Issuer Revolving Facility will be available for drawings in cash until one month prior to the final maturity date. Any commitment undrawn on such dates will be cancelled. All commitments will automatically be cancelled on November 30, 2016 if at such date the Notes have not been issued with an amount of not less than an amount equal to the amounts required to repay the Outstanding IHO Beteiligungs Group Notes.

Interest

The Issuer Facilities bear interest at a rate of EURIBOR (provided that EURIBOR, if below zero, will be deemed to be zero) plus the applicable margin. The initial margin with respect to each of the Issuer Facilities is 2.75% per annum and will apply until delivery of the first compliance certificate relating to the first covenant testing date following the original date of the Issuer Facilities Agreement. Thereafter, the applicable margin with respect to each of the Issuer Facilities will be a percentage per annum determined by reference to the leverage ratio in accordance with a margin ratchet in a range between 1.75% and 3.75% per annum. Accrued interest on the loans drawn under the Issuer Facilities will be payable in cash on the last day of each interest period but in any event on the date falling at six-monthly intervals after the first day of the interest period of a loan.

Purpose

The Issuer Term Facility may be used for (i) the refinancing, repayment and/or prepayment of the credit facilities made available under the €800 million syndicated term and revolving credit facilities agreement dated October 5, 2015 between, among others, Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH) as borrower, Deutsche Bank Luxembourg S.A. as facility agent, Deutsche Bank AG, Filiale Luxemburg as security trustee and others as lenders (the "**Existing IHO Beteiligungs Group Facilities Agreement**") and refinancing, redemption, satisfaction and/or discharge of the Outstanding IHO Beteiligungs Group Notes (including any related indenture) (including in each case the payment of accrued but unpaid interest and redemption premium and any other fees, costs (including break costs), (ii) payment of expenses incurred by any member of the Issuer Group (as defined below) or Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs

GmbH) in connection therewith), (iii) funding of a cash reserve of the Issuer in the amount of (after taking into account the amount of any cash reserve already existing on the first utilization date under the Issuer Facilities Agreement) up to €300 million, and/or (iv) repayment of the Schaeffler AG Loan Notes. The "**Issuer Group**" refers to the Issuer and its subsidiaries from time to time, other than any member of the Schaeffler Group and other than any Designated Non-Issuer Group Entity (as defined below).

The Issuer Revolving Facility may be used for (i) the refinancing, repayment and/or prepayment of the Existing IHO Beteiligungs Group Facilities Agreement and/or the financing or refinancing of transaction costs and fees incurred in connection with the Issuer Facilities Agreement and towards general corporate purposes of any member of the IHO Group (consisting of INA-Holding Schaeffler GmbH & Co. KG ("**IHO**") and its subsidiaries but excluding any Designated Non-Issuer Group Entity) or costs and expenses of any Restricted Person (as defined in the Issuer Facilities Agreement) (including the payment of taxes).

The Borrower may also (i) fund any such purpose from sources other than, as the case may be, the Issuer Term Facility or the Issuer Revolving Facility and apply amounts borrowed by it under the relevant Issuer Facility towards refinancing of such funding and/or (ii) for application towards the relevant purpose, where applicable, on-lend, distribute or otherwise pass on amounts borrowed by it under the relevant Issuer Facility to Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH), the relevant member of the IHO Group or, as the case may be, the relevant Restricted Person.

Repayment

The Issuer Term Facility will be repaid in full on the fifth anniversary of the date of the Issuer Facilities Agreement. Each loan made under the Issuer Revolving Facility will be repaid (subject to an ability to roll over drawings on a cash-less basis) on the last day of the interest period relating thereto and all amounts outstanding under the Issuer Revolving Facility shall be repaid on the fifth anniversary of the date of the Issuer Facilities Agreement. Amounts repaid on loans made under the Issuer Revolving Facility may be re-borrowed during the availability period applicable to it.

Prepayment and cancellation

Subject to certain conditions, the Issuer may voluntarily prepay its utilizations and/or permanently cancel all or part of the available commitments under the Issuer Facilities.

In addition to voluntary prepayments, the Issuer Facilities Agreement requires mandatory prepayment of the loans made available under the Issuer Facilities Agreement 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 Issuer 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 if the Schaeffler Family ceases to own (directly or indirectly) or ceases to hold (directly or indirectly) the right to exercise in their free discretion more than 50% of the share capital and voting rights in the Issuer or the Issuer ceases to own (directly or indirectly) more than 50% of the voting shares in Schaeffler AG (although such lender will, at the request of the Issuer, assign at par its commitment and participation in any facility to another lender willing to accept such assignment, subject to certain conditions), and (iii) following the repayment of the Existing IHO Beteiligungs Group Facilities Agreement and the Outstanding IHO Beteiligungs Group Notes, with respect to any lender under the Issuer Term Facility subject to certain criteria, from net proceeds (the "**Proceeds**") received by (A)(1) a Restricted Person in connection with any disposal of any share or interest in any member of IHO and its Subsidiaries (other than any member of the Schaeffler Group) from time to time (the "**HoldCo/MidCo Group**") or any other entity through which shares in a member of the HoldCo/MidCo Group are held by a Family Shareholder (as

defined in the Issuer Facilities Agreement) (except for any disposal to a Family Shareholder or any entity which is directly or indirectly wholly owned by the Family Shareholders); (2) any member of the Issuer Group in connection with any disposal of shares in the Issuer and/or any member of the Schaeffler Group held by any member of the Issuer Group (except for any disposal to any member of the Issuer Group), (3) any member of the Issuer Group from any increase of its capital other than from a person which is a member of the HoldCo/MidCo Group; and (4) any member of the HoldCo/MidCo Group or any other entity through which any Restricted Person holds a participation in the Issuer from any increase of its capital from a person other than a Restricted Person and (B) a member of the Issuer Group in connection with the sale, transfer or other disposal of Restricted Continental Shares (as defined in the Issuer Facilities Agreement) by any member of the Issuer Group.

Security

The Issuer Facilities are, or as the case may be, will be, secured by security over (i) a certain number of shares in Continental AG and (ii) a certain number of shares in Schaeffler AG. Security over shares in Continental AG securing the Issuer Facilities will be released if the relevant shares are disposed of in accordance with the terms of the Issuer Facilities Agreement (subject to certain prerequisites as the case may be, including application of the relevant Proceeds in mandatory prepayment as set out above). In addition, security over a certain number of shares in Schaeffler AG is to be released if the consolidated total gross debt of the Issuer Group (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) has been reduced to €1,500 million or less. Furthermore, security over a certain number of shares in Continental AG is to be released if the consolidated total gross debt of the Issuer Group (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) has been reduced to €750 million or less. If the consolidated total gross debt of the Issuer Group (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) has been reduced to €1,500 million or less and, on this basis, security over certain shares in Schaeffler AG have been released and, after such release the consolidated total gross debt of the Issuer Group is increased again to above €1,500 million, the Issuer may choose to grant transaction security over an additional number of shares in Continental AG instead of a number of shares in Schaeffler AG. If the consolidated total gross debt of the Issuer Group (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) has been reduced to €750 million or less and, on this basis, security over certain shares in Continental AG have been released and, after such release the consolidated total gross debt of the Issuer Group is increased again to above €750 million, the Issuer must grant transaction security over a number of shares in Continental AG equal to the number of released shares in Continental AG.

Financial Covenants

In respect of its financial condition, the Issuer must comply with a leverage financial covenant as set out in the Issuer 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 the latest financial statements determined (i) on a consolidated basis for Schaeffler AG, (ii) on an unconsolidated basis or, if it has subsidiaries, on a consolidated basis for any other entity (other than a Restricted Person) in which a member of the Issuer Group (directly or indirectly) holds or acquires more than 50% of the voting rights and share capital (together with all members of the Schaeffler Group, the "**Majority Owned Entities**") and (iii) (if applicable, other) members of the Issuer Group.

The Issuer must ensure that the sum of (A) the ratio of the aggregate amount of the total net debt (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) on the relevant testing date of all members of the Issuer Group (for the avoidance of doubt, not taking into account any borrowings of any member of the Schaeffler Group or any other Majority Owned Entity)

to HoldCo Earnings (as defined below) for the 12-month period ending on the relevant testing date; and (B) the ratio of the aggregate amount of total net debt (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) of all Majority Owned Entities which are not members of Issuer Group to the sum of the EBITDA of all Majority Owned Entities which are not members of Issuer Group for the 12-month period ending on the relevant testing date (in each case as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement) (the "**Leverage Ratio**") is not more than 5:00:1, where "**HoldCo Earnings**" means, in respect to any relevant 12-month period, the sum of (i) (as the case may be, consolidated) EBITDA of all Majority Owned Entities for the relevant Period ending on the relevant testing date (as calculated in accordance with the terms and provisions of the Issuer Facilities Agreement and on a pro rata basis, *i.e.*, taking into account, for any Majority Owned Entity which is not directly or indirectly wholly owned by the Issuer, such portion of EBITDA which proportionally corresponds to the Issuer's (direct or indirect) shareholding in such Majority Owned Entity); (ii) dividend income received by any member of the Issuer Group during the relevant 12-month period from any entity which does not qualify as a Majority Owned Entity; and (iii) any interest received by any member of the Issuer Group during the relevant 12-month period from any cash or cash equivalent investments; while (iv) deducting the sum of certain operational costs incurred by all members of the Issuer Group during the relevant 12-month period.

General Covenants

The Issuer Facilities Agreement contains certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the Issuer Facilities Agreement in respect of the relevant covenant (customized to the business of the Issuer Group and adjusted to the current credit standing of the Issuer Group). Such restrictive covenants (subject to agreed exceptions and qualifications) include, without limitation, restrictions on (i) the granting of security for financial indebtedness ("negative pledge"), (ii) the disposal of assets (including shares or interests), (iii) the incurrence of financial indebtedness owing to any member of the Schaeffler Group and any financial indebtedness under any financing taken out in the national or international loan or debt capital markets which is subject to the Issuer Security Pooling and Intercreditor Agreement and which benefits from Transaction Security, (iv) the granting of loans or credits, (v) the provision of guarantees, (vi) mergers and other reorganization measures, (vii) substantial changes to the general nature of the business of the Issuer Group (taken as a whole), (viii) payments (including dividends and other distributions) to Restricted Persons, (ix) the entry into enterprise agreements, (x) the entry into transactions with or for the benefit of any person which is not a member of the Issuer Group other than on arms' length (or, from the Issuer's perspective, better) terms and for fair market value and (xi) the redemption, repurchase or repayment by the Issuer of its share capital.

Furthermore, the Issuer Facilities Agreement requires compliance with certain customary affirmative covenants (subject to agreed exceptions and qualifications) including, among others, with relation to (i) required authorizations and consents (including environmental approvals), (ii) compliance with laws (including environmental laws), (iii) *pari passu* ranking of unsecured and unsubordinated debt obligations, (iv) preservation of assets, (v) payment of taxes, (vi) granting of access, (vii) preservation of holding company status of the Issuer and (viii) holding of Continental shares and shares in Schaeffler AG.

Additionally, the Issuer is obliged to provide certain financial and other information to the lenders under the Issuer Facilities Agreement including, among others, regarding the financial condition of IHO, Schaeffler AG, the Majority Owned Entities and the Issuer Group.

Restricted payments and separation of decks

The Issuer Facilities Agreement generally restricts payments in cash or in kind (including dividends or other distributions) by any member of the Issuer Group and the Schaeffler Group to any Restricted

Person, subject to certain exceptions, including for specified limited cash amounts which may be distributed or paid to any Restricted Person in any financial year (€550 million from the date of the Issuer Facilities Agreement until December 31, 2016 and €200 million in each subsequent financial year (increased, as the case may be, by (i) the amount of any cash and cash equivalent proceeds effectively received from any member of the IHO Group (other than any member of the Issuer Group, any member of the Schaeffler Group or any Designated Non-Issuer Group Entity) (in each case subject to a full carry forward of unused amounts) and (ii) an additional amount of €150 million for the financial year 2017 and for each subsequent financial year for tax payments (in each case subject to a full carry forward of unused amounts).

In addition, the Issuer Facilities Agreement provides that no member of the Issuer Group shall incur or permit to subsist any actual or contingent payment liability to, or in respect of the obligations of, or enter into any contract or agreement with, or transfer to or exchange any assets with, any Restricted Person (including any acts which have the same economic effect as any of the foregoing), unless otherwise permitted under the Issuer Facilities Agreement.

Designated Non-Issuer Group Entity

The Issuer may designate any operating Majority Owned Entity (together with any intermediate holding company newly established or acquired by any member of the Issuer Group for the purposes of acquiring and/or holding any participation in any such entity) in respect of which the Issuer has given notice promptly upon the closing of the relevant acquisition that it elects that the relevant entity or group of entities shall not constitute a member of the Issuer Group for the purposes of the Issuer Facilities Agreement, and any subsidiary of any entity so designated, ("**Designated Non-Issuer Group Entity**") provided that no borrower or guarantor nor any other member of the Issuer Group the shares in which are subject to transaction security may be designated as a Designated Non-Issuer Group Entity; and no entity holding shares in Schaeffler AG and/or shares in Continental AG (other than shares in Continental AG owned by an entity as at the date on which that entity (or its holding company) becomes a Majority Owned Entity (as defined in the Issuer Facilities Agreement) and which had not been acquired by that entity (or its holding company) in contemplation of it (or its holding company) becoming a Majority Owned Entity) may be designated as a Designated Non-Issuer Group Entity.

Continental AG shares disposal and release of Continental AG shares security

Shares in Continental AG which are subject to transaction security can be disposed of at any time, provided that the disposal is made on arm's length and for fair market value and the net proceeds from any such share disposal are used to prepay the Issuer Term Facility.

Shares in Continental AG which are not subject to transaction security may be (i) disposed of at any time, provided that the disposal is made on arm's length and for fair market value and the net proceeds from any such share disposal are used to prepay the Issuer Term Facility, (ii) disposed of without any prepayment being required (1) on arms' length terms if no event of default under the Issuer Facility Agreement is continuing, or (2) to any other member of the Issuer Group if the relevant entity has become a guarantor under the Issuer Facility Agreement, or (iii) used as collateral for financial indebtedness incurred by a member of the Issuer Group.

The number of Continental AG shares that will secure the Notes and the Issuer Facility Agreement will initially be equal to the aggregate principal amount of the Notes offered hereby plus €800 million, divided by the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days (the "**Continental Share Value**") on August 31, 2016, multiplied by 1.75.

If the total gross debt of the Issuer Group (as calculated in accordance with the terms and provisions of the Issuer Facility Agreement) decreases to €1,500 million or less, the share pledge may be

released over the number of Schaeffler AG shares by which the pledged Schaeffler AG shares exceed the number of shares representing 50% plus one share of the voting shares. In the event that, following such release, the total gross debt of the Issuer Group again exceeds €1,500 million, the Issuer may choose to pledge additional Schaeffler AG shares equal to the number of released Schaeffler AG shares or alternatively to pledge (or procure another member of the Issuer Group to pledge) additional Continental AG shares equal to the amount by which the total gross debt of the Issuer Group exceeds €1,500 million divided by the Continental Share Value, multiplied by 2.25.

If the total gross debt of the Issuer Group (as calculated in accordance with the terms and provisions of the Issuer Facility Agreement) decreases to €750 million or less, the share pledge may be released over a number of Continental AG shares equal to the aggregate amount of the secured obligations which are subject to the Issuer Security Pooling and Intercreditor Agreement divided by the Continental Share Value multiplied by 1.25. In the event that, following such release, the total gross debt of the Issuer Group again exceeds €750 million, the Issuer shall pledge (or procure another member of the Issuer Group to pledge) additional Continental AG shares equal to the number of released Continental AG shares.

If Continental AG effects a capital increase from capital reserves, a share split or any measure having a similar effect, the number of shares in Continental AG which are required to be pledged as transaction security would increase in proportion to the increase in the number of outstanding Continental AG shares.

Events of Default

The Issuer Facilities Agreement contains certain customary events of default, the occurrence of which would allow the majority lenders to direct the agent to cancel the commitments, declare that all or part of the loans together with accrued interest and all other amounts accrued or outstanding under the Issuer Facilities Agreement or related finance documents be immediately due and payable.

These events of default, subject to certain agreed grace periods, thresholds, materiality qualifiers and other exceptions, include, without limitation, (i) failure to make payment of amounts due and payable in connection with the Issuer Facilities Agreement or related finance documents, (ii) failure to comply with the financial covenant or other obligations, (iii) the making of payments by a member of the Issuer Group to a Restricted Person which are not permitted pursuant to the terms of the Issuer Facilities Agreement; (iv) misrepresentation; (v) cross-default with respect to other financial indebtedness of the Issuer and/or any other member of the Issuer Group, subject to a threshold of €100 million; (vi) certain insolvency events or proceedings in relation to the Issuer, any other member of the Issuer Group or Schaeffler AG; (vii) certain creditors' processes, including expropriations, attachments or sequestration of assets of any member of the Issuer Group or similar events subject to a threshold of €25 million; (viii) failure to comply with the provisions of the Issuer Security Pooling and Intercreditor Agreement by any member of the HoldCo/MidCo Group; (ix) material adverse change and (x) qualification of the audit report for the annual audited financial statements of IHO or the Issuer.

Governing Law

The Issuer Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by German law.

Issuer Security Pooling and Intercreditor Agreement

Overview

On September 7, 2016, Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH) as parent and the Issuer as obligor and security provider entered into a security pooling and intercreditor agreement (the "**Issuer Security Pooling and Intercreditor Agreement**") governing the

relationships and relative priorities among: (i) the obligor(s) named therein; (ii) the security provider(s) named therein; (iii) certain intra-group creditors (if any) and debtors named therein; (iv) the syndicated facilities lenders named therein; (v) the hedge counterparties under certain hedging agreements named therein; (vi) Deutsche Bank AG, Filiale Luxemburg as security trustee (the "**Security Trustee**"); (vii) Deutsche Bank Luxembourg S.A. as facility agent under the Issuer Facilities Agreement and (viii) the trustee(s) for any notes, including the Notes, that accede(s) to the Issuer Security Pooling and Intercreditor Agreement in the future. By accepting a Note, the Note Holder shall be deemed to have agreed to, and accepted the terms and conditions of, the Issuer Security Pooling and Intercreditor Agreement.

The Issuer (which is referred to in the Issuer Security Pooling and Intercreditor Agreement as "**Company**"), the obligor(s) and the provider(s) of the Transaction Security are referred to in this description as "**Debtors**."

The syndicated facilities lenders, the hedge counterparties, the Security Trustee, each facility agent (which, together, are parties to the Issuer Facilities Agreement from time to time), each notes trustee and the Note Holders are referred to in this description as "**Creditors**."

The Issuer Security Pooling and Intercreditor Agreement is governed by English law. It sets out:

- the relative ranking of certain indebtedness owed to the Creditors;
- the relative ranking of certain security granted by the Debtor(s);
- when payments can be made in respect of certain indebtedness owed to the Creditors;
- when enforcement actions can be taken in respect of that indebtedness by the Creditors;
- 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 Transaction Security.

The following description is a summary of certain provisions, among others, contained in the Issuer 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 Issuer Security Pooling and Intercreditor Agreement in its entirety nor does it describe provisions relating to the rights and obligations of other classes of our debt and debt of our ultimate parent entity Schaeffler Verwaltungs GmbH (to re renamed IHO Beteiligungs GmbH) or capital expenditures. As such, we urge you to read the Issuer 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 Issuer 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 Issuer Security Pooling and Intercreditor Agreement will agree that the liabilities owed by the members of the Issuer Group to (i) the lenders under the Issuer 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 Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH), any member of the Parent Group or any other Restricted Person (each as defined below) (such liabilities being referred to together as the "**Parent Liabilities**") and (iii) certain members of the Issuer Group (the "**Intra-Group Liabilities**") will rank in right and priority of payment in the following order and will be postponed and subordinated to any prior ranking liabilities as follows:

First the Senior Liabilities (*pari passu*, without any preference among such liabilities);

Second the Intra-Group Liabilities (*pari passu*, without any preference among such liabilities); and

Third the Parent Liabilities (*pari passu*, without any preference among such liabilities).

In this description, "**Parent Group**" refers to INA-Holding Schaeffler GmbH & Co. KG together with its subsidiaries from time to time (excluding the Issuer and its subsidiaries), and "**Restricted Person**" means any direct or indirect shareholder of the Issuer or any of their respective affiliates (except for any member of the Issuer Group, any member of the Schaeffler Group, any member of the Continental Group and any entity or group of entities in respect of which the Issuer has notified the facility agent under and in accordance with the Issuer Facilities Agreement or, if no Issuer Facilities Agreement is in place, the Security Trustee that such entity or group of entities shall not constitute a member of the Issuer Group).

The Parent Liabilities are and will remain unguaranteed and unsecured by any member of the Issuer Group and of the Schaeffler Group. Prior to the date on which all Senior Liabilities have been fully discharged ("**Senior Discharge Date**"), the Intra-Group Liabilities and the Parent Liabilities shall comply with the provisions set out in the Issuer 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 Issuer Security Pooling and Intercreditor Agreement will agree that the Transaction Security shall rank and secure the Senior Liabilities *pari passu* and without any preference between the Secured Creditors.

Transaction Security

The Transaction Security is shared between the Note Holders, certain hedge counterparties, the holders of any *pari passu* additional debt and the lenders under the Issuer Facilities Agreement and includes pledges over certain shares in Schaeffler AG and certain shares in Continental AG. 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 Transaction Security 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 Issuer Security Pooling and Intercreditor Agreement provides that the Guarantees and Transaction Security 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 Issuer Security Pooling and Intercreditor Agreement agrees that the Intra-Group Liabilities and the Parent Liabilities are subordinated to the Senior Liabilities. Each of the parties to the Issuer Security Pooling and Intercreditor Agreement agrees that the Parent Liabilities are subordinated to the Intra-Group Liabilities.

Note Creditors and Notes Liabilities

<u>Payment of Notes Liabilities</u>

Prior to any Enforcement Action, the Debtor(s) 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(s) 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 Issuer Security Pooling and Intercreditor Agreement.

<u>Security and Guarantees—Note Creditors</u>

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

- any Security in respect of the Notes Liabilities in addition to the Transaction Security if, and to the extent legally possible, at the same time it is also offered either (i) to the Security Trustee as trustee for the other Secured Creditors in respect of the liabilities owed to them; or (ii) in the case of any jurisdiction in which effective Security cannot be granted in favor of the Security Trustee as trustee for the relevant Secured Creditors, as the case may be, (a) to the other Secured Creditors in respect of the liabilities owed to them; or (b) to the Security Trustee under a parallel debt structure for the benefit of the other Secured Creditors, and ranks in the same order of priority as that described under the caption "*—Ranking and priority*" provided that all amounts received or recovered by any Secured Creditor with respect to such Security are paid to the Security Trustee to the extent required under the Issuer 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 Issuer Security Pooling and Intercreditor Agreement or any equivalent provisions under any other Notes Documents relating to any other Notes; or (ii) the Issuer 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 Holders, through the relevant Notes 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 Issuer 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.*"

<u>Amendments: Notes Documents</u>

Other than for certain specific purposes under the Issuer Security Pooling and Intercreditor Agreement as described under the caption "*—Parallel Debt (Covenant to pay to the Security Trustee)*" and the definition of the term "Secured Obligations" under the Issuer 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 Issuer 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 Issuer 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 Notes Trustee may, at the direction and the expense of the relevant Note Holders (the "**Purchasing Holders**"), if (i) it gives not less than 15 Business Days' prior written notice to each facility agent in respect of the facilities agreement and if applicable, the hedge counterparties; and (ii) prior to giving any such notice, it obtains all necessary approvals from the Purchasing Holders, acquire or procure the acquisition by a person nominated by the relevant Notes Trustee on behalf of (and at the direction and expense of) the Purchasing Holders of all (but not part only) of the rights and obligations of the lenders under the relevant facilities agreement and the hedge counterparties in connection with the liabilities under the finance documents and the liabilities under the hedging agreements by way of transfer under the relevant provision of the Issuer 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 Issuer 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 Transaction Security 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 Issuer 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 Issuer Group, any party entitled to receive a distribution out of the assets of that member of the Issuer 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 Issuer 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 Issuer Security Pooling and Intercreditor Agreement and as described under "*—Application of Proceeds.*"

Set-Off

Subject to certain exceptions relating to certain netting arrangements for hedging transactions, to the extent that any member of the Issuer 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 Issuer Group, any Creditor (and in case of any Notes Trustee, subject to the provisions of the Issuer Security Pooling and Intercreditor Agreement described under the caption "*—Turnover of Receipts*"), which benefited from that set-off shall pay an amount equal to the amount of the liabilities owed to it which are discharged by that set-off to the Security Trustee for application as described under the caption "*—Application of Proceeds.*"

Filing of claims

Without prejudice to provisions relating to set-off as described above, after the occurrence of an Insolvency Event in relation to any member of the Issuer Group, each Creditor irrevocably authorizes the Security Trustee, on its behalf, to:

- take any Enforcement Action (in accordance with the terms of the Issuer Security Pooling and Intercreditor Agreement) against that member of the Issuer Group;
- demand, sue, prove and give receipt for any or all of that member of the Issuer Group's liabilities;
- collect and receive all distributions on, or on account of, any or all of that member of the Issuer 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 Issuer Group's liabilities.

Creditors' actions

Each Creditor (in the case of each Notes Trustee, acting solely on behalf of the relevant Note Holders and subject as provided in "*—Turnover of Receipts—Exclusions*" below) 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 Issuer 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 Issuer Security Pooling and Intercreditor Agreement.

Turnover of Receipts

Turnover by the Creditors

Subject to the provisions set forth in the Issuer 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 (in the case of each Notes Trustee, acting solely on behalf of the relevant Note Holders and subject as provided in "*—Exclusions*" below) 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 "—*Subordination or Insolvency—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 "—*Subordination or Insolvency—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 Issuer Group (other than after the occurrence of an Insolvency Event in respect of that member of the Issuer 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 under 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 "—*Subordination or Insolvency—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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 "*—Parallel Debt (Covenant to pay to the Security Trustee)—Equalization*;" or
- that has been distributed by a Notes Trustee to any of the relevant Note Holders in accordance with the terms of the relevant Notes Documents unless the relevant Notes Trustee had actual knowledge that an Enforcement Action had occurred or that the receipt or recovery falls within the provisions described under the caption "*—Turnover by the Creditors*" prior to distribution of the relevant amount.

Enforcement of Transaction Security

Enforcement Instructions

Following an Enforcement Decision, the Transaction Security shall be enforced by the Security Trustee in accordance with the terms of the Issuer Security Pooling and Intercreditor Agreement, the relevant Transaction Security Document and the Enforcement Decision.

If requested by a Facility Agent, a Notes Trustee or the Instructing Group, the Security Trustee shall notify the Debtors, the Issuer 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 Notes Trustee or the Instructing Group, the Security Trustee shall revoke the Default Notice specified in such request *vis-à-vis* the Issuer 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 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 Issuer 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 Issuer 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 Issuer 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 Issuer Security Pooling and Intercreditor Agreement or any Transaction Finance Documents in particular, but not limited to cases 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 Issuer 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 (in the case of each Notes Trustee, acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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 Issuer Group as instructed by the Security Trustee.

The Security Trustee shall give instructions as directed by the Instructing Group.

The provisions of the Issuer 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 Issuer Security Pooling and Intercreditor Agreement described under the captions "*—Enforcement Instructions,*" "*—Manner of enforcement,*" "*—Distressed Disposals,*" and "*—Application of Proceeds,*" each of the Secured Creditors and each of the Debtors waives all rights it may otherwise have to require that the Transaction Security be enforced in any particular order or manner or at any particular time or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Transaction Security or of any other security interest, which is capable of being applied in or towards discharge of any of the Secured Obligations is so applied.

Assignment and waiver of liabilities

Subject to the condition precedent that (i) an Enforcement Decision has been taken and (ii) notice has been given by the Security Trustee that such waiver shall become effective, the Parent and each Intra-Group Lender, if any, waives any and all claims it may or will have against any of the Debtors arising under or in respect of the Transaction Security (including its enforcement), in particular, without limitation, claims for reimbursement, and any of its claims under any Intra-Group Liability or, as the case maybe, Parent Liability to the extent so notified by the Security Trustee.

Release of Transaction Security and Guarantees: Disposals

<u>Non-Distressed Disposals: General</u>

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:

- 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 Notes 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 Notes Trustee acts as Notes 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 Issuer 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 Issuer Group, to release the Transaction Security and/or any other claim (relating to a Debt Document) over that member of the Issuer 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 Issuer Group or any of its Subsidiaries, upon such member of the Issuer Group ceasing to be a Subsidiary of the Issuer 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.

<u>Application of Proceeds resulting from Non-Distressed Disposals</u>

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 Issuer 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 the Instructing Group),

(a "**Distressed Disposal**"),

the Security Trustee is authorized to execute on behalf of itself and in the name and on behalf of each Secured Creditor, without the need for any further referral to or authority from any Secured Creditor:

- 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;
- 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 Issuer 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;
- 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 Issuer 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;

- 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 of Transaction Security—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 (in the case of each Notes Trustee, acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) and Debtor will do all things that the Security Trustee requests in order to give effect to the release of Transaction Security and Guarantees Disposals (which shall include, without limitation, the execution of any assignments, transfers, releases or other documents (including special power of attorney for the benefit of the Security Trustee) that the Security Trustee may consider to be necessary to give effect to the releases or disposals contemplated hereunder; and if the Security Trustee is not entitled to take any of the actions contemplated hereunder or if the Security Trustee requests that any Creditor or Debtor take any such action, take that action itself in accordance with the instructions of the Security Trustee (in the case of each Notes Trustee, acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents), provided that the proceeds of those disposals are applied in accordance with the provisions described under "*—Application of Proceeds resulting from Non-Distressed Disposals*" or under "*—Distressed Disposals,*" as the case may be.

Release of Transaction Security and Guarantees: General

Transaction Security

If, prior to an Enforcement Decision, each Facility Agent and each Notes Trustee has delivered to the Security Trustee the Release Notification, the Security Trustee:

- shall as soon as reasonably practicable release the Transaction Security specified in such notification in accordance with such notification; and

- is irrevocably authorized and instructed by the Secured Creditors (at the cost of the relevant Security Provider or the Issuer 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 Issuer or any other member of the Issuer 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 Issuer 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 Notes 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 Notes Trustee have notified the Security Trustee that the Facilities Liabilities and the Notes Liabilities have been unconditionally and irrevocably discharged in full and the Issuer has requested the Security Trustee to do so, the Security Trustee shall (and is authorized by each other Secured Creditor to) release, confirm any extinction by operation of law, re-assign or re-transfer, as appropriate, to the relevant Security Provider the Transaction Security and the Parallel Debt Obligations in its own name and in the name and on behalf of any other Secured Creditor holding the relevant Transaction Security, as the case may be, without the need for any further referral to or authority from any other Secured Creditors, save to the extent that the Security Trustee is required to transfer such Security or any surplus proceeds to any third party by mandatory law. Each Secured Creditor shall make any declarations and perform any other acts which are necessary to give full force and effect to any release of Transaction Security pursuant to the provisions set forth in the Issuer 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 Issuer Security Pooling and Intercreditor Agreement described under the caption "*—Prospective liabilities and determination of quotas,*" the proceeds shall be held by the Security Trustee on trust and, to the extent permitted by applicable mandatory law, 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 Notes Trustee and by any Facility Agent;

- ***second,*** in payment to: each Facility Agent on behalf of the relevant Finance Parties for application towards the discharge of the Facilities Liabilities; each Notes Trustee 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 the Parent towards the discharge of any Parent Liabilities; and
- ***sixth,*** the balance, if any, in payment to the relevant Debtor.

Application of proceeds by Security Trustee

Any Agent other than the Security Trustee receiving any proceeds shall without undue delay forward such proceeds it has received to the Security Trustee for distribution pursuant to the provisions set forth in the Issuer 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 Issuer 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;
- 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 Issuer 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 Issuer 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 (in the case of each Notes Trustee, acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) as to the distribution of the relevant funds; or
- any of the Secured Creditors having notified the Security Trustee in writing (in the case of each Notes Trustee, acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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 Issuer 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 set forth in the Issuer 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 Issuer 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 Issuer Security Pooling and Intercreditor Agreement, the Issuer or any other member of the Issuer Group 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;
- 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 Issuer Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the Issuer Security Pooling and Intercreditor Agreement.

All liabilities incurred under any Permitted Refinancing will become Secured Obligations, be treated for all purposes of the Issuer Security Pooling and Intercreditor Agreement in the same way as the

refinanced Secured Obligations and rank accordingly as Senior Liabilities in accordance with the Issuer Security Pooling and Intercreditor Agreement and (to the extent permitted by applicable law) be secured by the Transaction Security existing as of the date such liabilities are incurred *pari passu* with the then existing Senior Liabilities, *provided that*:

- in case of a Notes Refinancing, the Notes Effective Date has occurred with respect to such Notes; and
- in case of a Senior Facilities Refinancing, the Facilities Effective Date has occurred with respect to such Senior Facilities Refinancing.

New Debt

Subject to the terms and provisions of all Transaction Finance Documents including the specific provisions of the Issuer Security Pooling and Intercreditor Agreement, the Issuer or any other member of the Issuer Group 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 Issuer Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the Issuer 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 Issuer Security Pooling and Intercreditor Agreement in the same way as any other Secured Obligations and rank accordingly as Senior Liabilities in accordance with the Issuer 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 Issuer Security Pooling and Intercreditor Agreement shall affect or limit the rights of any member of the Issuer Group to take out, issue or incur indebtedness under any 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 Notes Trustee in respect of such Notes has agreed to be bound by the terms of the Issuer Security Pooling and Intercreditor Agreement as a Notes Trustee;
  - the relevant Notes Trustee or the Issuer 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 Transaction Security 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 Issuer 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;
  - the Facility Agent has notified the Security Trustee that the issuance of such Notes is permitted under the Finance Documents of any Facilities Liabilities then outstanding and each Notes Trustee has notified the Security Trustee that the issuance of such Notes is not prohibited under the relevant Notes Documents of any Notes then outstanding;
  - subject to the provisions described under the caption "—*Transaction Security,*" the Security Trustee has received legal opinion(s) from legal counsel to it or to the Issuer capable of being relied upon by, each Facility Agent, each Notes Trustee, the Security Trustee and the other Secured Creditors other than the Note Holders (in form and substance satisfactory to the Security Trustee and with a copy to each Notes 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*, to the extent such legal opinion(s) do not confirm for such 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 Notes Trustee (acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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

Issuer, 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 Issuer; 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 Issuer 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 Issuer that the respective Note Holders are, on or after the occurrence of any Enforcement Action pursuant to the Issuer 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 (acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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 other 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 Issuer that the terms of the relevant notes documents are satisfactory to it with respect to its position as Security Trustee,

(with respect to any Notes and Additional Notes, the "**Notes Effective Date Requirements**") then the Security Trustee shall, subject as described under the caption "—*Decisions of Secured Creditors*," notify the Agents and the Issuer in writing that the requirements for a "**Notes Effective Date**" for such Notes Refinancing or Notes Financing have been satisfied (the date as of which the Security Trustee has made such notification the "**Notes Effective Date**" in relation to such Notes Refinancing or Notes Financing and such notification being the "**Notes Effective Date Notice**").

Facilities Effective Date

If in respect of a Senior Facilities Refinancing or Senior Facilities Financing:

- written notices have been received by the Security Trustee:
  - from the relevant Facility Agent confirming to the Security Trustee that such Senior Facilities Refinancing or Senior Facilities Financing, as the case may be, is permitted under the Finance Documents of any Facilities Liabilities then outstanding; and
  - either from each Notes Trustee (acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) confirming to the Security Trustee or from the Issuer 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;
- the relevant Facility Agent or the Issuer 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 Issuer addressed to, and/or capable of being relied upon by, each Facility Agent, each Notes Trustee, the Security Trustee and the other Secured Creditors other than the Note Holders (in form and substance satisfactory to the Security Trustee and with a copy to each Notes 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* such legal opinion(s) do not need to confirm for such 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 Notes Trustee (acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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 Issuer, 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 Issuer,

(together, the "**Facilities Effective Date Requirements**") then the Security Trustee shall notify the other Secured Creditors (other than the Note Holders) in writing that the requirements for a "Facilities Effective Date" for such Senior Facilities Refinancing or Senior Facilities Financing have been satisfied (the date as of which the Security Trustee has made such notification the "**Facilities**

Effective Date" in relation to such Senior Facilities Refinancing or Senior Facilities Financing and such notification being the "**Facilities Effective Date Notice**").

Decisions of Secured Creditors

With respect to any Notes, the Security Trustee may submit the question whether from a legal perspective the conclusion of the Security Confirmation Agreement(s) and/or the provision of Lower Ranking Security and/or any Local Law Security Amendment Agreement (in each case as set out in the instruction under the caption "*—Notes Effective Date,*" or "*—Facilities Effective Date*"), will or will not adversely affect any Transaction Security granted to the Security Trustee or any other Secured Creditor as of that time and the legal opinions referred to under the provisions set forth under the caption "*—Notes Effective Date,*" or "*—Facilities Effective Date,*" to the Facility Agent(s) and the Notes Trustee(s). The Facility Agent(s) and the Notes Trustee(s) (acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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 Notes Trustee(s) (in the case of the Notes Trustee acting as specified above) to the Security Trustee.

If the Security Trustee has submitted the question referred to above to the Facility Agent(s) and the Notes Trustee(s), then the Security Trustee shall prior to having received an unanimous instruction issued by all Facility Agent(s) and all Notes Trustee(s) waiving the requirements set out under the caption "*—Notes Effective Date,*" and/or "*—Facilities Effective Date,*" respectively, be under no obligation to provide any notice that a Notes Effective Date or a Facilities Effective Date has occurred.

Transaction Security

In case of any Non-accessory Security Interest, the Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree to a confirmation of the Notes Parallel Debt Obligations or SFA Parallel Debt Obligations, as the case may be, and a confirmation and/or amendment of the terms of the Transaction Security Documents creating and recording such Non-accessory Security Interest, in order that, such Non-accessory Security Interest shall serve to secure all relevant Notes Liabilities and/or Facilities Liabilities (including those in respect of which the Notes Effective Date or Facilities Effective Date, as the case may be, has been or is intended to be declared) and the other Secured Obligations equally and ratably, in each case subject to the terms of the Issuer Security Pooling and Intercreditor Agreement (any such confirmation and/or amendment agreement, a "**Security Confirmation Agreement**"). Each Security Provider and each Secured Creditor (in the case of each Notes Trustee, acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) 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 Issuer 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 Issuer Security Pooling and Intercreditor Agreement (any such agreement named above, a Local Law Security Amendment Agreement).

To the extent liabilities incurred under any Permitted Refinancing or Permitted Financing cannot be secured *pari passu* with the then existing Senior Liabilities under the existing Transaction Security Documents without the Transaction Security under such existing Transaction Security Documents first being released, the Parties agree that the Security Trustee is authorized to release such existing Transaction Security *provided that* immediately on such release, the Transaction Security released shall be retaken 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 retaken 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 Notes Trustee(s) (acting solely on behalf of, and as directed by, the relevant Note Holders in accordance with the terms of the relevant Notes Documents) and Facility Agent(s) to release and retake such Transaction Security.

Decisions of the Instructing Group

Resolutions

If, pursuant to the provisions set forth in the Issuer Security Pooling and Intercreditor Agreement, a decision, instruction or consent of the Instructing Group is required or requested by the Issuer, 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 Notes Trustee(s)) the following shall apply:

- Any decision, instruction or consent of the Instructing Group for the purpose of the Issuer 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 Notes 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 have (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 Issuer Security Pooling and Intercreditor Agreement. The relevant Notes 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 Notes 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 have (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 Issuer 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*" of the Issuer Security Pooling and Intercreditor Agreement 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 the euro, the Security Trustee shall convert such amount into euro 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 euro basis, converted pursuant to the paragraph above) with respect to the relevant resolution.
- Any resolution passed pursuant to the paragraph above is referred to as a decision or resolution of the Instructing Group for the purposes of this Agreement, any Facilities Agreement and, if required, the Transaction Security Documents and the Guarantee Documents. For the avoidance of doubt, all Secured Creditors (including any Secured Creditor who is not entitled to participate in or abstains from the voting) shall be bound by the decision of the Instructing Group.

At the request of the Issuer 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 Notes 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 Notes 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 Business Days on a website the address of which has been notified by the Security Trustee to the Secured Creditors (in case of the Note Holders, to the Notes 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 Business Days before dispatching the Resolution Notice (the "**Website**"). The Resolution Notice shall specify the resolution to be voted on.

Resolution Notices relating to the same decision, instruction or consent shall be dispatched to all classes of Secured Creditors entitled to vote on the same day and shall have substantially the same content; provided that, for purposes of obtaining any consent of the Instructing Group under the caption "*—Amendments: Finance Documents*" of the Issuer Security Pooling and Intercreditor Agreement only, the Issuer 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 euro 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 Issuer that the resolution has been duly passed.

The Notes 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 Website:

- 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 Business Days, and within three Business Days if it is stated in the Resolution Notice that the resolution is urgent; and

- in any other case, within 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 Notes 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 Notes Trustee), if by letter, at noon two days after such letter was posted (or in the case of airmail, five 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 Website 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 Website, as the case may be.

General

Without prejudice to the provisions set forth in the Issuer Group Security and Pooling Agreement under the caption "*—Enforcement of Transaction Security,*" the Security Trustee shall:

- exercise any right, power, authority or discretion vested in it as Security Trustee in accordance with any instructions given to it by the Instructing Group (or, if so instructed by the Instructing Group, refrain from exercising any right, power, authority or discretion vested in it as Security Trustee); and
- not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Instructing Group.

In the absence of instructions from the Instructing Group, the Security Trustee may in its sole discretion refrain from any action, or if it decides in its sole discretion to act, act as it considers in its sole discretion to be 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 Issuer 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 Issuer Facilities Agreement), that each of them shall pay to the Security Trustee on the terms set out in the Issuer Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to any Finance Party (i) under any Finance Document, or (ii) in respect of any claims for damages and claims arising out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Finance Document (the "**SFA Principal Obligations**") as and when the same fall due for payment under the relevant Finance Document, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take

appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**SFA Parallel Debt Obligations**").

Each of the Obligors that is an issuer of any Notes (or guarantees any present or future sums, liabilities or obligations (actual and contingent) owing by any member of the Issuer Group to any Notes Trustee or any Note Holders under any Notes or any related Notes Document) irrevocably and unconditionally agrees and undertakes with the Security Trustee, in each case subject to the occurrence of a Notes Effective Date relating to such Notes (except with respect to the Notes offered hereby), that each of them shall pay to the Security Trustee on the terms set out in the Issuer Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to the relevant Notes 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 on the terms set out in the Issuer Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to the Hedge Counterparties (i) under the Hedging Agreements or (ii) out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Hedging Agreement (the "**Hedging Principal Obligations,**" and together with the SFA Principal Obligations and the Notes Principal Obligations, the "**Principal Obligations**") as and when the same fall due for payment under the relevant Hedging Agreement, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**Hedging Parallel Debt Obligations,**" and together with the SFA Parallel Debt Obligations and the Notes Parallel Debt Obligations, if any, the "**Parallel Debt Obligations**").

The right of the Security Trustee on the terms set out in the Issuer Security Pooling and Intercreditor Agreement to demand payment of the Parallel Debt Obligations shall be independent and several from the rights of the other Secured Creditors to demand payment of the Principal Obligations *provided that* (i) the payment by an Obligor of all or any part of its Parallel Debt Obligations to one or other or the Security Trustee shall also discharge (in the amount of the relevant payment) 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 on the terms set out in the Issuer Security Pooling and Intercreditor Agreement. For the avoidance of doubt, no Principal Obligation shall be discharged as a result of any voidness or voidability of the Parallel Debt Obligations or any similar defense invoked by or on behalf of an Obligor *vis-à-vis* the

Security Trustee. No Obligor may declare a set-off or otherwise invoke any counterclaim against the Parallel Debt Obligations.

Despite the foregoing, any payment:

- under the Finance Documents shall be made in accordance with the provisions set forth in the Issuer Group Security and Pooling Agreement under the caption "—*Payment of Facilities Liabilities*" of the Issuer Security Pooling and Intercreditor Agreement and the Finance Documents;
- under the Notes Documents shall be made in accordance with the provisions set forth in the Issuer Group Security and Pooling Agreement under the caption "—*Note Creditors and Notes Liabilities—Payment of Notes Liabilities*;"
- 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 of any of the amounts which in accordance with paragraphs (i) to (iii) above have to be paid to the relevant Facility Agent, any other Finance Party, the Paying Agent(s), the Notes 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 Issuer 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 Notes 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 Notes Trustee(s).

Nothing shall in any way limit each of the Security Trustee's rights to act in the protection or preservation of rights under any Transaction Security Document or to enforce any Transaction Security as contemplated by the Issuer 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 Notes Trustee(s), subject to the provisions set forth in the Issuer Security Pooling and Intercreditor Agreement described under the caption "—*Turnover of Receipts—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 Issuer 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 Notes Trustee(s), to the provisions set forth in the Issuer Security Pooling and Intercreditor Agreement described under the caption "*—Turnover of Receipts—Turnover by the Creditors*" and the provisions of the relevant Notes Documents) 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 Holders

Any Note Holders may transfer all or part of their 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 Issuer Security Pooling and Intercreditor Agreement and be subject to the limitations and obligations of a Note Holder under the Issuer Security Pooling and Intercreditor Agreement.

Consents, Amendments and Override

Required consents

Subject to the below, the Issuer Security Pooling and Intercreditor Agreement may be amended or waived with the consent of the Issuer, 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 Creditors, 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 Issuer Group Security and Pooling Agreement under the captions "*Intra-Group Lenders and Intra-Group Liabilities,*" "*Parent and Parent Liabilities,*" "*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 Issuer, the Security Trustee, the Notes 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 relates to the provisions set forth in the Issuer Security Pooling and Intercreditor Agreement under the captions "*Ranking/Subordinated Liabilities,*" "*Transaction Security,*" "*Hedge Counterparties and Hedging Liabilities,*" "*Turnover of Receipts,*" "*Parallel Debt,*" "*Equalization,*" or "*Transaction costs and expenses,*" "*Secured Creditors' indemnity,*" "*Information*" or "*Notices,*" then such amendment or waiver shall in addition require the consent of each Hedge Counterparty. Any amendment or waiver which has the effect of changing or which relates to "*Application of Proceeds*" shall only require the consent of each Hedge Counterparty if such amendment or waiver would adversely affect the Hedge Counterparties.

The Issuer Security Pooling and Intercreditor Agreement may be amended by the Facility Agent, the Notes 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 Issuer Security Pooling and Intercreditor Agreement, in the case of any conflict between the Issuer Security Pooling and Intercreditor Agreement and any other Debt Document, the Issuer Security Pooling and Intercreditor Agreement shall prevail.

Termination

Except for certain protective provisions for the benefit of the Security Trustee and the Notes Trustee, the Issuer Security Pooling and Intercreditor Agreement will automatically terminate upon the earlier of the occurrence of the Senior Discharge Date and when all Transaction Security has been irrevocably released or otherwise terminated.

Schaeffler AG Loan Notes

As of the date of this Offering Memorandum, three collateralized loan notes in the amount of €1,674 million (excluding accrued interest) were outstanding with the Issuer as the sole debtor and Schaeffler AG as lender (the "**Schaeffler AG Loan Notes**"). The Issuer intends to use a portion of the proceeds from the Offering and its drawings under the Issuer Term Facility to fully repay amounts outstanding under the Schaeffler AG Loan Notes. See "*Use of Proceeds*."

Origination of the Schaeffler AG Loan Notes

As part of an internal reorganization in December 2014, Schaeffler AG issued new shares to IHO Beteiligungs in exchange for a contribution in kind from IHO Beteiligungs that consisted of collateralized loan notes held by IHO Beteiligungs: a loan note issued by the Issuer amounting to €1,071 million (resulting from a loan agreement providing for a €1,071 million term facility entered into on December 12, 2014 between Schaeffler AG as lender and the Issuer as borrower, which was fully drawn as of December 31, 2014) and a loan note issued by Schaeffler Beteiligungsholding, which at that time was a subsidiary of the Issuer, amounting to €629 million (resulting from a loan agreement providing for a €629 million term facility entered into on December 12, 2014 between Schaeffler AG as lender and Schaeffler Beteiligungsholding as borrower, which was fully drawn as of December 31, 2014).

On August 31, 2015, in connection with the amendment of a manual cash management and offsetting agreement between Schaeffler AG and the Issuer, an amount of €270 million outstanding under the agreement was converted into a loan note owing from the Issuer to Schaeffler AG. In addition, on September 1, 2015, the Issuer replaced Schaeffler Beteiligungsholding as the debtor of the loan note issued by Schaeffler Beteiligungsholding. The three loan notes owing from the Issuer to Schaeffler AG are together referred to as the "**Schaeffler AG Loan Notes**." The Issuer is the sole debtor under the Schaeffler AG Loan Notes and has repaid principal on the Schaeffler AG Loan Notes in 2015 in the amount of €197 million, and until the date of this Offering Memorandum has repaid principal in the amount of €98.5 million, which amount is not available to be redrawn.

Terms and Conditions of the Schaeffler AG Loan Notes

Each Schaeffler AG Loan Note matures on December 12, 2024 and bears cash interest at 4.00% per annum. The terms of the loans relating to the payment of interest stipulate that the Issuer has the option to capitalize 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% per annum.

Collateral provided in Connection with the Schaeffler AG Loan Notes

The Schaeffler AG Loan Notes are secured by share pledges over 23,250,361 common shares in Continental AG which will not secure the Notes and will not be governed by the terms of the Issuer Security Pooling and Intercreditor Agreement. Based on a Continental Share Value of €183.50, these shares had a total market value of €4,266 million as of August 31, 2016 (*i.e.*, 255% of the value of the Schaeffler AG Loan Notes). The Issuer may request the release of some of the Continental AG shares from the share pledges if part of the Schaeffler AG Loan Notes have been repaid or prepaid and, following such repayment or prepayment, the remaining loan amounts are secured by shares of Continental AG with a value equal to at least 200.0% of the then outstanding balance of the Schaeffler AG Loan Notes, with such value calculated by using the then current Continental AG share price. Upon full repayment of the Schaeffler AG Loan Notes in connection with the Transactions, the share pledges over the common shares in Continental AG will be released.

Indebtedness of the Schaeffler Group

New Schaeffler Group Facilities Agreement

On July 18, 2016, Schaeffler AG entered into a new €2,300 million syndicated term loan and revolving credit facilities agreement (the "**New Schaeffler Group Facilities Agreement**"), with Schaeffler AG as borrower, certain of its subsidiaries as guarantors and, among others, BNP Paribas S.A., Niederlassung Deutschland, Commerzbank Aktiengesellschaft, J.P. Morgan Limited and UniCredit Bank AG as coordinators, mandated lead arrangers and bookrunners, Commerzbank Finance & Covered Bond S.A. as facility agent and Deutsche Bank Luxembourg S.A. as security trustee and certain banks and financial institutions named therein as original lenders. The New Schaeffler Group Facilities Agreement refinanced the old syndicated term loan and revolving credit facilities agreement consisting of term facilities in the amount of €750 million and $1,300 million and a revolving facility in the amount of €1,000 million (the "**Old Schaeffler Group Facilities Agreement**") entered into on October 27, 2014 with Schaeffler AG as borrower and certain of its subsidiaries as guarantors.

Pursuant to the terms and conditions of the New Schaeffler Group Facilities Agreement, the lenders have made available to the borrowers the following credit facilities:

- a €1,000 million term loan facility (the "**New Schaeffler Group Term Facility**") which matures, subject to an extension option, on the fifth anniversary of the date of the New Schaeffler Group Facilities Agreement; and
- a €1,300 million multi-currency revolving credit facility (the "**New Schaeffler Group Revolving Facility**" and, together with the New Schaeffler Group Term Facility, the "**New Schaeffler Group Facilities**"), which matures, subject to certain extension options, on the fifth anniversary of the date of the New Schaeffler Group Facilities Agreement. Schaeffler AG has the right to request (subject to certain conditions being met) an increase of the New Schaeffler Group Revolving Facility by an aggregate amount of up to €200 million provided that the lenders may decide in their free discretion whether or not they agree to participate in any such increase. The New Schaeffler 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. In addition, Schaeffler AG or any of its subsidiaries may agree with a lender under the New Schaeffler Group 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 amount of all commitments made available under

ancillary facilities must not exceed the higher of (i) €650 million and (ii) 50% of the amount of the total commitments in relation to the New Schaeffler Group Revolving Facility.

Extension option – New Schaeffler Group Term Facility

The New Schaeffler Group Facilities Agreement provides for an extension option in relation to the New Schaeffler Group Term Facility pursuant to which Schaeffler AG may, shortly before the date falling one year before the original final maturity date, request an extension of the final maturity date applicable to the New Schaeffler Group Term Facility by one year to the date falling six years after the date of the New Schaeffler Group Facilities Agreement. The lenders under the New Schaeffler Group Term Facility may decide in their sole discretion to agree or not to agree to such extension request. The final maturity date applicable to the New Schaeffler Group Term Facility will be extended in relation to the participations in the New Schaeffler Group Term Facility of each lender which agrees to such extension request.

Extension option – New Schaeffler Group Revolving Facility

The New Schaeffler Group Facilities Agreement provides for an extension option in relation to the New Schaeffler AG Revolving Facility pursuant to which Schaeffler AG may request (i) prior to the first anniversary of the date of the New Schaeffler Group Facilities Agreement, an extension of the final maturity date applicable to the New Schaeffler Group Revolving Facility by one year to the date falling six years after the date of the New Schaeffler Group Facilities Agreement and/or (ii) prior to the second anniversary of the date of the New Schaeffler Group Facilities Agreement, an extension of the final maturity date applicable to the New Schaeffler Group Revolving Facility by one or, as the case may be, two years to the date falling six or, as applicable, seven years after the date of the New Schaeffler Group Facilities Agreement. The lenders under the New Schaeffler Group Term Facility may in each case decide in their sole discretion to agree or not to agree to any such extension request. The final maturity date applicable to the New Schaeffler Group Revolving Facility will be extended (as requested) in relation to the participations of each lender in the New Schaeffler Group Revolving Facility which agrees to the relevant extension request.

Interest

The New Schaeffler Group Facilities bear interest, in case of euro loans, at a rate of EURIBOR, or, in the case of loans drawn in any currency other than euro, LIBOR (provided that EURIBOR is, if EURIBOR is below zero, zero and LIBOR is, if LIBOR is below zero, zero), plus the applicable margin. The applicable margin is initially (i) 1.70% per annum in relation to the New Schaeffler Group Term Facility, (ii) 1.30% per annum in relation to any loan denominated in a currency (other than U.S. dollars) under the New Schaeffler Group Revolving Facility and (iii) 1.45% per annum in relation to any loan denominated in U.S. dollars under the New Schaeffler Group Revolving Facility. Following the delivery of the compliance certificate relating to the first covenant testing date following the date of the New Schaeffler Group Facilities Agreement, the applicable margin in relation to the New Schaeffler Group Facilities is or, as the case may be, will be a percentage per annum determined in accordance with a leverage ratchet. The first compliance certificate has been delivered and the applicable margins have been reduced in accordance with the leverage ratchet.

Purpose

The term loans outstanding under the New Schaeffler Group Term Facility were used to repay all outstanding amounts under the then-existing senior facilities agreement. The remaining available commitments under the New Schaeffler Group Term Facility were used to redeem the Redeemed Schaeffler Group April 2013 Notes.

The New Schaeffler Group Revolving Facility may be used towards general corporate purposes of Schaeffler AG and its subsidiaries.

(P)repayment/cancellation

The available commitments under the New Schaeffler Group Term Facility will be automatically cancelled upon the expiry of the applicable availability period. All loans utilized under the New Schaeffler Group Term Facility must be repaid on the final maturity date (as extended as the case may be) applicable to it.

Any loan made available under the New Schaeffler Group Revolving Facility shall be repaid on the last day of its interest period and all amounts outstanding under the New Schaeffler Group Revolving Facility shall be repaid on the final maturity date (as extended as the case may be) applicable to the New Schaeffler Group 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 New Schaeffler Group Facilities.

The New Schaeffler Group Facilities Agreement requires mandatory prepayment of the term loans made available under the New Schaeffler Group Facilities in full with respect to any lender who so requires (i) if it becomes unlawful in any applicable jurisdiction for that lender to perform any of its obligations under the New Schaeffler Group Facilities Agreement or to fund or maintain its participation in any loans, or (ii) following a specified negotiation period after the occurrence of a change of control. In each case, any such lender is required, at the request of Schaeffler AG, to assign at par its commitment and participation in the New Schaeffler Group Facilities to another lender willing to accept such assignment, subject to certain conditions.

Security and Guarantees

The New Schaeffler Group Facilities Agreement also requires that, until a solicited credit rating of Baa2/BBB has been assigned to Schaeffler AG's long-term debt by any two of Moody's and/or any of the other two rating agencies of international standing which were market leaders on the date of the New Schaeffler Group Facilities Agreement (the "**Fall-away Date**"), to the extent permitted by applicable law and subject to the principles concerning the granting of security or guarantees agreed between the parties of the New Schaeffler Group Facilities Agreement, each subsidiary of Schaeffler AG: (i) whose unconsolidated gross assets represents 7.5% or more of the total unconsolidated gross assets of Schaeffler AG and its subsidiaries; (ii) whose unconsolidated turnover represents 7.5% or more of the total unconsolidated turnover of Schaeffler AG and its subsidiaries; or (iii) whose unconsolidated EBITDA represents 7.5% or more of the total unconsolidated EBITDA of Schaeffler AG and its subsidiaries ("**Material Subsidiaries**," but excluding any Material Subsidiary incorporated or established in South Korea, India, China or Russia) guarantees the New Schaeffler Group Facilities Agreement.

The New Schaeffler Group Facilities are secured by security over (i) all interests in Schaeffler Technologies AG & Co. KG and (ii) all shares in Schaeffler Finance B.V. The transaction security securing the New Schaeffler Group Facilities will be released under certain circumstances as described under "*—Release of transaction security.*"

Financial Covenant

Until the occurrence of the Fall-away Date, 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 New Schaeffler Group Facilities Agreement) (the "**Leverage Ratio**") for the relevant testing period is not more than (i) 3.25:1 or (ii) 3.75:1 in respect of any of the next following four testing dates falling after the date of closing of an acquisition which complies with certain prerequisites (including Schaeffler AG giving notice to the facility agent of such acquisition). Compliance with the Leverage Ratio is tested as of the last date of each 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. For this purpose, Schaeffler AG's consolidated total net debt is calculated as of each testing date and Schaeffler AG's consolidated EBITDA is calculated for the testing period ending on the relevant testing date.

General covenants

The New Schaeffler Group Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the New Schaeffler Group 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 restrictions on (i) the granting of security for financial indebtedness ("**negative pledge**"), (ii) asset disposals by any obligor under the New Schaeffler Group Facilities Agreement or any Material Subsidiary (each a "**Material Group Member**"), (iii) the incurrence of financial indebtedness by any subsidiary of Schaeffler AG (other than any finance subsidiary), (iv) the granting of loans or credits, (v) the provision of guarantees, (vi) mergers and other reorganization measures involving any Material Group Member and (vii) substantial changes to the general nature of the business of Schaeffler AG and its subsidiaries (taken as a whole). Additionally, Schaeffler AG has the obligation to provide certain financial information and other information regarding its (consolidated (if applicable)) financial condition to the lenders under the New Schaeffler Group Facilities Agreement.

In addition, the New Schaeffler Group Facilities Agreement requires Schaeffler AG and its subsidiaries to observe certain customary affirmative covenants (subject to agreed exceptions and qualifications) including in relation to the obtaining of and compliance with any required authorizations, compliance with laws and maintenance of *pari passu* ranking of unsecured debt obligations.

Events of Default

The New Schaeffler Group Facilities Agreement contains customary events of default, the occurrence of which would allow the lenders to cancel their commitments, declare that all or part of the loans together with accrued interest and all other amounts accrued or outstanding under the finance documents be immediately due and payable 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 New Schaeffler Group Facilities Agreement;

(b) failure to comply with the financial covenant;

(c) a cross-default with respect to other financial indebtedness of Schaeffler AG and/or any other Material Group Member, subject to a threshold of €100 million;

(d) certain insolvency events or proceedings in relation to a Material Group Member;

(e) certain creditors' processes, including expropriations, attachments or sequestration of assets or similar events affecting assets of a Material Group Member, subject to a threshold of €50 million;

(f) (prior to the occurrence of the Fall-away Date) change of ownership events, i.e., an obligor (other than Schaeffler AG) ceases to be a subsidiary of Schaeffler AG; and

(g) (prior to the occurrence of the Fall-away Date) material adverse change.

Fall-away Date: relaxation and/or fall-away of covenants and Events of Default

The New Schaeffler Group Facilities Agreement provides for a mechanism according to which certain covenants and events of default will fall-away or relax (as applicable) upon the occurrence of the Fall-away Date:

- Basket increase: the general baskets relating to negative pledge, disposals and subsidiary financial indebtedness and, in relation to subsidiary financial indebtedness, a specific basket for financings of subsidiaries incorporated in certain specified jurisdictions also increases.
- Covenant fall-away: the following covenants no longer apply:
  - the financial covenant;
  - the restrictions on the granting of loans;
  - the restrictions on the provision of guarantees; and
  - the requirement that Material Subsidiaries must guarantee the New Schaeffler Group Facilities.
- Guarantee fall-away: the guarantees granted for the New Schaeffler Group Facilities expire and the guarantors may resign from the New Schaeffler Group Facilities Agreement in such capacity.
- Events of Default which cease to apply: the following events of default no longer apply:
  - change of ownership; and
  - material adverse change.

Release of transaction security

Schaeffler AG may request the release of all transaction security at any time following the occurrence of the earlier of the Fall-away Date and the date on which certain Schaeffler Group Notes then outstanding have received a credit rating equivalent to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or equivalent) by Standard & Poor's or an equivalent rating by any other rating agency recognized for this purpose by the terms of the indentures entered into in relation to those Schaeffler Group Notes.

Governing Law

The New Schaeffler Group Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by German law.

Schaeffler Group Notes

Schaeffler Group April 2013 Notes

On April 29, 2013, Schaeffler Finance B.V. issued €600 million in aggregate principal amount of 4.25% senior secured notes due 2018 (the "**Redeemed Schaeffler Group April 2013 Notes**") and $850 million in aggregate principal amount of 4.75% senior secured notes due 2021 (the "**Outstanding Schaeffler Group April 2013 Notes**") under a New York law governed indenture dated April 29, 2013, as amended from time to time, among, *inter alios*, itself as issuer, Schaeffler AG and certain of its subsidiaries as guarantors, 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.

On August 18, 2016, Schaeffler Finance B.V. redeemed the Redeemed Schaeffler Group April 2013 Notes using €600 million in drawings under the New Schaeffler Group Term Facility. In connection

with the Transactions, Schaeffler AG intends to redeem the Outstanding Schaeffler Group April 2013 Notes on October 7, 2016, subject to the successful completion of this Offering.

Interest on the dollar-denominated Outstanding Schaeffler Group April 2013 Notes accrues at the rate of 4.75% per annum. Interest is payable in dollars 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 note holders of record on the immediately preceding May 1 and November 1.

Schaeffler Group May 2014 Notes

On May 14, 2014, 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, as amended from time to time (together, the "**Schaeffler Group 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, as amended from time to time (the "**Schaeffler Group May 2014 Senior Notes**" and, together with the Schaeffler Group May 2014 Senior Secured Notes, the "**Schaeffler Group May 2014 Notes**"), in each case, among, *inter alios*, itself as issuer, Schaeffler AG and certain of its subsidiaries as guarantors, 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 Schaeffler Group May 2014 Senior Secured Notes due 2019 accrues at the rate of 2.75% per annum, interest on the euro-denominated Schaeffler Group May 2014 Senior Secured Notes due 2022 accrues at the rate of 3.50% per annum, interest on the dollar-denominated Schaeffler Group May 2014 Senior Secured Notes accrues at the rate of 4.25% per annum and interest on the Schaeffler Group May 2014 Senior Notes accrues at the rate of 3.25% per annum. Interest on the Schaeffler Group May 2014 Notes is payable in the currency in which such Schaeffler Group 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 note holders of record on the immediately preceding May 1 and November 1.

Schaeffler Group April 2015 Notes

On April 13, 2015, Schaeffler Finance B.V. issued €400 million in aggregate principal amount of 2.50% senior secured notes due 2020, €600 million in aggregate principal amount of 3.25% senior secured notes due 2025 and $600 million in aggregate principal amount of 4.75% senior secured notes due 2023 (collectively, the "**Schaeffler Group April 2015 Notes**" and, together with the Outstanding Schaeffler Group April 2013 Notes and the Schaeffler Group May 2014 Notes, the "**Schaeffler Group Notes**"). Under a New York law governed indenture dated April 13, 2015, as amended from time to time, among, *inter alios*, itself as issuer, Schaeffler AG and certain of its subsidiaries as guarantors, 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 Schaeffler Group April 2015 Notes due 2020 accrues at the rate of 2.50% per annum, interest on the euro-denominated Schaeffler Group April 2015 Notes due 2025 accrues at the rate of 3.25% per annum and interest on the dollar-denominated Schaeffler Group April 2015 Notes accrues at the rate of 4.75% per annum. Interest on the Schaeffler Group April 2015 Notes is payable in the currency in which such Schaeffler Group April 2015 Notes are denominated semi-annually in arrears on February 15 and August 15, commencing on August 15, 2015. Interest is payable on each interest payment date to the note holders of record on the immediately preceding February 1 and August 1.

Guarantees and Security

The Schaeffler Group Notes are guaranteed by the same subsidiaries of Schaeffler AG that guarantee the New Schaeffler Group Facilities Agreement. The secured Schaeffler Group Notes are secured by the same collateral as the New Schaeffler Group Facilities Agreement as well as security over the notes proceeds loans made by Schaeffler Finance B.V. to Schaeffler AG. The guarantees and security of the Schaeffler Group Notes may be released under certain circumstances as set forth in the relevant indentures.

Terms and conditions of the Schaeffler Group Notes

The terms and conditions of the Schaeffler Group Notes are, except for the maturity and the interest rate (and, with respect to the Schaeffler Group May 2014 Senior Notes only, the collateral), substantially similar. Under the indentures governing the Schaeffler Group Notes, the Schaeffler Group is subject to certain covenants which limit the ability to, *inter alia*:

- 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 note holders of the Schaeffler Group Notes.

Pursuant to customary provisions for high-yield notes contained in the indentures governing the Schaeffler Group 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, *inter alia*, make dividends or other distributions 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 two-year period. 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 certain baskets for restricted payments will be subject to the absence of certain defaults or events of default occurring under the indentures governing the Schaeffler Group Notes.

Under the indentures governing the Schaeffler Group Notes, upon the occurrence of certain change of control events, each of the note holders is entitled to require Schaeffler Finance B.V. to redeem in whole or in part the Schaeffler Group Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and Additional Amounts.

The indentures governing the Schaeffler Group 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 €75.0 million, entitling the note holders to demand immediate redemption of the Schaeffler Group Notes.

Consent Solicitations

On July 21, 2016, Schaeffler Finance B.V. launched several consent solicitations (the "**Schaeffler Group Notes Consent Solicitations**") to substantially align the terms and conditions of the Schaeffler

Group Notes. Each Schaeffler Group Notes Consent Solicitation obtained the consent of more than a majority of the holders of the relevant Schaeffler Group Notes on July 29, 2016 and the respective amendments became effective on the same date.

Schaeffler Group Security Pooling and Intercreditor Agreement

Overview

In connection with the approximately €8,000 million refinancing in February 2012, Schaeffler Holding GmbH & Co. KG (to be renamed IHO Holding GmbH & Co. KG), Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH), Schaeffler Verwaltung Zwei GmbH (to be renamed IHO Verwaltungs GmbH), Schaeffler AG, Schaeffler Finance B.V., certain subsidiaries of Schaeffler AG as obligors, debtors and security providers, entered into a security pooling and intercreditor agreement dated January 27, 2012, as amended (the "**Schaeffler Group Security Pooling and Intercreditor Agreement**") to, among others, govern the relationships and relative priorities among: (i) Schaeffler AG and certain of its subsidiaries as obligors and debtors (the "**Schaeffler Group Debtors**"); (ii) Schaeffler AG and certain of its subsidiaries as security providers (the "**Schaeffler Group Security Providers**"); (iii) Schaeffler AG and certain of its subsidiaries as intra-group lenders (the "**Schaeffler Group Intra-Group Lenders**"); (iv) certain syndicated facilities lenders (which includes any lender under the New Schaeffler Group Facilities Agreement); (v) certain hedge counterparties under certain hedging agreements; (vi) certain ancillary lenders (which includes the ancillary lenders of any ancillary facility made available under the New Schaeffler Group Revolving Facility); (vii) Deutsche Bank Luxembourg S.A. as security trustee (the "**Schaeffler Group Security Trustee**"); (viii) Commerzbank Finance & Covered Bond S.A. as facility agent under the New Schaeffler Group Facilities Agreement; and (ix) the notes trustees for the Schaeffler Group April 2013 Notes, the Schaeffler Group May 2014 Senior Secured Notes and the Schaeffler AG April 2015 Notes (the "**Schaeffler Group Senior Secured Notes**") and the notes trustee for any other notes issued by a member of the Schaeffler Group that accedes to the Schaeffler Group Security Pooling and Intercreditor Agreement in the future (each such notes trustee being a "**Schaeffler Group Notes Trustee**").

The Schaeffler Group Security Pooling and Intercreditor Agreement is governed by English law. It sets out:

- the relative ranking of certain liabilities owed by the Schaeffler Group Debtors to the creditors subject to the Schaeffler Group Security Pooling and Intercreditor Agreement;
- the relative ranking of certain security granted by the Schaeffler Group Security Providers which is the subject of the Schaeffler Group Security Pooling and Intercreditor Agreement;
- when payments can be made in respect of certain liabilities of the Schaeffler Group Debtors (and may be accepted by the relevant creditors of such liabilities);
- when enforcement actions can be taken in respect of certain liabilities of the Schaeffler Group Debtors and the order of application of any amount or other recoveries resulting from any such enforcement action;
- the terms pursuant to which certain liabilities of certain creditors which are subject to the Schaeffler Group Security Pooling and Intercreditor Agreement against the Schaeffler Group Debtors 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 assets or shares in a member of the Schaeffler Group which are subject to the transaction security.

Ranking and priority

The parties to the Schaeffler Group Security Pooling and Intercreditor Agreement have agreed that the liabilities owed by the Schaeffler Group Debtors to (i) the syndicated facilities lenders under any facilities agreement which is subject to the Schaeffler Group Security Pooling and Intercreditor Agreement (including the Schaeffler Group Senior Facilities Agreement) and the ancillary lenders under any related ancillary facility agreement, the holders of any notes (including the Schaeffler Group Senior Secured Notes) which are subject to, and secured by the transaction security held by the Schaeffler Group Security Trustee under or in connection with, the Schaeffler Group Security Pooling and Intercreditor Agreement and certain hedge counterparties (such liabilities being collectively referred to as the "**Schaeffler Group Senior Liabilities**," and such creditors together with the Schaeffler Group Security Trustee, each Schaeffler Group Notes Trustee and each facility agent acting for the syndicated facilities lenders under any facilities agreement which is the subject to the Schaeffler Group Security Pooling and Intercreditor Agreement being the "**Schaeffler Group Secured Creditors**"); (ii) Schaeffler Holding GmbH & Co. KG (to be renamed IHO Holding GmbH & Co. KG), Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH) and Schaeffler Verwaltung Zwei GmbH (to be renamed IHO Verwaltungs GmbH) (such liabilities being referred to together as the "**Schaeffler Group Parent Liabilities**") and (iii) the Schaeffler Group Intra-Group Lenders (the "**Schaeffler Group 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 Schaeffler Group Senior Liabilities (*pari passu*, without any preference among such liabilities);

Second the Schaeffler Group Intra-Group Liabilities (*pari passu*, without any preference among such liabilities); and

Third the Schaeffler Group Parent Liabilities (*pari passu*, without any preference among such liabilities).

The Schaeffler Group Parent Liabilities are and will remain unguaranteed and unsecured by any member of the Schaeffler Group. 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.

Schaeffler Group Collateral

The transaction security granted by the Schaeffler Group Security Providers under or in connection with the Schaeffler Group Security Pooling and Intercreditor Agreement is shared between the Schaeffler Group Secured Creditors and shall rank and secure the Schaeffler Group Senior Liabilities *pari passu* and without any preference between the Schaeffler Group Secured Creditors.

Subordinated Liabilities

The Schaeffler Group Intra-Group Liabilities and the Schaeffler Group Parent Liabilities are subordinated to the Schaeffler Group Senior Liabilities, and the Schaeffler Group Parent Liabilities are subordinated to the Schaeffler Group Intra-Group Liabilities.

Description of the Notes

Schaeffler Verwaltung Zwei GmbH (to be renamed IHO Verwaltungs GmbH) (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, Deutsche Trustee Company Limited as trustee (the "**Trustee**") and Deutsche Bank AG, Luxembourg Branch as security trustee (the "**Security Trustee**"), in a private transaction that is not subject to the registration requirements of the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**").

Unless the context requires otherwise, references in this "*Description of the Notes*" to the Notes include any Additional Notes (as defined below) that are issued. See "*Important Information about this Offering Memorandum*." The terms of the Notes include those set forth in the Indenture which is hereby incorporated by reference. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended. The Security Documents referred to below under the caption "*—Security*" define the terms of the security that will secure the Notes.

The operations of the Issuer are conducted through its Subsidiaries and, therefore, the Issuer depends on the cash flow of its Subsidiaries and any dividends and distributions it receives from its investment in shares of Continental to meet its obligations under the Notes.

The Indenture, the Notes and any future Note Guarantees will be subject to the terms of the Intercreditor Agreement and any Additional Intercreditor Agreements entered into in the future. The terms of the Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and any Note Guarantees. Please see "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Security Pooling and Intercreditor Agreement*" for a summary of the material terms of the Intercreditor Agreement.

The following description is only a summary of the material provisions of the Indenture, the Notes and the Security Documents and refers to the Intercreditor Agreement. It does not restate those agreements in their entirety. We urge you to read the Indenture, the Security Documents and the Intercreditor Agreement because they, and not this description, define your rights as holders of the Notes (the "**Holders**"). Copies of the Indenture, the form of Note, the Security Documents and the Intercreditor Agreement are available as set forth below under "*—Additional information*."

You can find the definitions of certain terms used in this description under "*—Certain definitions*." Certain defined terms used in this description but not defined below under "*—Certain definitions*" have the meanings assigned to them in the Indenture. In this description, the term "*Issuer*" refers only to Schaeffler Verwaltung Zwei GmbH (to be renamed IHO Verwaltungs GmbH) and not to any of its Subsidiaries, and the term "*Schaeffler AG*" refers only to Schaeffler AG and not to any of its Subsidiaries.

The registered Holder will be treated as the owner of a Note for all purposes. Only registered Holders will have rights under the Indenture.

Brief description of the Notes

The Notes

The Notes:

- will be general senior obligations of the Issuer;
- will, together with the Obligations under the Issuer Facilities Agreement and related finance documents and certain Hedging Obligations, be secured by the Collateral as described below under "*—Security*;"

- will be structurally subordinated to any existing and future Indebtedness of the Issuer's subsidiaries, including Indebtedness of the Schaeffler OpCo Group;
- 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, including any remaining Indebtedness owed by the Issuer to the Company under the relevant loan notes and the Issuer Facilities Agreement, respectively; 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.

As of the Issue Date, none of the Issuer's Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any Subsidiary of the Issuer, such Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Issuer. In the future, under certain limited circumstances, certain Subsidiaries of the Issuer may guarantee the Notes as described under "*—Certain covenants—Limitation on Issuances of Guarantees of Indebtedness*."

Holders of the Notes will not have a direct claim on the cash flow or assets of non-guarantor Subsidiaries (including Schaeffler AG and its Subsidiaries) and none of such non-guarantor Subsidiaries will have any obligation, contingent or otherwise, to pay amounts due under the Notes or to make funds available to the Issuer for those purposes. Certain legal and contractual restrictions will limit the Issuer's ability to access the cash flow of its Subsidiaries, including legal restrictions on the payment of corporate dividends. The Notes will be structurally subordinated to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of any non-guarantor Subsidiary of the Issuer. Any right of the Issuer to receive assets of its Subsidiaries upon that Subsidiary's liquidation or reorganization (and the consequent right of the Holders to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors.

As of June 30, 2016, on a *pro forma* basis after giving effect to the Transactions, the Issuer would have €600 million outstanding indebtedness for borrowed money other than the Notes, consisting of €600 million of indebtedness outstanding under the Issuer Facilities Agreement. As of June 30, 2016, on a *pro forma* basis after giving effect to the Transactions and the Schaeffler Group Refinancing, Schaeffler AG and its Subsidiaries would have had approximately €4,639 million of indebtedness outstanding (comprising, among other things, of borrowings under the Schaeffler Group Senior Facilities Agreement and the Schaeffler OpCo Group Existing Notes; see "*Capitalization*"). In addition, as of June 30, 2016, Schaeffler AG and certain of its Subsidiaries had €1,300 million available for drawing under the revolving credit facility under the Schaeffler Group Senior Facilities Agreement.

As of the Issue Date, none of the Issuer's subsidiaries will be a "Restricted Subsidiary" for purposes of the Indenture. Schaeffler AG and its Subsidiaries will be "Unrestricted Subsidiaries." Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes and will not provide any collateral securing the Notes. As a consequence, holders of the Notes will have no recourse to any Unrestricted Subsidiary or its properties if there is an event of default under the indenture governing the Notes. See "*Risk Factors—Risks related to our Financing—The Issuer may not be able to generate sufficient cash flows to meet its debt service obligations*" and "*—Risks related to the Notes and our Structure—Schaeffler AG and its subsidiaries will be Unrestricted Subsidiaries under the Indenture and will not be subject to the restrictive covenants in the Indenture, will not guarantee the Notes and will not provide any Collateral.*"

Under certain circumstances described below under the caption "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries and Members of Issuer Group and OpCo Group*," the Issuer will be permitted to designate additional Subsidiaries as "Unrestricted Subsidiaries" and Unrestricted Subsidiaries (including Schaeffler AG and its Subsidiaries) as "Restricted Subsidiaries." Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture.

Principal and maturity

The Issuer will issue €750.0 million in aggregate principal amount of senior secured PIK toggle notes due 2021 (the "**2021 Euro Notes**"), €750.0 million in aggregate principal amount of senior secured PIK toggle notes due 2023 (the "**2023 Euro Notes**"), €750.0 million in aggregate principal amount of senior secured PIK toggle notes due 2026 (the "**2026 Euro Notes**" and, together with the 2021 Euro Notes and the 2023 Euro Notes, the "**Euro Notes**"), $500.0 million in aggregate principal amount of senior secured PIK toggle notes due 2021 (the "**2021 Dollar Notes**"), $500.0 million in aggregate principal amount of senior secured PIK toggle notes due 2023 (the "**2023 Dollar Notes**) and $500.0 million in aggregate principal amount of senior secured PIK toggle notes due 2026 (the "**2026 Dollar Notes**" and, together with the 2021 Dollar Notes and the 2023 Dollar Notes, the "**Dollar Notes**;" the Dollar Notes and the Euro Notes together, 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, provided, that unless the Additional Notes are fungible with the applicable series of Notes for U.S. federal income tax purposes, the Additional Notes will not be issued under the same ISIN as the applicable series of Notes. The Issuer will issue Euro Notes in minimum denominations of €100,000 and integral multiples of €1 in excess thereof and Dollar Notes in minimum denominations of $200,000 and integral multiples of $1 in excess thereof. Additional PIK Notes (as defined below) may be issued in minimum denominations of €1 and $1, as the case may be. The 2021 Euro Notes will mature on September 15, 2021, the 2023 Euro Notes will mature on September 15, 2023 and the 2026 Euro Notes will mature on September 15, 2026. The 2021 Dollar Notes will mature on September 15, 2021, the 2023 Dollar Notes will mature on September 15, 2023 and the 2026 Dollar Notes will mature on September 15, 2026. The redemption price at maturity will equal 100% of the principal amount of the Notes redeemed.

Interest

Cash interest on the 2021 Euro Notes will accrue at the rate of 2.750% per annum (the "**2021 Euro Cash Interest Rate**"), cash interest on the 2023 Euro Notes will accrue at the rate of 3.250% per annum (the "**2023 Euro Cash Interest Rate**"), cash interest on the 2026 Euro Notes will accrue at the rate of 3.750% per annum (the "**2026 Euro Cash Interest Rate**" and, together with the 2021 Euro Cash Interest Rate and the 2023 Euro Cash Interest Rate, the "**Euro Cash Interest Rate**"), cash interest on the 2021 Dollar Notes will accrue at the rate of 4.125% per annum (the "**2021 Dollar Cash Interest Rate**"), cash interest on the 2023 Dollar Notes will accrue at the rate of 4.500% per annum (the "**2023 Dollar Cash Interest Rate**") and cash interest on the 2026 Dollar Notes will accrue at the rate of 4.750% per annum (the "**2026 Dollar Cash Interest Rate**" and, together with the 2021 Dollar Cash Interest Rate and the 2023 Dollar Cash Interest Rate, the "**Dollar Cash Interest Rate**;" the Dollar Cash Interest Rate and the Euro Cash Interest Rate together, the "**Cash Interest Rate**"). PIK Interest (as defined below) on the Notes will accrue at the relevant Cash Interest Rate plus 0.75% per annum. If the Issuer pays eligible interest in PIK Interest, it will increase the principal amount of the 2021

Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, 2023 Dollar Notes and 2026 Dollar Notes or issue Additional Notes in relation to the 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and the 2026 Dollar Notes, as applicable. Upon the payment of PIK Interest, a notice shall be published on the website of the Luxembourg Stock Exchange in the form of Appendix 1. Interest on the Notes will be payable in the currency in which such Notes are denominated semi-annually in arrears on May 15 and November 15 commencing on May 15, 2017. The Issuer will make each interest payment to the Holders of record on the immediately preceding May 1 and November 1.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest shall be payable entirely in cash ("**Cash Interest**") for the first two Interest Periods and for the final Interest Period ending at the Stated Maturity of the Notes. For any other Interest Period, interest shall be payable entirely in cash, except that, if the Applicable Amount (as defined below) for the relevant interest payment date:

(i) equals or exceeds 75%, but is less than 100%, of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on (a) 25% of the then outstanding principal amount of the Notes by increasing the principal amount of the outstanding Notes or by issuing Additional Notes in a principal amount equal to such interest ("**PIK Interest**") and (b) 75% of the then outstanding principal amount of the Notes as Cash Interest;

(ii) equals or exceeds 50%, but is less than 75%, of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on (a) 50% of the then outstanding principal amount of the Notes as PIK Interest and (b) 50% of the then outstanding principal amount of the Notes as Cash Interest;

(iii) equals or exceeds 25%, but is less than 50%, of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on (a) 75% of the then outstanding principal amount of the Notes as PIK Interest and (b) 25% of the then outstanding principal amount of the Notes as Cash Interest; or

(iv) is less than 25% of the aggregate amount of Cash Interest that would otherwise be due on the relevant interest payment date, then the Issuer may, at its option, elect to pay interest on the Notes entirely as PIK Interest.

As used herein, "**Applicable Amount**" shall be an amount equal to the lower of:

(1) an amount equal to the Average Liquidity, as calculated on the Applicable Amount Determination Date, less €350.0 million; and

(2) an amount equal to the Projected Liquidity, as calculated on the Applicable Amount Determination Date, less €350.0 million.

The insufficiency or lack of funds available to the Issuer to pay Cash Interest as required by the two preceding paragraphs shall not permit the Issuer to pay PIK Interest in respect of any Interest Period and the sole right of the Issuer to elect to pay PIK Interest shall be as (and to the extent) provided in the two preceding paragraphs.

If interest with respect to an Interest Period is not to be paid entirely in cash, the Issuer shall deliver an Officer's Certificate to the Trustee (with a copy to each Paying Agent) on or prior to the eighth Business Day preceding the relevant interest payment date, which Officer's Certificate shall (i) set forth in reasonable detail the Issuer's determination with respect to the clause or clauses permitting the Issuer to pay PIK Interest (including in reasonable detail the calculation and components of the Average Liquidity and/or Projected Liquidity, as the case may be), (ii) state, for each of the Dollar Notes and the Euro Notes, the total amount of interest to be paid on such interest payment date and

the amount of such interest to be paid as PIK Interest, and (iii) be signed by the chief financial officer of the Issuer. The Trustee, the Paying Agents and the Registrars shall be entitled to conclusively rely upon such Officer's Certificate without independent verification. On the same date, the Issuer shall also deliver a notice (the "**PIK Notice**") to the Trustee (copied to the Paying Agents), which notice shall state the total amount of interest to be paid on the relevant interest payment date and the amount of such interest to be paid as PIK Interest. The Issuer shall cause such notice to be delivered to DTC, Euroclear and Clearstream for communication to direct participants in any Global Note. For so long as Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will also cause such notice to be published in a newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*). For the avoidance of doubt, interest on the Notes due on any interest payment date with respect to which an Officer's Certificate and a notice are not delivered in accordance with this paragraph must be paid entirely in cash.

To the extent the Issuer is required pursuant to this section to pay Cash Interest for all or any portion of the interest due on any interest payment date, the Issuer shall, and shall cause each of the Restricted Subsidiaries to, take all such shareholder, corporate or other actions necessary or appropriate to permit the making of any dividends or distributions (including by way of loans or advances) to permit the Issuer to pay such Cash Interest on such interest payment date; provided that any such shareholder, corporate or other actions would not violate applicable law or cause a breach of any applicable contract.

If the Issuer pays a portion of the interest on the Notes as Cash Interest and a portion as PIK Interest, such Cash Interest and PIK Interest shall be paid to Holders of the Notes *pro rata* in accordance with their interests. Following an increase in the principal amount of the outstanding Notes as a result of a payment of PIK Interest, the Notes will bear interest on such increased principal amount from and after the date of such payment.

Notwithstanding anything to the contrary, the payment of accrued interest in connection with any redemption or repurchase of the Notes as described under "*—Optional redemption*," "*—Repurchase at the option of Holders—Change of Control*" and "*—Asset Sales,*" will be made solely in cash.

We cannot assure you that the Issuer will receive sufficient dividends or distributions from its Subsidiaries or other investees in order to allow it to make Cash Interest payments on the Notes. The ability of Schaeffler AG and its Subsidiaries to pay dividends and make distributions to the Issuer is subject to important restrictions. See "*Description of Other Indebtedness*" and "*Risk factors—Risks related to the Notes and our Structure—The Notes will be structurally subordinated to indebtedness of the subsidiaries of the Issuer.*"

No later than 120 days following any interest payment date on which PIK Interest was paid in reliance on clause (2) of the definition of Applicable Amount, the Issuer shall deliver to the Trustee an Officer's Certificate, signed by the chief financial officer of the Issuer, setting forth (i) the sum of (x) the actual average weekly balance of the aggregate amount of cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries (the "**Actual Cash Balance**") for the same period for which the Projected Average Cash Balance relating to such interest payment date was determined and (y) the actual average weekly balance of amounts that were available for drawing under the revolving credit facility of the Issuer Facilities Agreement (and the revolving credit facility of any Credit Facility that refinances or replaces the Issuer Facilities Agreement) (the "**Actual Available RCF Drawings**" and, together with the Actual Cash Balance, the "**Actual Liquidity**") for the same period for which the Projected Available RCF Drawings relating to such interest payment date were determined, and (ii) the Excess PIK Interest (as defined below), if any, in each case calculated by the chief financial officer of the Issuer. The Trustee and the Paying Agents shall be entitled to conclusively rely upon such Officer's Certificate without independent verification.

The amount of PIK Interest paid on such interest payment date that exceeds the amount of PIK Interest that the Issuer would have been permitted to pay if the Actual Liquidity had been used in place of the Projected Liquidity shall constitute "**Excess PIK Interest**" with respect to such interest payment date (if the Issuer fails to deliver an Officer's Certificate as and when required pursuant to the preceding paragraph, the entire amount of PIK Interest paid on such interest payment date shall be deemed to be Excess PIK Interest). When the aggregate amount of Excess PIK Interest for such interest payment date and any Excess PIK Interest for prior interest payment dates (which Excess PIK Interest has not previously been redeemed pursuant to this paragraph) exceeds €35 million, the Issuer shall, on the next following interest payment date, mandatorily redeem Notes in an amount equal to such aggregate Excess PIK Interest at a redemption price of 100% of the aggregate principal amount thereof, together with accrued and unpaid interest and Additional Amounts, if any, to the date of redemption (a "**Mandatory Excess PIK Interest Redemption**"). The Issuer shall give not less than 10 nor more than 60 days' prior notice of such redemption to the Holders (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and notice*"). The Issuer shall give the Trustee notice of any redemption at least five Business Days prior to the notice being given to the Holders.

From the time a PIK Notice is delivered by the Issuer until the first subsequent interest payment date on which interest on the Notes is paid entirely in cash, the Issuer and each Restricted Subsidiary that is a member of the Issuer Group will elect to, and will, capitalize accrued interest with respect to Indebtedness (other than the Notes) to the fullest extent permitted under the instrument governing such Indebtedness at such time.

Payments on the Notes

Principal, premium, if any, interest, and Additional Amounts, if any, on the Global Notes (as defined below) will be payable at the corporate trust office or agency of one or more Paying Agents in London, United Kingdom or in the Borough of Manhattan in the City of New York except that payments on the Euro Global Notes (as defined below) will be made to the common depositary whose nominee is the registered holder of the Euro Global Notes and payments on the Dollar Global Notes (as defined below) will be made to Cede & Co. as the registered holder of the Dollar Global Notes.

Principal, premium, if any, Cash Interest and Additional Amounts, if any, on any definitive registered Notes in certificated form ("**Definitive Registered Notes**") will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes in (i) the Borough of Manhattan, City of New York, (ii) the City of London and (iii) Luxembourg, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. In addition, at the option of the Issuer, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Interest, if payable in the form of Additional Notes, on any Definitive Registered Notes will be payable by the Issuer delivering to the Trustee and Paying Agent such Additional Notes in the relevant amount as Definitive Registered Notes and an order to authenticate such notes. See "*—Paying Agent and Registrar for the Notes*."

PIK Interest on the Notes will be payable (x) with respect to Notes represented by one or more Global Notes registered in the name of or held by a nominee of DTC, Euroclear or Clearstream, as applicable on the relevant record date, by increasing the principal amount of the outstanding Global Note by an amount equal to the amount of PIK Interest for the applicable Interest Period (rounded up to the nearest €1.00 or $1.00 (as applicable)) (a "**PIK Payment**") and (y) with respect to Notes represented by Definitive Registered Notes, by issuing Additional Notes ("**Additional PIK Notes**") in certificated form in an aggregate principal amount equal to the amount of PIK Interest for the applicable period (rounded up to the nearest €1.00 or $1.00 (as applicable)), and the Trustee or its authenticating agent will, at the request of the Issuer, authenticate and deliver such Additional PIK Notes in certificated form for original issuance to the Holders on the relevant record date, as shown

by the records of the register of Holders. Following an increase in the principal amount of the outstanding Global Notes as a result of a PIK Payment, the Global Notes will bear interest on such increased principal amount from and after the date of such PIK Payment. Any Additional PIK Notes issued in certificated form will be dated as of the applicable interest payment date and will bear interest from and after such date. The Additional PIK Notes will be governed by, and subject to the terms, provisions and conditions of, the Indenture and shall have the same rights and benefits as the Notes issued on the Issue Date. Any certificated Additional PIK Notes will be issued with the description "PIK" on the face of such Additional PIK Note. Unless the context otherwise requires, in this "*Description of the Notes*," references to the "Notes" include the Notes and any Additional PIK Notes that are actually issued.

The Issuer will pay interest on the Notes to Persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Such holders must surrender their Notes to a Paying Agent to collect principal payments.

The rights of holders of beneficial interests in the Notes to receive the payments on the Notes will be subject to applicable procedures of DTC, Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each, a "**Paying Agent**") for the Notes in each of (i) the Borough of Manhattan, City of New York; (ii) the City of London and (iii) Luxembourg, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. The 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 to 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 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, are admitted to trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a daily newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Transfer and exchange

The Notes will be issued in the form of several registered notes in global form, without interest coupons, as follows:

- Each series of Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**144A Global Notes**").
  - The 144A Global Note representing the Dollar Notes (the "**Dollar 144A Global Note**") will, on the Issue Date, be deposited with a custodian for The Depository Trust Company ("**DTC**") and registered in the name of Cede & Co., as nominee of DTC.
  - The 144A Global Note representing the Euro Notes (the "**Euro 144A Global Note**"), will, on the Issue Date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear Bank SA./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**").
  - Each series of Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Notes**" and, together with the 144A Global Note, the "**Global Notes**").
  - During the 40-day "distribution compliance period" (as such term is defined in Rule 902 of Regulation S under the U.S. Securities Act), the Regulation S Global Notes representing the Dollar Notes (the "**Dollar Regulation S Global Note**" and, together with the Dollar 144A Global Note, the "**Dollar Global Notes**") will initially be credited within DTC for the accounts of Euroclear and Clearstream. After the 40-day distribution compliance period ends, investors may also hold their interests in the permanent Dollar Regulation S Global Note through organizations other than Clearstream or Euroclear that are DTC participants.
- The Regulation S Global Notes representing the Euro Notes (the "**Euro Regulation S Global Note**" and, together with the Euro 144A Global Note, the "**Euro Global Notes**") will, on the closing date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Notes (the "**Book-Entry Interests**") will be limited to persons that have accounts with DTC, Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Transfer restrictions*." In addition, transfers of Book-Entry Interests between participants in DTC, Euroclear or Clearstream will be effected by DTC, Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by DTC, Euroclear or Clearstream and their respective participants.

Book-Entry Interests in the 144A Global Note, or the "**Restricted Book-Entry Interest**," may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Note, or the "**Regulation S Book-Entry Interests**," only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the U.S. Securities Act.

Regulation S Book-Entry Interest may be transferred to a person who takes delivery in the form of Rule 144A Book-Entry Interest only upon delivery by the transfer of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer

restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities law of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Notes from which it was transferred and will become a Book-Entry Interest in the Global Notes to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred. For a more detailed description, please see "*Book-entry, Delivery and Form*."

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €100,000 or $200,000 and integral multiples of €1 or $1 in excess thereof, as the case may be, upon receipt by the applicable Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. Additional PIK Notes in the form of Definitive Registered Notes issued from time to time in payment of accrued interest or Additional Amounts may be issued in minimum denominations of €1 or $1, as the case may be (rounded to the nearest whole integer). It is expected that such instructions will be based upon directions received by DTC, Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Transfer Restrictions*."

Subject to the restrictions on transfer referred to above, Euro Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 and integral multiples of €1 in excess thereof and Dollar Notes issued as Definitive Registered Notes may be transferred or exchanged in whole or in part, in minimum denominations of $200,000 and integral multiples of $1 in excess thereof, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents to the Registrar, furnish information regarding the account of the transferee at DTC, Euroclear or Clearstream, where appropriate, furnish certain certificates and opinions and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer or exchange; provided that if the Issuer 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 such 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 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 (the "**Additional Amounts**"); *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, 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 within the context of the Luxembourg law of 23 December 2005, as amended;

(5) 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;

(6) 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, at least 30 days before any withholding or deduction would be required), to comply with any certification, identification, information or other reporting requirement whether required by statute, treaty, regulation, 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;

(7) any Taxes to the extent such Taxes would not be imposed or withheld but for the application of sections 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**");

(8) any Taxes imposed on or with respect to any payment by the Issuer 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

(9) any combination of items (1) through (8) above.

In addition to the foregoing, the Issuer and any 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.

If the Issuer is required to pay any Additional Amounts due on any payment of Cash Interest, such Additional Amounts shall be paid in cash to the extent that the Issuer would be required to pay Cash Interest as described above under "—*Interest*." In other cases, such Additional Amounts may be paid, at the Issuer's option, in the form of cash or Additional PIK Notes as may be appropriate so that the net amount paid after the applicable withholding or deduction is the same as it would have been without such withholding.

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. To the extent that the Issuer is required by law or by the

interpretation or administration thereof to make any deduction or withholding from any payment of interest on the Notes or any payment of Additional Amounts which, in either case, is made through the issuance of Additional PIK Notes, the foregoing provisions shall apply with respect to such withholding or deduction requirement, *mutatis mutandis*.

Whenever in the Indenture or in this "*Description of the Notes*" there is mentioned, in any context, the payment of amounts of principal, interest or any other amount payable under, or with respect to, any of the Notes or 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.

Security

General

The Notes will be secured by the Collateral as described below. The Collateral will initially include the following properties and assets:

(1) pledges over 333,000,001 shares of Capital Stock of Schaeffler AG (representing approximately 50% *plus* one share of Schaeffler AG's total Capital Stock and approximately 66.7% of Schaeffler AG's Voting Stock as of the date of this Offering Memorandum); and

(2) pledges over 41,937,694 common shares in Continental held by the Issuer (representing a number of common shares in Continental equal to the aggregate principal amount of the Notes (euro-equivalent as of August 31, 2016) *plus* €800 million, divided by the volume weighted average price per share of Continental AG quoted on the Frankfurt Stock Exchange during the last 60 trading days on August 31, 2016 multiplied by 1.75).

Any additional assets that may in the future be pledged to secure Obligations under the Notes, any Note Guarantees and the Indenture would also constitute Collateral.

The obligations under the Notes, the Issuer Facilities Agreement, certain Hedging Obligations and any future Indebtedness that is permitted under the Indenture to share the Collateral (including any Additional PIK Notes) will be secured equally and ratably by liens over the Collateral. Under the Indenture, the Issuer 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 by, among others, as the case may be, the Security Trustee or its nominee(s), who will act as security trustee with respect to the Collateral for the Trustee and the Holders, for the lenders under the Issuer Facilities Agreement, for the hedge counterparties under certain hedging obligations and for the holders of any other Indebtedness that is permitted to share in the Collateral.

The proceeds from the sale of the Collateral may not be sufficient to satisfy the obligations owed to the Holders. No appraisals of the Collateral have been made in connection with this offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily

ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. Under the Intercreditor Agreement, the Holders will be required to share recovery proceeds with other Secured Creditors (as defined in the Intercreditor Agreement), have certain limitations on their ability to enforce the security documents and have agreed that the Collateral may be released in certain circumstances without their consent.

Each Holder, by accepting a Note, shall be deemed (i) to have authorized the Trustee to enter into the Intercreditor Agreement and the Security Trustee to enter into the Security Documents and the Intercreditor Agreement; and (ii) to be bound thereby. Each Holder, by accepting a Note, appoints the Trustee or the Security Trustee, as the case may be, as its trustee or agent under the Security Documents and the Intercreditor Agreement and authorizes it to act as such.

Subject to the terms of the Security Documents, the Issuer 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 and the Security Trustee have entered or will enter into Security Documents defining the terms of the Liens that secure the Notes 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 any Guarantors under the Notes, the Indenture, any Note Guarantees and the Security Documents. The terms of any Security Documents applicable to Collateral that may be provided in the future by Persons other than the Issuer will contain certain limitations on the enforcement to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the relevant security grantors and their respective shareholders, directors and general partners.

In Germany, 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 Issuer by way of an independent acknowledgement of Indebtedness to the Security Trustee in the Intercreditor Agreement that is equal to the total amounts payable under the Indenture and the Notes. Please see "*Limitations on Validity and Enforceability of the Collateral and Certain Insolvency Law Considerations*."

Enforcement of security

Neither the Holders nor the Trustee are a party to the Security Documents. Therefore, neither the Trustee nor the Holders may, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The Holders may only take action through the Security Trustee, and the Collateral generally will only be enforced upon the relevant Security Trustee taking enforcement action. The Security Trustee will only take enforcement action if an enforcement decision is taken under the Intercreditor Agreement.

The Holders will be entitled to vote on such decisions. However, the Security Trustee will take an enforcement action only if a majority of votes cast by Secured Creditors entitled to vote under the Intercreditor Agreement is in favor of such action.

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

Holders (as well as holders of any notes or similar debt instruments issued by the Issuer or any of its Subsidiaries in the future that are secured by the Collateral and are subject to the Intercreditor Agreement) will be entitled to vote on the resolution, with series of notes denominated in different currencies each voting separately as a class. The Indenture will provide that, within each voting class, abstentions will be deemed to have voted either in favor of or against the resolution on a *pro rata* basis in the same proportion as the aggregate principal amount with respect to which votes were actually cast in favor of the resolution and against the resolution, respectively, bears to the total principal amount with respect to which votes were actually cast. The Trustee (and the trustee for any notes issued in the future that become subject to the Intercreditor Agreement) will report to the Security Trustee the aggregate principal amount of notes of each currency that voted (or are deemed under the relevant indenture to have voted) in favor of the resolution and the aggregate principal amount of notes of each currency that voted (or are deemed under the relevant indenture to have voted) against the resolution.

Lenders under the Issuer Facilities Agreement (and under future facilities agreements that become subject to the Intercreditor Agreement) will be entitled to vote on the resolution in accordance with the provisions of the relevant facilities agreement. The facility agent under the relevant facilities agreement will report to the Security Trustee the aggregate amount of commitments under the respective facilities agreement that voted (or are deemed under the relevant facilities agreement to have voted) in favor of the resolution and the aggregate amount of commitments that voted (or are deemed under the relevant facilities agreement to have voted) against the resolution.

The Security Trustee will determine the euro-equivalent total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of and against the resolution.

The resolution will be passed if the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and amount of commitments under facilities agreements that voted (or are deemed to have voted) against the resolution, in each case on a euro-equivalent basis.

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

After giving *pro forma* effect to the Transactions, the aggregate principal amount of the Notes outstanding will constitute a majority of the total commitments of all secured creditors subject to the Intercreditor Agreement and entitled to vote thereunder. However, in the future Holders may need to rely on other secured creditors, whose interests may differ from those of the Holders, to direct the Security Trustee to take enforcement action with respect to the Collateral. For a description of security enforcement and other intercreditor provisions, please see "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer 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 Intercreditor Agreement without requiring any consent of the Holders or the Trustee.

Release

The Liens created by the relevant Security Documents will be unconditionally released 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 (for the avoidance of doubt, whether directly or through the disposition of a Person holding such property or assets or of a parent thereof) to a Person that is not (either before or after giving effect to such transaction) the Issuer or any Restricted Subsidiary, if the

sale or other disposition is not prohibited by or does not otherwise violate the covenant described under the caption entitled "—*Repurchase at the option of Holders—Asset Sales*;"

(2) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets of such Restricted Subsidiary;

(3) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "—*Legal Defeasance and Covenant Defeasance*" and "—*Satisfaction and discharge*;"

(5) in connection with an enforcement sale pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement, or as otherwise provided for under the Intercreditor Agreement or any Additional Intercreditor Agreement;

(6) substantially concurrently with or following the release, discharge or other termination (other than as a result of an enforcement action) of any and all Liens (other than Permitted Liens) over the relevant Collateral securing Indebtedness (including in connection with any shares of Capital Stock of Schaeffler AG or Continental becoming Unrestricted Continental Shares or Unrestricted Schaeffler Shares, as the case may be), so long as no Event of Default exists at such time or would arise as a result of such release;

(7) in connection with the sale or disposal of subscription rights for shares of Capital Stock of any Person in the course of an Opération Blanche, the release of such subscription rights; provided that no Event of Default has occurred and is continuing; 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 any Note Guarantees, in accordance with the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document. Each of the releases set forth above shall be effected by the Security Trustee without the consent of the Holder or any action on the part of the Trustee.

Intercreditor Agreement; Turnover

On the Issue Date, the Trustee will accede to the Intercreditor Agreement, as described under "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Security Pooling and Intercreditor Agreement*." The terms of the Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and any Note Guarantees.

The Indenture, the Intercreditor Agreement and any Additional Intercreditor Agreement will contain provisions providing that, if at any time prior to the Senior Discharge Date (as defined in the Intercreditor Agreement) a payment or distribution is made to the Trustee or to the holders of Notes that, due to the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement should not have been made to them, subject to certain knowledge exceptions, the Trustee or the holders of Notes are required to hold it in trust for the Security Trustee and pay the payment or distribution over to the Security Trustee for application in

accordance with the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement.

Optional redemption

2021 Euro Notes

At any time prior to September 15, 2018, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2021 Euro Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 102.750% of the principal amount of the 2021 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) Schaeffler AG or the Issuer; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Issuer's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Issuer as consideration for the issuance of ordinary shares of the Issuer or are loaned to the Issuer as Subordinated Shareholder Debt; provided that:

(1) at least 60% of the aggregate principal amount of the 2021 Euro Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding the 2021 Euro Notes held by the Issuer 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 September 15, 2018, the Issuer may on any one or more occasions redeem all or a part of the 2021 Euro Notes, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2021 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 2021 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 2021 Euro Notes will not be redeemable at the Issuer's option prior to September 15, 2018.

On or after September 15, 2018, the Issuer may on any one or more occasions redeem all or a part of the 2021 Euro Notes upon not less than 10 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 2021 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on September 15 of the years indicated below, subject to the rights of holders of the 2021 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2021 Euro Notes
2018	101.375%
2019	100.688%
2020 and thereafter	100.000%

2023 Euro Notes

At any time prior to September 15, 2019, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2023 Euro Notes issued under the Indenture, upon not

less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 103.250% of the principal amount of the 2023 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) Schaeffler AG or the Issuer; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Issuer's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Issuer as consideration for the issuance of ordinary shares of the Issuer or are loaned to the Issuer as Subordinated Shareholder Debt; provided that:

(1) at least 60% of the aggregate principal amount of the 2023 Euro Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding the 2023 Euro Notes held by the Issuer 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 September 15, 2019, the Issuer may on any one or more occasions redeem all or a part of the 2023 Euro Notes, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2023 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 2023 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 2023 Euro Notes will not be redeemable at the Issuer's option prior to September 15, 2019.

On or after September 15, 2019, the Issuer may on any one or more occasions redeem all or a part of the 2023 Euro Notes upon not less than 10 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 2023 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on September 15 of the years indicated below, subject to the rights of holders of the 2023 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2023 Euro Notes
2019	101.625%
2020	100.813%
2021 and thereafter	100.000%

2026 Euro Notes

At any time prior to September 15, 2021, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2026 Euro Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 103.750% of the principal amount of the 2026 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) Schaeffler AG or the Issuer; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Issuer's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Issuer as

consideration for the issuance of ordinary shares of the Issuer or are loaned to the Issuer as Subordinated Shareholder Debt; provided that:

(1) at least 60% of the aggregate principal amount of the 2026 Euro Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding 2026 Euro Notes held by the Issuer 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 September 15, 2021, the Issuer may on any one or more occasions redeem all or a part of the 2026 Euro Notes, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2026 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 2026 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 2026 Euro Notes will not be redeemable at the Issuer's option prior to September 15, 2021.

On or after September 15, 2021, the Issuer may on any one or more occasions redeem all or a part of the 2026 Euro Notes upon not less than 10 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 2026 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on September 15 of the years indicated below, subject to the rights of holders of the 2026 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2026 Euro Notes
2021	101.875%
2022	100.938%
2023 and thereafter	100.000%

2021 Dollar Notes

At any time prior to September 15, 2018, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2021 Dollar Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 104.125% of the principal amount of the 2021 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) Schaeffler AG or the Issuer; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Issuer's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Issuer as consideration for the issuance of ordinary shares of the Issuer or are loaned to the Issuer as Subordinated Shareholder Debt; provided that:

(1) at least 60% of the aggregate principal amount of the 2021 Dollar Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding 2021 Dollar Notes held by the Issuer 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 September 15, 2018, the Issuer may on any one or more occasions redeem all or a part of the 2021 Dollar Notes, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2021 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 2021 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 2021 Dollar Notes will not be redeemable at the Issuer's option prior to September 15, 2018.

On or after September 15, 2018, the Issuer may on any one or more occasions redeem all or a part of the 2021 Dollar Notes upon not less than 10 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 2021 Dollar Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on September 15 of the years indicated below, subject to the rights of holders of the 2021 Dollar Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2021 Dollar Notes
2018	102.063%
2019	101.031%
2020 and thereafter	100.000%

2023 Dollar Notes

At any time prior to September 15, 2019, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2023 Dollar Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 104.500% of the principal amount of the 2023 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) Schaeffler AG or the Issuer; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Issuer's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Issuer as consideration for the issuance of ordinary shares of the Issuer or are loaned to the Issuer as Subordinated Shareholder Debt; provided that:

(1) at least 60% of the aggregate principal amount of the 2023 Dollar Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding 2023 Dollar Notes held by the Issuer 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 September 15, 2019, the Issuer may on any one or more occasions redeem all or a part of the 2023 Dollar Notes, upon not less than 10 nor more than 60 days' notice, at

a redemption price equal to 100% of the principal amount of the 2023 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 2023 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 2023 Dollar Notes will not be redeemable at the Issuer's option prior to September 15, 2019.

On or after September 15, 2019, the Issuer may on any one or more occasions redeem all or a part of the 2023 Dollar Notes upon not less than 10 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 2023 Dollar Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on September 15 of the years indicated below, subject to the rights of holders of the 2023 Dollar Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2023 Dollar Notes
2019	102.250%
2020	101.125%
2021 and thereafter	100.000%

2026 Dollar Notes

At any time prior to September 15, 2019, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2026 Dollar Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 104.750% of the principal amount of the 2026 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) Schaeffler AG or the Issuer; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Issuer's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Issuer as consideration for the issuance of ordinary shares of the Issuer or are loaned to the Issuer as Subordinated Shareholder Debt; provided that:

(1) at least 60% of the aggregate principal amount of the 2026 Dollar Notes (calculated without giving effect to any issuance of Additional Notes to pay accrued interest or Additional Amounts) originally issued under the Indenture (excluding 2026 Dollar Notes held by the Issuer 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 September 15, 2021, the Issuer may on any one or more occasions redeem all or a part of the 2026 Dollar Notes, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2026 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 2026 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 2026 Dollar Notes will not be redeemable at the Issuer's option prior to September 15, 2021.

On or after September 15, 2021, the Issuer may on any one or more occasions redeem all or a part of the 2026 Dollar Notes upon not less than 10 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 2026 Dollar Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on September 15 of the years indicated below, subject to the rights of holders of the 2026 Dollar Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2026 Dollar Notes
2021	102.375%
2022	101.583%
2023	100.792%
2024 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 2021 Euro Notes, the 2023 Euro Notes, the 2026 Euro Notes, the 2021 Dollar Notes, the 2023 Dollar Notes and/or the 2026 Dollar Notes, in whole but not in part, at its discretion at any time upon giving not less than 10 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 its control to procure payment by the Issuer (or by 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 a 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 Issuer or the relevant Guarantor taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

Mandatory redemption

Except for any Mandatory Excess PIK Interest Redemption as set forth under "*—Interest*," the Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Repurchase at the option of Holders

Change of Control

If a Change of Control occurs, each holder of the Euro Notes and/or the Dollar Notes will have the right to require the Issuer to repurchase all or any part (in denominations of €100,000 and in integral multiples of €1 in excess thereof, in the case of the Euro Notes, and in denominations of $200,000 and in integral multiples of $1 in excess thereof, in the case of the Dollar Notes) of that holder's Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased to the date of purchase (the "**Change of Control Payment**"), subject to the rights of Holders on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will mail a notice to each Holder at such Holder's registered address or otherwise deliver a notice in accordance with the procedures described under "*—Selection and notice*," stating that a Change of Control Offer is being made and offering to repurchase Notes on the date (the "**Change of Control Payment Date**") specified in the notice, which date will be no earlier than 10 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with any applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The Paying Agents will as soon as reasonably practicable mail (or cause to be delivered) to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee (or its authenticating agent) will as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer; or (2) a notice of redemption has been given pursuant to the Indenture as described above under the caption "*—Optional redemption*," unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer's ability to repurchase the Notes pursuant to the Change of Control Offer may be limited by a number of factors. The occurrence of certain of the events that constitute a Change of Control would require a mandatory prepayment of Indebtedness under the Schaeffler Group Senior Facilities Agreement and the Issuer Facilities Agreement and the Schaeffler OpCo Group Existing Notes. In addition, certain events that may constitute a change of control under the Schaeffler Group Senior Facilities Agreement, the Issuer Facilities Agreement and the Schaeffler OpCo Group Existing Notes and require a mandatory prepayment of Indebtedness or offer to purchase such notes may not constitute a Change of Control under the Indenture. Future Indebtedness of the Issuer or its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. The ability of the Issuer to pay cash to the Holders following the occurrence of a Change of Control may also be limited by the Issuer's and the Restricted Subsidiaries' then existing financial resources, and sufficient funds may not be available when necessary to make any required repurchases. Certain agreements governing indebtedness of Schaeffler AG and its Subsidiaries, including the indentures governing the Schaeffler OpCo Group Existing Notes and the Schaeffler Group Senior Facilities Agreement, contain provisions that may prohibit the upstreaming of funds to the Issuer Group necessary to repurchase or repay the Notes upon a Change of Control. If a Change of Control occurs at a time when Schaeffler AG and its Subsidiaries are prohibited from providing funds to the Issuer Group, Schaeffler AG and/or its Subsidiaries may seek the consent of the creditors under such Indebtedness to allow the repurchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. The Issuer expects that it would require third party financing to make an offer to repurchase the Notes upon a Change of Control. The Issuer cannot assure you that it would be able

to obtain such financing or that Schaeffler AG and its Subsidiaries would be able to obtain the consent of their creditors to provide funds to the Issuer to allow it to repurchase the Notes. Any failure by the Issuer to offer or consummate an offer to purchase Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under the Issuer Facilities Agreement. Please see "*Risk factors—Risks related to the Notes and our Structure—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 Issuer 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 Issuer 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, are 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 Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

(1) the Issuer (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 Issuer or such Restricted Subsidiary is in the form of cash or Cash Equivalents; provided that in case of a Restricted Asset Sale, at least 90% of the consideration received in such Asset Sale must be in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

    (a) any liabilities, as recorded on the balance sheet of the Issuer or any Restricted Subsidiary (or, in case of a Restricted Asset Sale, the Issuer or any Guarantor) (other than contingent and subordinated liabilities), that are assumed by the transferee of any such assets (or that are otherwise cancelled or discharged) and as a result of which the Issuer and its Restricted Subsidiaries (or, in case of a Restricted Asset Sale, the Issuer or any Guarantor) 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 Issuer or any such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

(c) in any Asset Sale other than a Restricted Asset Sale, any Capital Stock or assets of the kind referred to in clauses (1)(d), (e) or (f) of the next paragraph of this covenant;

(d) in any Asset Sale other than a Restricted Asset Sale, Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Issuer and each other Restricted Subsidiary are released from any guarantee of such Indebtedness in connection with such Asset Sale; and

(e) any Designated Non-Cash Consideration received by the Issuer or any Restricted Subsidiary in such Asset Sale having an aggregate Fair Market Value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed the greater of (i) € 500.0 million and (ii) 5.0% of Total Assets, at the time of receipt of such Designated Non-Cash Consideration (with the Fair Market Value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value),

provided that, in case of the issuance, sale or other disposal of assets or Equity Interests upon and in connection with the exercise of exchange or conversion rights under Indebtedness of the Issuer or any of its Restricted Subsidiaries that is exchangeable or convertible into such assets or Equity Interests, (i) for purposes of this Asset Sale covenant (but not for purposes of clause (1) of the first paragraph under "*—Security—Release*") such issuance, sale or other disposal shall be deemed to occur at the time of incurrence of such exchangeable or convertible Indebtedness by the Issuer or such Restricted Subsidiary and (ii) the consideration received for such assets or Equity Interests issued or sold or otherwise disposed of shall be deemed to be the proceeds received by the Issuer or any of its Restricted Subsidiaries as a result of the incurrence of such exchangeable or convertible Indebtedness and (iii) for purposes of clause (1) above, the Issuer or any of its Restricted Subsidiaries shall be deemed to have received consideration at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of, if the Fair Market Value of the proceeds referred to in the foregoing clause (ii) are at least equal to the Fair Market Value of such exchangeable or convertible Indebtedness.

Within 365 days (or, in the case of a Restricted Asset Sale, within 30 Business Days) after the receipt of any Net Proceeds from an Asset Sale, the Issuer (or the applicable Restricted Subsidiary, as the case may be) may:

(1) apply such Net Proceeds (at the option of the Issuer or Restricted Subsidiary):

(a) to (i) purchase 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**"), (ii) redeem Notes if the Notes are then redeemable as provided under "*—Optional Redemption*" or (iii) make open market purchases of Notes (provided that such purchases are at or above 100% of the principal amount thereof);

(b) to prepay or repay Pari Passu Indebtedness of the Issuer or any Guarantor under a Credit Facility or to pay any Hedging Obligations, in each case, that are secured by a Permitted Collateral Lien that ranks equal to or in priority to any Lien on such assets securing the Notes or any 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 Issuer or any Restricted Subsidiary which do not constitute Collateral, or (ii) any Indebtedness (x) of a Restricted Subsidiary (not owed to the Issuer or any other Restricted Subsidiary) that is not a Guarantor or (y) of any member of the Schaeffler OpCo Group (not owed to another member of the Schaeffler OpCo Group),

and, in each case, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(d) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business (or any business that is not, in whole or in part, a Permitted Business, if the business, or the part thereof that is not a Permitted Business, is not material to the Issuer, its Restricted Subsidiaries and Schaeffler OpCo Group taken as a whole), if, after giving effect to any such acquisition of Capital Stock, such business is or becomes a Restricted Subsidiary;

(e) to make a capital expenditure;

(f) to acquire other assets (other than Capital Stock) not classified as current assets under IFRS that are used or useful in a Permitted Business; or

(g) any combination of the foregoing; or

(2) enter into a binding commitment to apply the Net Proceeds pursuant to clause (d), (e) or (f) of paragraph (1) above; provided that such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date on which such acquisition or expenditure is consummated, and (y) the 180th day following the expiration of the aforementioned 365 day period,

provided that the Net Proceeds from any Restricted Asset Sale may only be applied in accordance with clause (1)(a) or (b) of this paragraph (or any combination thereof).

Pending the final application of any Net Proceeds, the Issuer (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 €50.0 million, within ten Business Days thereof, the Issuer will make an offer (an "**Asset Sale Offer**") to all holders of Notes and, to the extent the Issuer 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 no less than 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 Issuer 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 or the applicable Registrar will select the Notes and such other Pari Passu Indebtedness, if applicable (to the extent the Trustee or Registrar is the relevant agent of such other Pari Passu Indebtedness), 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 Issuer upon converting such portion of the Net Proceeds into euro.

The Issuer 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 Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Issuer will not, and will not cause any other member of the Issuer Group to, sell, lease, convey or otherwise dispose of any Restricted Continental Shares or Restricted Schaeffler Shares to any Person that is not a member of the Issuer Group, other than in a transaction that constitutes an Asset Sale and complies with the covenant set forth above.

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 Paying Agent 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 depositary requirements. Neither the Trustee nor the applicable Registrars shall be liable for selections made by it in accordance with this paragraph.

Except in the case of a Mandatory Excess PIK Interest Redemption, no Notes of €100,000 or $200,000, as the case may be, or less can be redeemed in part and only Notes in integral multiples of €1 or $1, as the case may be, will be redeemed. In case of a Mandatory Excess PIK Interest Redemption, only Notes of €1 or $1, as the case may be, will be redeemed. Notices of redemption will be mailed by first class mail at least 10 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 Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, incur, create, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt); provided that (i) any member of the Issuer Group may incur Indebtedness if, on the date of the incurrence of such Indebtedness, after giving effect to the incurrence of such Indebtedness and the application of the proceeds therefrom, on a *pro forma* basis, as if the additional Indebtedness had been incurred at the beginning of such four quarter period, (x) the Combined Coverage Ratio would be at least 2.0 to 1.0 and (y) the Issuer Group LTV Ratio would be less than 1.0 to 2.5, and (ii) any member of a Restricted OpCo Group may incur Indebtedness if, on the date of the incurrence of such Indebtedness, after giving effect to the incurrence of such Indebtedness and the application of the proceeds therefrom, on a *pro forma* basis, as if the additional Indebtedness had been incurred at the beginning of such four quarter period, the Combined Coverage Ratio would be at least 2.0 to 1.0.

The first paragraph of this covenant will not prohibit the incurrence by the Issuer and its Restricted Subsidiaries of any of the following Indebtedness:

(1) Indebtedness of the Issuer or any Restricted Subsidiary that is a member of the Issuer Group under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed an amount equal to €1,200 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;

(2) Indebtedness of the Issuer owing to any of its Restricted Subsidiaries or Indebtedness of any of its Restricted Subsidiaries owing to the Issuer or any other Restricted Subsidiary; provided that: (a) if the Issuer or any Guarantor is the obligor on such Indebtedness and the lender is not the Issuer or any Guarantor, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes, in the case of the Issuer or the respective Note Guarantee, in the case of a Guarantor; and (b)(i) any disposition or transfer of any such Indebtedness to a Person (other than a disposition or transfer to the Issuer 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 Issuer or a Restricted Subsidiary will, in each case, be deemed to be an incurrence of such Indebtedness not permitted by this clause (2);

(3) (a) Indebtedness under the Notes issued on the Issue Date and any Note Guarantees, (b) any Additional Notes (including any related Note Guarantees) issued from time to time in payment of accrued interest or Additional Amounts on the Notes (as such may be increased as a result of the issuance of Additional Notes issued from time to time in payment of accrued interest or Additional Amounts on the Notes) and (c) the parallel debt obligations for the benefit of the Security Trustee under the Intercreditor Agreement relating to the Indebtedness described in clauses (a) and (b) of this clause (3);

(4) Indebtedness of the Issuer and its Restricted Subsidiaries (other than the Indebtedness described in clauses (1), (2), (3) or (5) of this covenant) outstanding on the Issue Date;

(5) Indebtedness of the Issuer or any Restricted Subsidiary that is a member of the Issuer Group in respect of any loans or advances made by any member of the Schaeffler OpCo Group

outstanding on the Issue Date after giving effect to the application of the proceeds from the issuance of the Notes issued on the Issue Date, plus any interest which may capitalize on any such loans or advances from time to time;

(6) Indebtedness of the Issuer 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 Issuer and its Restricted Subsidiaries in the ordinary course of business;

(7) Indebtedness of the Issuer 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 Issuer after the Issue Date; provided that the maximum liability of the Issuer 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 Issuer 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) Indebtedness of the Issuer and its Restricted Subsidiaries represented by customer deposits and advance payments received from customers for goods and services purchased in the ordinary course of business;

(10) (a) Indebtedness of the Issuer and its Restricted Subsidiaries under cash management, cash pooling or netting or setting off arrangements in the ordinary course of business and (b) Indebtedness of the Issuer and its Restricted Subsidiaries represented by Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes as determined in good faith by the Issuer;

(11) Indebtedness incurred by the Issuer or any Restricted Subsidiary in an aggregate principal amount not to exceed €200.0 million at any one time outstanding;

(12) any Permitted Refinancing Indebtedness incurred by the Issuer or any of its Restricted Subsidiaries with respect to the renewing, replacing, defeasing, discharging or refinancing of any Indebtedness that was permitted by the Indenture to be incurred under the first paragraph of this covenant or under clauses (3), (4), (5), (12), (13) or (15);

(13) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary of the Issuer or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer 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 Issuer or was otherwise acquired by the Issuer 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 Issuer would have been able to incur €1.00 of additional Indebtedness pursuant to clause (i)(x) 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 Combined Coverage Ratio would not be less than it was immediately prior to giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (13);

(14) the Guarantee by the Issuer or any of its Restricted Subsidiaries of Indebtedness of the Issuer or any of its Restricted Subsidiaries to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; and

(15) Indebtedness incurred by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group in respect of any loans or advances made by any member of the Schaeffler OpCo Group not to exceed an aggregate principal amount of €500.0 million at any one time outstanding, plus any interest which may capitalize on any such loans or advances from time to time, less the principal amount of Indebtedness incurred under this clause (15) that is repaid, redeemed or refinanced with the proceeds from Permitted Refinancing Indebtedness incurred under clause (12).

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 Issuer 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 Issuer 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 and may not be reclassified pursuant to the next following sentence. In addition, any item of Indebtedness initially classified as incurred pursuant to one or more of clauses (1) 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 Issuer such that it will be deemed as having been incurred pursuant to such other clause of the second paragraph of this covenant or pursuant to the first paragraph of this covenant to the extent that such reclassified Indebtedness could be incurred pursuant to such other clause of the second paragraph of this covenant or the first paragraph of this covenant at the time of such reclassification.

For the avoidance of doubt, any Acquired Debt of any Person that becomes a Restricted Subsidiary of the Issuer (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 Issuer 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 Issuer or any of its Restricted Subsidiaries shall be deemed to be incurred by the Issuer or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary of the Issuer 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 Issuer 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.

Financial Calculations

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with any merger, acquisition or other Investment, in each case, whose consummation is not conditioned upon the availability of, or on obtaining, third party financing, where there is a time difference between commitment and closing or incurrence (including in respect of incurrence of Indebtedness, Restricted Payments and Permitted Investments), the date of determination of such basket or ratio and of any Default or Event of Default shall, at the option of the Issuer, be the date the definitive agreements for such merger, acquisition or other Investment are entered into (or, in case of an acquisition or other Investment in the form of a tender or exchange offer in connection with which no definitive agreement is entered into with the target company, the date of such tender or exchange offer) and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such merger, acquisition or other Investment and the other transactions to be entered into in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such transaction (and not for purposes of any subsequent availability of any basket or ratio), and, for the avoidance of doubt, (x) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio or any component thereof (including due to fluctuations in Consolidated EBITDA or the share price or share value of any Person) subsequent to such date of determination and at or prior to the consummation of the relevant transaction, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether the transaction is permitted hereunder and (y) such baskets or ratios shall not be tested at the time of consummation of such transaction or related transactions; provided, further, that if the Issuer elects to have such determinations occur at the time of entry into such definitive agreement (or the time of such tender or exchange offer, as the case may be), any such transactions (including any incurrence of Indebtedness and the use of proceeds thereof) shall be deemed to have occurred on the date the definitive agreements are entered (or the date of such tender or exchange offer, as the case may be) and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement (or tender or exchange offer, as the case may be) and before the consummation of such transaction.

Limitation on Restricted Payments

The Issuer 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 Issuer or any of its Restricted Subsidiaries may make a Restricted Investment (other than an Investment, directly or indirectly, in a Parent Entity) if, at the time of such Restricted Investment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Investment;

(2) the Issuer, at the time of such Restricted Investment and after giving *pro forma* effect thereto as if such Restricted Investment had been made at the beginning of the applicable four-quarter period, would have been permitted to incur at least €1.00 of additional Indebtedness pursuant to the Combined Coverage Ratio test set forth in clause (i)(x) of the first paragraph of the covenant described under the caption "—*Limitation on Indebtedness*;" and

(3) such Restricted Investment, together with the aggregate amount of all other Restricted Investments declared or made under this paragraph 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) 100% of any dividends or other distributions received since April 1, 2016 by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group from (i) any Unrestricted Subsidiary (including, for the avoidance of doubt, any member of the Schaeffler OpCo Group), (ii) Continental and (iii) any other Investments (other than Investments in Subsidiaries) held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group; plus

   (b) 50% of the sum of the aggregate Consolidated Net Income of each Restricted OpCo Group TopCo, in each case on a cumulative basis during the period commencing on the first day of the fiscal quarter of such Restricted OpCo Group TopCo succeeding the date on which such Restricted OpCo Group TopCo became a Restricted Subsidiary and ending on the last day of such entity's last fiscal quarter ending prior to the date of such proposed Restricted Investment for which consolidated financial statements of such entity are available, without double counting of dividends or other distributions from such Restricted OpCo Group TopCo that are taken into account under clause (a) above in respect of the same period of time (or, if such sum of Consolidated Net Income of the Restricted OpCo Group TopCos for the relevant period is a deficit, less 100% of such deficit); plus

   (c) 100% of the aggregate net cash proceeds and the Fair Market Value of marketable securities received by the Issuer since the Issue Date as equity capital contributions or from the issuance or sale (other than to any Subsidiary of the Issuer) of the Issuer's Qualified Capital Stock (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase the Issuer's Qualified Capital Stock (excluding the net cash proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer 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 Issuer); plus

   (d) (i) the amount by which the Issuer's Indebtedness or Indebtedness of any Restricted Subsidiary is reduced on the Issuer's or such Restricted Subsidiary's balance sheet, as the case may be, after the Issue Date upon the conversion or exchange (other than by a Subsidiary of the Issuer) of such Indebtedness into the Issuer's Qualified Capital Stock; and

   (ii) the aggregate net cash proceeds received after the Issue Date by the Issuer from the issuance or sale (other than to any Subsidiary of the Issuer) of Redeemable Capital Stock that has been converted into or exchanged for the Issuer'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 Issuer at the time of such conversion or exchange (excluding the net cash proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using

funds borrowed from the Issuer or any Restricted Subsidiary of the Issuer until and to the extent such borrowing is repaid); plus

(e) to the extent any Restricted Investment that was made after the Issue Date is (a) sold, disposed of or otherwise cancelled, liquidated or repaid (including, for the avoidance of doubt, the sale or disposal of Capital Stock of an Unrestricted Subsidiary), 100% of the aggregate amount received in cash and the Fair Market Value of the property or assets or marketable securities received by the Issuer or its Restricted Subsidiaries (other than from the Issuer or a Restricted Subsidiary); (b) made in an entity that subsequently becomes a Restricted Subsidiary of the Issuer, 100% of the Fair Market Value of the Restricted Investment of the Issuer and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; or (c) fully and unconditionally released in case of a Restricted Investment that is a guarantee made by the Issuer or a Restricted Subsidiary to any Person (other than the Issuer or a Restricted Subsidiary), an amount equal to the amount of such guarantee; plus

(f) 100% of the aggregate net cash proceeds and the Fair Market Value of the property or assets or marketable securities received by the Issuer or any Restricted Subsidiary (other than from the Issuer or a Restricted Subsidiary) from the sale of Unrestricted Continental Shares or Unrestricted Schaeffler Shares; plus

(g) 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 Issuer or any of its Restricted Subsidiaries or the assets of an Unrestricted Subsidiary are transferred to the Issuer or its Restricted Subsidiaries (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Investment), the Fair Market Value of assets received by the Issuer or Restricted Subsidiary or the Issuer's interest in such Subsidiary as of the date of such designation or at the time of such merger, consolidation or transfer of assets; provided that such amount will not exceed the amount of the Restricted Investment deemed made at the time that the Subsidiary was designated as an Unrestricted Subsidiary.

Notwithstanding the first two paragraphs above, the Issuer and any of its Restricted Subsidiaries may take the following actions so long as (with respect to clauses (11) and (12) below) no Default or Event of Default of the type specified in clauses (1), (2), (3), (6) 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 Issuer or any Restricted Subsidiary held by any current or former officer, director or employee of the Issuer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed €10.0 million in any twelve-month period (with unused amounts being carried over to succeeding twelve-month periods subject to a maximum of €10.0 million in any twelve-month period); provided, further, that such amount in any twelve-month period may be

increased by an amount not to exceed the net cash proceeds from the sale of Capital Stock of the Issuer or a Restricted Subsidiary received by the Issuer or a Restricted Subsidiary during such twelve-month period, in each case to members of management or directors of the Issuer, any of its Restricted Subsidiaries or any Parent Entity; provided, further, that the amount of any such net cash proceeds that are utilized for such repurchase, redemption or other acquisition or retirement for value of any Capital Stock will be excluded from the calculation of amounts under clause (3)(b) of the second paragraph of this covenant and clause (4) of this paragraph;

(4) the making of any Restricted Investment in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the net cash proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary of the Issuer) of, the Issuer'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 Issuer; provided that the amount of any such net cash proceeds that are utilized for any such Restricted Investment will be excluded from the calculation of amounts under clause (3)(c) of the second paragraph of this covenant and clause (3) of this paragraph;

(5) the purchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Debt (other than Redeemable Capital Stock) in exchange for, or out of the net cash proceeds from, an incurrence of Permitted Refinancing Indebtedness;

(6) the declaration or payment of any dividend to all holders of Capital Stock of a Restricted Subsidiary of the Issuer on a *pro rata* basis or on a basis that results in the receipt by the Issuer or any of its Restricted Subsidiaries of dividends or distributions of greater value than the Issuer or such Restricted Subsidiary would receive on a *pro rata* basis;

(7) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;

(8) the making of Permitted Upstream Payments; provided that the aggregate amount of all Permitted Upstream Payments made under this clause (8) does not exceed an amount equal to (i) €550.0 million in 2016 and (ii) €350.0 million in any calendar year thereafter, in each case plus the aggregate amount of any Permitted Upstream Payments made under this clause (8) in the form of loans or advances that are repaid in such calendar year; and provided further that any unused amounts for any calendar year may be carried forward to subsequent calendar years;

(9) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Redeemable Capital Stock of the Issuer 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*;"

(10) 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 Issuer) 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 Sales*" 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;

(11) other Restricted Investments (including, for the avoidance of doubt, in Unrestricted Subsidiaries, including in connection with the designation of an Unrestricted Subsidiary, but other than an

Investment, directly or indirectly, in a Parent Entity); provided that the aggregate amount of all Restricted Investments made under this clause (11) that are at the time outstanding does not exceed €275.0 million since the Issue Date;

(12) any Restricted Investment (including, for the avoidance of doubt, in Unrestricted Subsidiaries, including in connection with the designation of an Unrestricted Subsidiary); provided that the Issuer Group LTV Ratio would be less than 1.0 to 5.0 on a *pro forma* basis after giving effect to any such Restricted Investment;

(13) any Restricted Payments made in connection with the consummation of the Transactions;

(14) any Restricted Payments by the Issuer to Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH) necessary to permit the assumption or set-off by the Issuer of Indebtedness of Schaeffler Verwaltungs GmbH (to be renamed IHO Beteiligungs GmbH) under the Notes Proceeds Loan from time to time; and

(15) 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.

The actions described in clauses (1), (8) (but only to the extent that Permitted Upstream Payments under clause (8) are not made for the purpose of the payment of Taxes by a Restricted Person), (10), (11) and (12) (but, for the avoidance of doubt, not any actions described in any of the other clauses) will reduce the amount that would otherwise be available for Restricted Investments under clause (3) of the second paragraph of this covenant.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Issuer 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 Issuer 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 Issuer or any Restricted Subsidiary;

(2) make loans or advances to the Issuer or any Restricted Subsidiary; or

(3) sell, lease or transfer any of its properties or assets to the Issuer 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 Issuer or any Restricted Subsidiary to other indebtedness incurred by the Issuer or any Restricted Subsidiary, in each case, shall not be deemed to constitute such an encumbrance or restriction.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Indebtedness and Credit Facilities in effect on the Issue Date, including the Issuer Facilities Agreement, the Intercreditor Agreement and the Security Documents, in each case as in effect on the Issue Date, and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date (as determined in good faith by the Issuer);

(2) the Indenture, the Notes, any Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents;

(3) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "—*Limitation on Indebtedness*" if (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 Indenture, the Issuer Facilities Agreement, the Intercreditor Agreement and/or the Security Documents, in each case, as in effect on the Issue Date (as determined in good faith by the Issuer) or (ii) is customary in comparable financings (as determined in good faith by the Issuer) or (b) the Issuer determines in good faith that such restrictions will not materially adversely impact the ability of the Issuer to make required principal and interest payments on the Notes;

(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 Issuer 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 Issuer);

(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) 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*;"

(14) encumbrances or restrictions with respect to any Qualified Securitization Financing; 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 Issuer).

Transactions with Affiliates

The Issuer 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 Issuer (each, an "**Affiliate Transaction**") involving aggregate payments or consideration in excess of €20.0 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Restricted Subsidiary with an unrelated Person; and

(2) the Issuer delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €50.0 million, a resolution of the Board of Directors of the Issuer 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 Issuer; and

(b) in addition, with respect to (i) any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €100.0 million or (ii) any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €50.0 million in which there are no disinterested members of the Board of Directors of the Issuer, 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 Issuer 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 Issuer and any Restricted Subsidiary, or between or among Restricted Subsidiaries;

(3) transactions in the ordinary course of business with (i) a Person (other than an Unrestricted Subsidiary of the Issuer) that is an Affiliate of the Issuer solely because the Issuer, directly or through a Restricted Subsidiary, owns an Equity Interest in, can designate one or more board

members of, or otherwise controls, such Person or (ii) joint ventures (including, for the avoidance of doubt, Continental) or Unrestricted Subsidiaries; provided that, in the case of the foregoing sub-clause (ii), such transactions are fair to the Issuer or the Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of the Issuer 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;

(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 Issuer or any of its Restricted Subsidiaries;

(5) any issuance of Equity Interests (other than Redeemable Capital Stock) of the Issuer or Subordinated Shareholder Debt to Affiliates of the Issuer;

(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 by the Issuer in good faith);

(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 Issuer or the Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of the Issuer 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 Issuer or any of its Restricted Subsidiaries and any Person that is an Affiliate of the Issuer solely because a director of such Person is also a director of the Issuer or any direct or indirect parent of the Issuer; provided that such director abstains from voting as a director of the Issuer 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 Issuer and any other Person or a Restricted Subsidiary of the Issuer and any other Person with which the Issuer or any of its Restricted Subsidiaries files a consolidated tax return or with which the Issuer 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 Issuer and its Restricted Subsidiaries on a stand-alone basis;

(12) transactions with Affiliates solely in their capacity as holders of Indebtedness or Equity Interests of the Issuer or any of its Subsidiaries, so long as such transaction is with all holders of such class (and there are such non-Affiliate holders) and such Affiliates are treated no more favorably than all other holders of such class generally;

(13) the incurrence of Indebtedness under clause (15) of the second paragraph under the caption "—*Limitation on Indebtedness*" and any amendment, modification or extension to such Indebtedness; provided that the terms of such Indebtedness are fair to the Issuer or the Restricted Subsidiaries, in the reasonable determination of the members of the Board of

Directors of the Issuer or the senior management thereof, or are at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person; and

(14) any transaction effected as part of a Qualified Securitization Financing.

Limitation on Liens

The Issuer 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 that do not constitute Collateral, now owned or hereafter acquired, unless all payments due under the Indenture, the Notes and any 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 the Note Guarantees, 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 Issuer 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 Issuer 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 Issuer 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 Issuer will be the surviving Person; 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 Issuer and its Restricted Subsidiaries on a consolidated basis has been made (A) is a corporation, partnership, limited liability company or similar entity organized or 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 Issuer's obligations under the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which it is a party (to the extent such assumption is not effected by operation of law);

(2) immediately after giving effect to such transaction, no Default or Event of Default exists;

(3) the Issuer or the Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made, would, on the date of such transaction after giving *pro forma* effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least €1.00 of additional Indebtedness pursuant to the Combined Coverage Ratio test set forth in clause (i)(x) of the first paragraph of the covenant described under the caption "—*Limitation on Indebtedness*;" or (ii) the Combined Coverage Ratio would be no less than it was immediately prior to giving effect to such transaction; and

(4) the Issuer 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 Issuer'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.

A Guarantor (other than a Guarantor whose Note Guarantee is to be released in accordance with the terms of the Indenture) will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not such 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 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, (a) the Guarantor is the surviving Person or (b) 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 Guarantor under its Note Guarantee, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which such Guarantor is a party pursuant to a supplemental indenture and appropriate accession documentation 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, if any.

This "*Merger, Consolidation or Sale of Assets*" covenant will not apply to (i) any consolidation or merger or sale of all or part of the assets of any Restricted Subsidiary that is not a Guarantor with, into or to the Issuer, a Guarantor or any other Restricted Subsidiary that is not a Guarantor or (ii) any consolidation or merger or sale of all or part of the assets of any Guarantor with, into or to the Issuer or another 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 Issuer to, with or into any 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 Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction for tax reasons.

Designation of Restricted and Unrestricted Subsidiaries and Members of Issuer Group and OpCo Group

The Board of Directors of the Issuer may designate any Restricted Subsidiary (including, for the avoidance of doubt, any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, either (A) the Subsidiary to be so designated has total assets of €1,000 or less or (B) if such Subsidiary has assets greater than €1,000, the aggregate Fair Market Value of all outstanding Investments owned by the Issuer and the Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Investments under the covenant described under the caption "*—Limitation on Restricted Payments*" or under one or more clauses of the definition of Permitted Investments, as determined by the Issuer. That designation will only be permitted if, at the time of designation, (1) the

Investment referred to in the immediately preceding sentence would be permitted; and (2) none of such Subsidiary or any of its Subsidiaries:

(a) has any Indebtedness other than Non-Recourse Debt;

(b) except as permitted by the covenant described above under the caption "—*Transactions with Affiliates,*" is party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer; and

(c) is a Person with respect to which the Issuer or 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.

Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing promptly 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*."

The Board of Directors of the Issuer may at any time designate any Unrestricted Subsidiary (including, for the avoidance of doubt, any member of the Schaeffler OpCo Group) to be a Restricted Subsidiary if such designation would not cause a Default; 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)(a) 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 or (b) the Combined Coverage Ratio calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period would be greater than or equal to such ratio immediately prior to such designation; and (2) no Default or Event of Default would be in existence following such designation.

Subject to the next succeeding sentence, any Person which, after the Issue Date, becomes a direct Subsidiary of any member or members of the Issuer Group and any Subsidiary of such Subsidiary (each such Subsidiary, a "**Future Subsidiary**") will, upon becoming such Subsidiary, initially be deemed to be a member of an OpCo Group. The Issuer may designate any Future Subsidiary (including in connection with any acquisition or formation of any such Future Subsidiary) to be a member of the Issuer Group (upon which designation such Subsidiary shall cease to be a member of an OpCo Group), provided that (1) such Future Subsidiary complies with the covenant described under the caption "—*Limitation on activities*;" (2) such Future Subsidiary is not a Subsidiary of any member of an OpCo Group (unless any such member of such OpCo Group is also designated as a member of the Issuer Group); and (3) no Default or Event of Default would arise as a result of such designation.

Maintenance of listing

The Issuer will use its reasonable best efforts to maintain the listing of the Notes on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market for so long as such Notes are outstanding; provided that if at any time the Issuer determines that it will not maintain such listing, it will use its reasonable best efforts to maintain a listing of such Notes on another recognized stock exchange.

Lines of business

The Issuer 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 Issuer and its Subsidiaries, taken as a whole.

Limitation on activities

The Issuer will not, and will not cause or permit any Restricted Subsidiary that is a member of the Issuer Group to, engage in any business activity or undertake any other activity, own any assets or incur any liability except for Holding Company Activities.

Limitation on Issuances of Guarantees of Indebtedness

The Issuer will not cause or permit any Restricted Subsidiary (other than a 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 a Guarantee of the payment of the Notes by such Restricted Subsidiary, which Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness.

Each additional Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

The first paragraph of this covenant will not be applicable to any Guarantees of any Restricted Subsidiary given to a bank or trust company having combined capital and surplus and undivided profits of not less than €250.0 million, whose debt has a rating, at the time such guarantee was given, of at least A or the equivalent thereof by S&P and at least A2 or the equivalent thereof by Moody's, in connection with the operation of cash management programs established in the ordinary course of business for the benefit of the Issuer or any of the Restricted Subsidiaries.

Notwithstanding the foregoing, the Issuer 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 Issuer or the Restricted Subsidiary.

Notwithstanding the foregoing, any Note Guarantee of a Guarantor created pursuant to the provisions described in the first paragraph of this covenant will be automatically and unconditionally released and discharged:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that 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 Issuer or any Restricted Subsidiary, if the sale or other disposition is not prohibited by or does not otherwise violate the covenant described under the caption entitled "*—Repurchase at the option of Holders—Asset Sales*;"

(2) in connection with any sale or other disposition of Capital Stock of that Guarantor (for the avoidance of doubt, whether directly or through the disposition of a parent thereof) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition is not prohibited by or does not otherwise violate the covenant described under the caption entitled "*—Repurchase at the option of Holders—Asset*

Sales" and that Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;

(3) substantially concurrently with or following the release or other termination of any and all guarantees given by the relevant 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 no Event of Default exists at such time or would arise as a result of such release;

(4) if the Issuer designates any Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(5) in connection with an enforcement sale pursuant to the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement, or as otherwise provided for under the Intercreditor Agreement or any Additional Intercreditor Agreement;

(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) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(8) as described under "*—Amendment, supplement and waiver*;" or

(9) as described under "*—Merger, Consolidation or Sale of Assets*."

The Issuer will be permitted after the Issue Date to cause additional Restricted Subsidiaries to become Guarantors under the Indenture even if such Restricted Subsidiaries are not required at such time to become Guarantors pursuant to this covenant (such Guarantors, ''**Optional Guarantors**''). The Issuer will be entitled to release any such Optional Guarantor from its Note Guarantee obligations provided (x) no Event of Default would result from such release and (y) such Optional Guarantor is not at the time of the proposed release otherwise required to be a Guarantor pursuant to this covenant.

Upon any release of a Note Guarantee contemplated under this covenant, the Trustee or Security Trustee, as applicable, shall execute any documents required in order to evidence such release, discharge and termination in respect of such Note Guarantee.

Impairment of Security Interest

The Issuer 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 Issuer will not, and will not cause or permit any Restricted Subsidiary to, grant to any Person other than the Security Trustee, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Security Documents and the Intercreditor Agreement, any interest whatsoever in any of the Collateral; provided that (a) nothing in this provision shall restrict the discharge, release or replacement of the Collateral in accordance with the Indenture, the Security Documents and the Intercreditor Agreement, (b) the Issuer 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), no Security Document may 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 Issuer shall, and shall procure that each Restricted Subsidiary and each of its other Affiliates holding any of the Collateral shall, execute all transfers, conveyances, assignments and releases of that property whether to the Security Trustee or to their respective nominees and give all notices, orders and directions which the Security Trustee may reasonably request.

Additional Intercreditor Agreements

At the request of the Issuer, without the consent of Holders, and at the time of, or prior to, the incurrence by the Issuer or any Restricted Subsidiary of Indebtedness (i) that is permitted to be incurred pursuant to the covenant described under the caption "—*Limitation on Indebtedness*" and either to share in the Collateral or to rank *pari passu* or junior in right of payment to the Notes or *pari passu* or junior to any Guarantee, or (ii) the proceeds of which are used, in whole or in part, to refinance the Notes or Indebtedness referred to in the foregoing clause (i), the Issuer or the relevant Restricted Subsidiaries, the Trustee and the Security Trustee shall enter into with the holders of such Indebtedness (or their duly authorized representatives) an Intercreditor Agreement (an "**Additional**

Intercreditor Agreement") on substantially the same terms as the Intercreditor Agreement, including terms with respect to the limitation on enforcement and release of guarantees and priority as set forth in the Intercreditor Agreement (or on terms more favorable to the Holders); provided that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or any Security Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or any Security Trustee under the Indenture or the Intercreditor Agreement.

At the request of the Issuer, without the consent of Holders, the Trustee and the Security Trustee shall from time to time enter into one or more amendments to any Intercreditor Agreement or Additional Intercreditor Agreement to: (1) cure defects and manifest errors, resolve ambiguities or reflect changes, in each case, of a minor, technical or administrative nature; (2) increase the amount or types of Indebtedness covered by any Intercreditor Agreement or Additional Intercreditor Agreement that may be incurred by the Issuer or any Restricted Subsidiary that is subject to any Intercreditor Agreement or Additional Intercreditor Agreement (including the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes); (3) add new guarantors to the Intercreditor Agreement or an Additional Intercreditor Agreement; (4) further secure the Notes or any Note Guarantee; (5) make provision for the security securing Additional Notes to rank *pari passu* with the Collateral or to implement any Permitted Collateral Liens; (6) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof; or (7) make any other change to any such Intercreditor Agreement or an Additional Intercreditor Agreement that does not adversely affect the rights of Holders in any material respect.

The Issuer shall not otherwise direct the Trustee or any Security Trustee to enter into any amendment to the Intercreditor Agreement or any Additional Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted by the provisions under "*—Amendment, supplement and waiver*" and the Issuer may only direct the Trustee and the Security Trustee to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or any Security Trustee under the Indenture, the Intercreditor Agreement or such Additional Intercreditor Agreement.

In relation to the Intercreditor Agreement or, to the extent applicable, an Additional Intercreditor Agreement, the Trustee shall be deemed to have consented on behalf of the Holders to any payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; provided that such transaction would comply with the covenant described under the caption "*—Limitation on Restricted Payments*."

Each Holder shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have consented to and directed the Trustee and the Security Trustee to enter into any Additional Intercreditor Agreement or any amendment of the Intercreditor Agreement or any Additional Intercreditor Agreement which complies with the foregoing provision and the conditions contained therein.

Suspension of covenants when Notes rated investment grade

During any period of time that (i) the Notes have received an Investment Grade Rating from both Rating Agencies; and (ii) no Default has occurred and is continuing under the Indenture (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a "**Covenant Suspension Event**" and the date thereof being referred to as the "**Suspension Date**"), then the Issuer will notify the Trustee of such Covenant Suspension Event and the covenants specifically listed under the following captions in this "*Description of the Notes*" section of this

Offering Memorandum will not be applicable to the Notes (collectively, the "**Suspended Covenants**"):

(1) "*—Repurchase at the option of Holders—Asset Sales*;"

(2) "*—Limitation on Indebtedness*;"

(3) "*—Limitation on Restricted Payments*;"

(4) "*—Dividend and other payment restrictions affecting Restricted Subsidiaries*;"

(5) "*—Transactions with Affiliates*;"

(6) clause (3) of the first paragraph of "*—Merger, Consolidation or Sale of Assets*;"

(7) "—Lines of business;" and

(8) "*—Limitation on issuances of Guarantees of Indebtedness*."

During any period that the foregoing covenants have been suspended, neither the Issuer nor any Restricted Subsidiary may designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the definition of Unrestricted Subsidiary.

If and while the Issuer 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 Issuer 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 Issuer 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 Issuer or any Restricted Subsidiary prior to such reinstatement will give rise to a Default or Event of Default under the Indenture with respect to the Notes; provided that (i) with respect to Restricted Payments made after such reinstatement, the amount available to be made as Restricted Investments will be calculated as though the covenant described under the caption "*—Limitation on Restricted Payments*" had been in effect prior to, but not during, the Suspension Period; (ii) all Indebtedness incurred, or Redeemable Capital Stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (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 Issuer 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) (a) annual reports (x) with respect to Schaeffler AG (for so long as Schaeffler AG is a Subsidiary of the Issuer), within 120 days after the end of Schaeffler AG's fiscal year beginning with the fiscal year ending December 31, 2016, and (y) with respect to any Restricted OpCo Group TopCo (for so long as such entity is a Restricted OpCo Group TopCo), within 120 days after the end of the fiscal year of such Restricted OpCo Group TopCo beginning with the first fiscal year ending after the date on which such entity becomes a Restricted OpCo Group TopCo; each annual report with respect to any such Person containing the following information: (i) audited consolidated balance sheet of such Person as of the end of the most recent fiscal year and audited consolidated income statement and statement of cash flow of such Person for the most recent fiscal year and in each case including comparable figures as of or for the previous fiscal year, (ii) complete footnotes to such financial statements including information on critical accounting policies, all material related party transactions, and material financing arrangements, (iii) the report of the independent auditors on the financial statements, (iv) a group management report (*Konzernlageberícht*) containing an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies; and (v) to the extent not included in the items in foregoing clauses (ii) or (iv), material recent developments;

(b) if Schaeffler AG or a Restricted OpCo Group TopCo has consummated a Material Transaction during any fiscal year for which an annual report for such Person is required to be delivered pursuant to clause (1)(a) of this paragraph, within 120 days after the end of such fiscal year *pro forma* income statement and balance sheet information of such Person (which need not comply with Article 11 of Regulation S-X under the Exchange Act), together with any explanatory footnotes, for such Material Transaction; provided, however, that such *pro forma* financial information will be provided only to the extent available without unreasonable expense, failing which the Issuer will provide acquired or disposed company financial statements;

(c) with respect to the Issuer, within 120 days after the end of the fiscal year of the Issuer beginning with the fiscal year ending December 31, 2016, annual unconsolidated financial statements for the Issuer, consisting of an audited unconsolidated balance sheet of the Issuer as of the end of the most recent fiscal year and an audited unconsolidated income statement of the Issuer for the most recent fiscal year and in each case including comparable figures as of or for the previous fiscal year, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements;

(d) within 120 days after the end of the fiscal year of the Issuer beginning with the fiscal year ending December 31, 2016, a brief description of the material differences in the financial condition and results of operations between (i) the Issuer Group, the Schaeffler OpCo Group and any Restricted OpCo Group on a combined basis and (ii) the Schaeffler OpCo Group and any Restricted OpCo Groups on a combined basis;

(2) (a) quarterly reports (x) with respect to Schaeffler AG (for so long as Schaeffler AG is a Subsidiary of the Issuer), within 60 days after the end of each of the first three fiscal quarters in each fiscal year of Schaeffler AG beginning with the fiscal quarter ending September 30, 2016, and (y) with respect to any Restricted OpCo Group TopCo (for so long as such entity is a Restricted OpCo Group TopCo), within 60 days after the end of each of the first three fiscal quarters in each fiscal year of such Restricted OpCo Group TopCo beginning with the first fiscal quarter of the first fiscal year ending after the date on which such entity becomes a Restricted OpCo Group TopCo; each quarterly report with respect to any such Person containing the following information: (i) 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 such Person, together with condensed footnote disclosure and (ii) to the extent not included in the items in foregoing clause (i), information on material developments in the business of such Person;

(b) within 60 days after the end of each of the first three fiscal quarters in each fiscal year of the Issuer beginning with the fiscal quarter ending September 30, 2016, a brief description of the material differences in the financial condition and results of operations between (i) the Issuer Group, the Schaeffler OpCo Group and any Restricted OpCo Group on a combined basis and (ii) the Schaeffler OpCo Group and any Restricted OpCo Groups on a combined basis; and

(3) promptly after the occurrence of (a) a Material Transaction; (b) any changes of the chief executive officer or chief financial officer of the Issuer or in the auditors of the Issuer; (c) the entering into an agreement that will result in a Change of Control; or (d) any material events that the Issuer or Schaeffler AG announces publicly, in each case, a report containing a description of such events.

All financial statements shall be prepared in accordance with IFRS, except that the financial statements required by clause (1)(c) above and the financial statements referred to in the next following paragraph may be prepared in accordance with generally accepted accounting principles in the country in which the respective Person for which such financial statements are to be prepared is organized ("**Local GAAP**;" in the case of a Person organized in Germany, Local GAAP shall mean generally accepted accounting principles (*Grundsätze ordnungsgemäßer Buchführung*) under the German Commercial Code (*Handelsgesetzbuch*) as in effect from time to time). Except as provided for above, no report need include separate financial statements for the Issuer or Subsidiaries of the Issuer 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.

If the consolidated total assets of any Restricted OpCo Group TopCo as of the end of any fiscal year for which the Issuer is required to deliver an annual report with respect to such Restricted OpCo Group TopCo pursuant to clause (1)(a) of the first paragraph of this covenant do not exceed €100.0 million, the Issuer may satisfy its obligation to deliver such annual report for such fiscal year by delivering instead, within 120 days after the end of the fiscal year of such Restricted OpCo Group TopCo, annual unconsolidated financial statements for such Restricted OpCo Group TopCo consisting of the information described in clause (1)(c) of the first paragraph of this covenant (as if such clause applied to such Restricted OpCo Group TopCo). The Issuer shall not be required to deliver quarterly reports pursuant to clause (2)(a) of the first paragraph of this covenant with respect to any Restricted OpCo Group TopCo for any fiscal quarter if the consolidated total assets of such Restricted OpCo Group TopCo as of the end of such fiscal do not exceed €100.0 million.

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.

The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant (i) on a website of or designated by the Issuer; 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*).

For the purposes of this covenant, a "**Material Transaction**" shall mean any acquisition or disposition by Schaeffler AG or any Restricted OpCo Group TopCo of any business whose consolidated total assets (as determined on the basis of the most recently available financial statements for such business prior to the date of such acquisition or disposition) exceed 20% of the Total Assets immediately prior to such acquisition or disposition.

For the avoidance of doubt, the subsequent making available of any materials required by this covenant shall be deemed automatically to cure any Default or Event of Default resulting from the failure to make available such materials or conference call within the required time frame.

Any subsequent restatement of financial statements shall have no retroactive effect for purposes of calculations previously made pursuant to the covenants contained in the Indenture.

Payments for consent

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement or any Security Document unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Issuer and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement or any Security Document, to exclude Holders in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an exchange or tender offer; or (ii) the payment of the consideration therefor would require the Issuer 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 Issuer in its sole discretion determines (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction); or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Events of Default and Remedies

Each of the following is an "**Event of Default**:"

(1) default in the payment when due (at maturity, upon redemption, required repurchase or otherwise) of the principal of, or premium, if any, on, the Notes; or

(2) default for 30 days in the payment when due of Cash Interest or PIK Interest or Additional Amounts, if any, with respect to the Notes; or

(3) failure by the Issuer to (i) comply with the provisions set forth under "*—Certain covenants—Merger, Consolidation or Sale of Assets*" or (ii) effect a Mandatory Excess PIK Interest Redemption in accordance with the provisions set forth under "*—Interest*;" 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, any Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement or the

Security Documents (other than a default in performance, or breach, of a covenant or agreement which is specifically dealt with in clauses (1), (2) 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 Issuer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Issuer 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 €100.0 million or more (or its equivalent in any other currency or currencies);

(6) failure by the Issuer 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 €100.0 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 of a Guarantor that is a Significant Subsidiary 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 of the Guarantors that is a Significant Subsidiary denies or disaffirms its obligations under its Note Guarantee in writing; 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 Intercreditor Agreement or any Additional Intercreditor Agreement; or (B) the Liens with respect to such Collateral purported to be created under any Security Document, are by final and enforceable judicial decision declared invalid or unenforceable; or

(9) certain events of bankruptcy or insolvency described in the Indenture with respect to the Issuer or any Restricted Subsidiary that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary; or

(10) certain events of bankruptcy or insolvency described in the Indenture with respect to Schaeffler AG if such events are not cured or otherwise remedied within 30 days after their occurrence.

In the case of an Event of Default specified in clause (9) of the preceding paragraph, with respect to the Issuer, 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, or 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 any Guarantor under the Notes, the Indenture, any Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Security Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under applicable securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officer's Certificate, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of any 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 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 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 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 any Guarantors with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer, any 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, any Note Guarantees, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement may be amended or supplemented with the consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture, the Notes, any Note Guarantees, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement may be waived with the consent of the Holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

The Intercreditor Agreement provides that certain amendments to the Security Documents may be made with the prior written consent of the Instructing Group.

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), an amendment, supplement or waiver may not:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption "—*Repurchase at the option of Holders*");

(3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;

(4) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes or 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 Intercreditor Agreement;

(10) release all or substantially all of the Liens on the Collateral granted for the benefit of the Holders, except in accordance with the terms of the Indenture or the relevant Security Document and the Intercreditor Agreement; or

(11) make any change in the preceding amendment and waiver provisions.

Any amendment, supplement or waiver consented to by at least 90% (subject to the proviso in the preceding sentence) of the aggregate principal amount of the then outstanding Notes will be binding against any non-consenting holders.

Notwithstanding the preceding, without the consent of any Holder, the Issuer, any Guarantors, the Trustee and the Security Trustee may amend or supplement the Indenture, the Notes, any Note Guarantees, the Intercreditor Agreement or any Security Document:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(3) to provide for the assumption of the Issuer's or a Guarantor's obligations to Holders in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or 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, any Note Guarantees, any Security Documents or the Intercreditor Agreement to any provision of this "*Description of the Notes*" to the extent that such provision in this "*Description of the Notes*" was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Note Guarantees, the Security Documents, or the 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 Intercreditor Agreement;

(8) to release the Collateral in accordance with the terms of the Indenture, the Intercreditor Agreement and the Security Documents;

(9) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(10) to allow any Restricted Subsidiary to execute a supplemental indenture and/or a 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 United States Internal Revenue Code of 1986, as amended (the "**Code**"), or in a manner such that the uncertificated Notes are not treated as "registration-required obligations" 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; or

(13) to add additional parties to the Intercreditor Agreement or any Security Document to the extent permitted hereunder and thereunder.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

In connection with its entry into any amendment, supplement or waiver, the Trustee shall be entitled to rely absolutely on such evidence as it deems appropriate, including an opinion of counsel and an Officer's Certificate.

For the purpose of calculating the aggregate principal amount of Notes that have consented to or voted in favor of any amendment, supplement or waiver, the Euro Equivalent of the principal amount of any Notes shall be as of the Issue Date. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg act dated August 10, 1915 on commercial companies, as amended, shall not apply in respect of the Notes.

Satisfaction and discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

  (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

  (b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or 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, 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 any Guarantor under the Indenture, the Notes and any 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 Issuer, 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 any Guarantor will constitute a discharge of the Issuer

and such Guarantor only to the extent of the euro or U.S. dollar amount, as the case may be, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If that euro or U.S. dollar amount, as the case may be, is less than the euro or U.S. dollar amount, as the case may be, expressed to be due to the recipient under any Note, the Issuer and any Guarantors will indemnify the recipient against any loss sustained by it as a result. In any event the Issuer and any 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 any 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 of 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 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 any 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. The Issuer has initially designated Deutsche Bank Luxembourg S.A. as its agent for those purposes. The address of Deutsche Bank Luxembourg S.A. is 2, boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg.

Additional information

Anyone who receives this Offering Memorandum may, following the Issue Date, obtain a copy of the Indenture, the form of Note, the Security Documents, the Intercreditor Agreement and the Issuer Facilities Agreement without charge by writing to Schaeffler Verwaltung Zwei GmbH (to be renamed

IHO Verwaltungs GmbH), Industriestrasse 1-3, 91074 Herzogenaurach, Germany, for the attention of Investor Relations.

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 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 and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Intercreditor Agreement will be governed by English law. The Security Documents will be governed by applicable local laws of the jurisdiction under which the Liens are granted.

Consent to jurisdiction and service of process

The Indenture will provide that the Issuer will appoint National Corporate Research, Ltd., located at 10 East 40th Street, 10th floor, New York, New York 10016, as its agent for service of process in any suit, action or proceeding with respect to the Indenture and the Notes 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 are outside the United States. As a result, any judgment obtained in the United States against the Issuer 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 Amount Determination Date**" means, with respect to any interest payment date in respect of the Notes, the 15th day prior to such interest payment date.

"**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.

"**Asset Sale**" means:

(1) the sale, lease, conveyance or other disposition of any assets by the Issuer 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 Issuer 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 Issuer or any of its Restricted Subsidiaries of Equity Interests in any of the Issuer'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 Issuer and any Restricted Subsidiary or among any Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary to the Issuer 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 Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Restricted Subsidiaries taken as a whole);

(5) licenses and sublicenses by the Issuer 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) any unwinding or termination of Hedging Obligations not for speculative purposes;

(15) the sale or other disposition of subscription rights for shares in Capital Stock of Continental in the course of an Opération Blanche; and

(16) the sale, transfer or other disposition of Unrestricted Continental Shares, Unrestricted Schaeffler Shares or any other assets acquired by any member of the Issuer Group after the Issue Date (other than Restricted Shares).

"**Asset Sale Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**Average Available RCF Drawings**" means, with respect to any interest payment date, the average daily balance of amounts available for drawing under the revolving credit facility of the Issuer Facilities Agreement (and the revolving credit facility of any Credit Facility that refinances or replaces the Issuer Facilities Agreement) for the period starting on the 45th day preceding such interest payment date and ending on the Business Day preceding the Applicable Amount Determination Date. The Average Available RCF Drawings shall be calculated by the chief financial officer of the Issuer. For the avoidance of doubt, such calculation shall not be a duty of the Trustee or any Paying Agent.

"**Average Cash Balance**" means, with respect to any interest payment date, the average daily balance of the aggregate amount of cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries for the period starting on the 45th day preceding such interest payment date and ending on the Business Day preceding the Applicable Amount Determination Date, determined to give *pro forma* effect to the payment of any cash interest payable under the Issuer Facilities Agreement (or any Credit Facility that replaces the Issuer Facilities Agreement) on or prior to such interest payment date. The Average Cash Balance shall be calculated by the chief financial officer of the Issuer. For the avoidance of doubt, such calculation shall not be a duty of the Trustee or any Paying Agent.

"**Average Liquidity**" means, with respect to any interest payment date, the sum of (i) the Average Cash Balance with respect to such interest payment date and (ii) the Average Available RCF Drawings with respect to such interest payment date.

"**Beneficial Owner**" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"**Board of Directors**" means:

(1) with respect to any 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 any 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.

Without limiting the generality of the foregoing, the board of directors of any corporate entity with a two-tier board means the management board of such entity (except that, for purposes of the definition of the term "Voting Stock," the board of directors of any corporate entity with a two-tier board shall mean the board of such entity whose members are elected or appointed by such entity's shareholders).

"**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 September 15, 2018, in the case of the 2021 Euro Notes, September 15, 2019, in the case of the 2023 Euro Notes, or September 15, 2021, in the case of the 2026 Euro Notes and that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the 2021 Euro Notes, the 2023 Euro Notes or the 2026 Euro Notes, respectively, and of a maturity most nearly equal to September 15, 2018, in the case of the 2021 Euro Notes, September 15, 2019, in the case of the 2023 Euro Notes or September 15, 2021, in the case of the 2026 Euro Notes; provided, however, that, if the period from such redemption date to September 15, 2018, in the case of the 2021 Euro Notes, September 15, 2019, in the case of the 2023 Euro Notes or September 15, 2021, in the case of the 2026 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 European Union, the United Kingdom, 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 Kingdom, 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 twelve 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 European Union or of the United Kingdom, 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 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;

(5) Indebtedness or preferred stock issued by Persons with a rating of "A" or higher from S&P or "A2" or higher from Moody's (or reasonably equivalent ratings of another internationally recognized ratings agency), in each case with maturities not exceeding two years from the date of acquisition;

(6) bills of exchange issued in the United States of America, Canada, the United Kingdom, any country that is a member of the European Union or Switzerland or any political subdivision of the foregoing eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (6) of this definition; and

(8) instruments equivalent to those referred to in clauses (1) through (7) above denominated in Euro, U.S. dollar or pound sterling or any other foreign currency comparable in credit quality and tenor to those referred to above and customarily used by corporations for cash management purposes in any jurisdiction outside the United States, to the extent reasonably required in connection with (a) any business conducted by any Restricted Subsidiary organized in such jurisdiction or (b) any Investment in the jurisdiction where such Investment is made.

"**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 Issuer 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 Issuer of a plan or proposal for the liquidation or dissolution of the Issuer, 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 of the Issuer or any Parent Entity, any event, the result of which is that the Family Shareholders cease to be the Beneficial Owners, directly or indirectly, of shares representing more than 50% of the voting power of the Issuer's Voting Stock;

(4) after the consummation of an Initial Public Equity Offering of the Issuer or any Parent Entity, (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder or Permitted Holders, is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of the voting power of the Issuer'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 Issuer'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 Issuer'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) the Issuer ceases to own, directly or indirectly, shares representing more than 50% of the voting power of Schaeffler AG's Voting Stock.

"**Change of Control Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**Collateral**" means the rights, property and assets in which a Lien has been granted to secure the Obligations of the Issuer under the Notes, any Note Guarantees and the Indenture from time to time.

"**Combined Coverage Ratio**" means, as of any date of determination, the ratio of (1) the sum of (without double counting) (i) an amount equal to sum of the Consolidated EBITDA of Schaeffler AG and each Restricted OpCo Group TopCo (in each case, at the respective Ownership Percentage as of such date of determination) for the respective period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements of Schaeffler AG or such Restricted OpCo Group TopCos are in existence and (ii) the aggregate amount of all dividends and other distributions received by the Issuer and the Restricted Subsidiaries that are members of the Issuer Group during the period of the most recent four consecutive fiscal quarters

ending prior to such determination date from (x) Continental, (y) any Unrestricted Subsidiary (other than Schaeffler OpCo Group) and (z) any other Investments held by the Issuer and the Restricted Subsidiaries that are members of the Issuer Group (other than Investments in Subsidiaries) to (2) the sum of (i) an amount equal to the sum of the Consolidated Net Interest of Schaeffler AG and each Restricted OpCo Group TopCo (in each case at the Ownership Percentage as of such date of determination) for the respective four fiscal quarters referred to in clause (1)(i) and (ii) the aggregate amount of the Combined Issuer Group Net Interest for the most recent four consecutive fiscal quarters ending prior to such determination date; provided that with respect to the calculation of the Combined Coverage Ratio:

(a) the Consolidated EBITDA and the Consolidated Net Interest of Schaeffler AG (or relevant Restricted OpCo Group TopCos, as the case may be) and the Combined Issuer Group Net Interest shall be calculated for the relevant 12-month period by giving effect on a *pro forma* basis as if Indebtedness incurred, repaid, repurchased, redeemed, defeased or otherwise discharged (including with the proceeds of new Indebtedness) by the Issuer or any of its Restricted Subsidiaries since the beginning of the relevant 12-month period and on or prior to such date of determination, had been incurred, repaid, repurchased, redeemed, defeased or otherwise discharged on the first day of such 12-month period (provided, however, that the *pro forma* calculation shall not give effect to (i) any Indebtedness incurred on such date of determination pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness*" or (ii) the discharge on such date of determination of any Indebtedness to the extent such discharge results from the proceeds of Indebtedness incurred on such date of determination pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness*");

(b) if since the beginning of the relevant 12-month period and prior to such date of determination the Issuer or any of its Restricted Subsidiaries will have discontinued operations (as determined in accordance with IFRS) or made any disposal of operations or businesses (or ownership interests therein):

   (i) the Consolidated EBITDA of Schaeffler AG (or relevant Restricted OpCo Group TopCos, as the case may be) 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 operations or businesses (or ownership interests therein) which are the subject of such disposal for such period (or increased by such amount, if it was negative);

   (ii) if such discontinued operations related to, or such disposal of operations or businesses (or ownership interests therein) was made by, Schaeffler AG, any Restricted OpCo Group TopCo or any of their respective Restricted Subsidiaries, Consolidated Net Interest of Schaeffler AG (or relevant Restricted OpCo Group TopCos, as the case may be) for such period will be reduced by an amount equal to the Consolidated Net Interest of such Person 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 operations or businesses (or ownership interests therein) (or, if the shares of any Restricted Subsidiary of Schaeffler AG or any Restricted OpCo Group TopCo are sold, the Consolidated Net Interest of such Person for the relevant 12-month period directly attributable to the Indebtedness of such Restricted Subsidiary if and to the extent Schaeffler AG and its continuing Restricted Subsidiaries (or relevant Restricted OpCo Group TopCos and their respective continuing Restricted Subsidiaries, as the case may be) are no longer liable for such Indebtedness after such sale); and

(iii) if such discontinued operations related to, or such disposal of operations or businesses (or ownership interests therein) was made by, the Issuer or any Restricted Subsidiary that is a member of the Issuer Group, Combined Issuer Group Net Interest for such period will be reduced by an amount equal to the Combined Issuer Group Net Interest for the relevant 12-month period directly attributable to any Indebtedness repaid, repurchased or otherwise discharged in connection with such discontinued operations (as determined in accordance with IFRS) or disposal of operations or businesses (or ownership interests therein) (or, if the shares of any Restricted Subsidiary that is a member of the Issuer Group are sold, the Combined Issuer Group Net Interest for the relevant 12-month period directly attributable to the Indebtedness of such Person if and to the extent the continuing members of the Issuer Group are no longer liable for such Indebtedness after such sale); and

(c) if since the beginning of the relevant 12-month period and on or prior to such date of determination the Issuer or any of its Restricted Subsidiaries made an investment in any Restricted Subsidiary of the Issuer (or any Person which becomes a Restricted Subsidiary of or is merged with or into the Issuer) or an acquisition of operations or businesses (or ownership interests therein), Consolidated EBITDA of Schaeffler AG (or relevant Restricted OpCo Group TopCos, as the case may be), Consolidated Net Interest of Schaeffler AG (or relevant Restricted OpCo Group TopCos, as the case may be) and Combined Issuer Group Net Interest for such period will be calculated after giving *pro forma* effect thereto (including the incurrence of any Indebtedness) (as determined in good faith by a responsible financial or accounting officer of the Issuer) 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 Issuer (who may rely on calculations of Schaeffler AG or relevant member of Restricted OpCo Group, as the case may be). If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any interest rate hedging applicable to such Indebtedness). Any Person that is a Restricted Subsidiary of the Issuer on the date of determination will be deemed to have been a Restricted Subsidiary of the Issuer at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary of the Issuer on the date of determination will be deemed not to have been a Restricted Subsidiary of the Issuer at any time during such four-quarter period. Whenever *pro forma* effect is to be given to any calculation of Consolidated EBITDA and Consolidated Net Interest of Schaeffler AG pursuant to clauses (a) to (c) in the preceding paragraph, Schaeffler AG and all Subsidiaries of Schaeffler AG shall be deemed to be Restricted Subsidiaries, whether or not they have been designated as Restricted Subsidiaries.

"**Combined Issuer Group Net Interest**" means, for any period, without duplication and in each case determined on a combined basis in accordance with IFRS, the sum of:

(1) the combined interest expense (net of interest income) of the Issuer and the Restricted Subsidiaries that are members of the Issuer Group for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark-to-market valuation of Hedging Obligations or other derivative instruments), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings; plus

(2) the combined interest expense (but excluding such interest on Subordinated Shareholder Debt) of the Issuer and the Restricted Subsidiaries that are members of the Issuer Group that was capitalized during such period; plus

(3) any interest on Indebtedness of another Person that is guaranteed by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group or secured by a Lien on assets of the Issuer or any Restricted Subsidiary that is a member of the Issuer Group; plus

(4) net payments and receipts (if any) by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; plus

(5) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary that is a member of the Issuer Group, other than dividends on Equity Interests payable to the Issuer or any Restricted Subsidiary that is a member of the Issuer Group.

"**Consolidated EBITDA**" means, with respect to any specified Person for any period, Consolidated Net Income of such specified Person for such period, plus the following, to the extent deducted in calculating such Consolidated Net Income for such period, without duplication:

(a) Consolidated Net Interest of such specified Person; plus

(b) provisions for taxes based on income or profits of such specified Person and its Restricted Subsidiaries; plus

(c) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees) and other non-cash charges and expenses (including, without limitation, write-downs and impairment of property, plant, equipment and intangibles) of such specified Person and its Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or a reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in any prior period); plus

(d) any income or charge of such specified Person and its Restricted Subsidiaries attributable to any post-employment benefit scheme other than the current service costs and any past service costs and any past service costs and curtailments and settlements attributable to such scheme; minus

(e) any non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (11) of the definition of Consolidated Net Income) other than any items which represent the reversal in such period of any accrual of, or reserve for, cash charges or expenses in a future period,

in each case on a consolidated basis and determined in accordance with IFRS; provided that, for purposes of calculating Consolidated EBITDA of Schaeffler AG, all Subsidiaries of Schaeffler AG shall be deemed to be Restricted Subsidiaries, whether or not they have been designated as Restricted Subsidiaries.

"**Consolidated Net Income**" means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such specified Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiaries), determined in accordance with IFRS; provided that:

(1) (i) any extraordinary or exceptional gain, loss or charge; (ii) any asset impairments charges; or (iii) any non-cash charges or reserves in respect of any restructuring, redundancy, integration or severance, in each case, will be excluded;

(2) the net income (or loss) of any Person (other than such specified Person) that is not a Restricted Subsidiary of such specified Person or that is accounted for by the equity method of accounting

will be excluded, except that equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to such specified Person or a Restricted Subsidiary of such specified Person as a dividend or other distribution;

(3) solely for the purpose of determining the amount available for Restricted Investments under clause (3)(b) of the second paragraph under the caption "*—Certain covenants—Limitation on Restricted Payments*," any net income or loss of any Restricted Subsidiary of such specified Person will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to such specified Person by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released; (b) restrictions pursuant to the Notes or the Indenture; and (c) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole, are not materially less favorable to the Holders than such restrictions in effect on the Issue Date) except that such specified Person's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to such specified Person or another Restricted Subsidiary of such specified Person as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(4) any net gain or loss realized upon the sale or other disposition of any asset or disposed operations of such specified Person or any of its Restricted Subsidiaries (including pursuant to any sale-leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Issuer) will be excluded;

(5) any one-time non-cash charges or any amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of, or merger or consolidation with, another Person or business or resulting from any reorganization or restructuring involving such specified Person or its Subsidiaries will be excluded;

(6) the cumulative effect of a change in accounting principles will be excluded;

(7) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;

(8) any non-cash compensation charge or expenses arising from any grant of stock, stock options or other equity based awards will be excluded;

(9) any goodwill or other intangible asset impairment charges will be excluded;

(10) all deferred financing costs written off and premium paid in connection with any early extinguishment of Indebtedness and any net gain or loss from any write-off or forgiveness of Indebtedness will be excluded; and

(11) any capitalized interest on any Subordinated Shareholder Debt will be excluded.

For purposes of calculating Consolidated Net Income of Schaeffler AG, all Subsidiaries of Schaeffler AG shall be deemed to be Restricted Subsidiaries, whether or not they have been designated as Restricted Subsidiaries.

"**Consolidated Net Interest**" means, with respect to any specified Person for any period, without duplication and in each case determined on a consolidated basis in accordance with IFRS, the sum of:

(1) the consolidated interest expense (net of interest income) of such specified Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark-to-market valuation of Hedging Obligations or other derivative instruments), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings; plus

(2) the consolidated interest expense (but excluding such interest on Subordinated Shareholder Debt) of such specified Person and its Restricted Subsidiaries that was capitalized during such period; plus

(3) any interest on Indebtedness of another Person that is guaranteed such specified Person or one of its Restricted Subsidiaries or secured by a Liens on assets of such specified Person or one of its Restricted Subsidiaries; plus

(4) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; plus

(5) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary of such specified Person, other than dividends on Equity Interests payable to such specified Person or any of its Restricted Subsidiaries.

For purposes of calculating Consolidated Net Interest of Schaeffler AG, all Subsidiaries of Schaeffler AG shall be deemed to be Restricted Subsidiaries, whether or not they have been designated as Restricted Subsidiaries.

"**Continental**" means Continental Aktiengesellschaft or its successor (including as a result of any spin-off, split, merger, demerger or similar transaction and including any relevant new entity coming into existence in the context of any such transaction).

"**Continental Group**" means Continental and any Subsidiary of Continental.

"**Continental Share Value**" means, as of any date of determination, the market value of the shares of Capital Stock of Continental (including, for the avoidance of doubt, any Unrestricted Continental Shares) held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group as of such date and to be determined on the basis of the arithmetic average of the daily volume-weighted average price per share of Continental quoted on the Frankfurt stock exchange (Xetra) (or, in case the shares of Continental are not quoted on the Frankfurt stock exchange, the principal national or regional securities exchange on which such shares are quoted) during the 60 trading days before and excluding the relevant determination date (or, if no volume-weighted average price is reported for any trading day, the last reported sale price on such day or, if no sale price is reported, the average of the bid and ask prices on such day).

"**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 Issuer or any Restricted Subsidiary (including the Issuer 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 Issuer 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.

"**Designated Non-Cash Consideration**" means the Fair Market Value of non-cash consideration received by the Issuer or one of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as Designated Non-Cash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under "*—Repurchase at the option of Holders—Asset Sales*."

"**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 September 15, 2018 (such redemption price being described under "*—Optional redemption*" exclusive of any accrued and unpaid interest), in the case of the 2021 Dollar Notes, September 15, 2019, in the case of the 2023 Dollar Notes or September 15, 2021, in the case of the 2026 Dollar Notes; plus (2) all required remaining scheduled interest payments due on such Dollar Note through September 15, 2018, in the case of the 2021 Dollar Notes, September 15, 2019, in the case of the 2023 Dollar Notes or September 15, 2021, in the case of the 2026 Dollar Notes (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 Issuer) or a public offering outside of the United States; or (y) Rule 144A and/or Regulation S or other private placement exemption under the U.S. Securities Act to professional market investors or similar persons.

"**Euro Applicable Premium**" means, with respect to a Euro Note at any redemption date, the excess of (A) the present value at such redemption date of (1) the redemption price of such Euro Note on September 15, 2018 (such redemption price being described under "*—Optional redemption*" exclusive of any accrued and unpaid interest), in the case of the 2021 Euro Notes, September 15, 2019, in the case of the 2023 Euro Notes or September 15, 2021, in the case of the 2026 Euro Notes; plus (2) all required remaining scheduled interest payments due on such Euro Note through September 15, 2018, in the case of the 2021 Euro Notes, September 15, 2019, in the case of the 2023 Euro Notes or September 15, 2021, in the case of the 2026 Euro Notes (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.*"

"**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 Issuer's managing directors or responsible accounting or financial officer or as otherwise specified in the Indenture.

"**Family Shareholders**" means Georg F. W. Schaeffler and Maria Elisabeth Schaeffler-Thumann and in each case their respective legal or appointed heirs.

"**Finance Subsidiary**" means any Restricted Subsidiary of the Issuer whose sole purpose is to raise financing for the Issuer's consolidated group, and which neither owns any material assets (other than receivables arising from proceeds loans in connection with such financings, bank deposits, cash and Cash Equivalents and Unrestricted Continental Shares) nor has any Equity Interest 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).

"**Guarantor**" means any Subsidiary of the Issuer that executes a Note Guarantee in accordance with the provisions of the Indenture, and its 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.

"**Holding Company Activities**" means, with respect to any Person: (i) any activity reasonably relating to the offering, incurrence, sale, issuance and servicing, purchase, redemption, refinancing or

retirement of any Indebtedness not prohibited by the terms of the Indenture, including Indebtedness under the Notes and the Issuer Facilities Agreement, and distributing, lending or otherwise advancing funds to such Person or any Subsidiary; (ii) any activity undertaken with the purpose of fulfilling any other obligations under the Indenture, any Notes Guarantees, other Indebtedness not prohibited by the terms of the Indenture (including Indebtedness under the Issuer Facilities Agreement), any security document to which it is a party or the Intercreditor Agreement; (iii) any activity involving the provision of administrative services (including, for the avoidance of doubt, the granting of loans or any other form of financings not prohibited under the Indenture) to any of its respective Subsidiaries; (iv) the delivery of services to such Person, any of its Subsidiaries or any of its direct or indirect parent companies (including IT services and general business services (including management, corporate accounting, controlling, finance, tax, legal and quality services and internal audits)) customarily provided or obtained by a holding company; (v) acting as an in-house bank entity for such Person and its Subsidiaries, including the granting of loans to, providing and arranging hedging for or borrowing from, or providing guarantees for obligations of, Subsidiaries of such Person; (vi) the purchase of, the subscription for, and the ownership of shares in its Subsidiaries, intra-group debit balances, intra-group credit balances and other credit balances in bank accounts, the making of Restricted Payments and the holding or making of Investments not prohibited by the covenant described under the caption "*—Certain covenants—Limitation on Restricted Payments*;" (vii) relating to the granting of Liens not prohibited under the covenant described under the caption "*—Certain covenants—Limitation on Liens*;" (viii) the incurrence and payment of professional fees and administration costs; (ix) all other activities necessary to perform the functions of a holding company; (x) anything required in order to facilitate any payment or distribution permitted under the covenant described under the caption "*—Certain covenants—Limitation on Restricted Payments*;" (xi) anything required in order to maintain a permanent establishment (*Betriebsstätte*) for German tax purposes (or similar concepts for purposes of tax laws in other jurisdictions) in relation to such Person, any of its Subsidiaries or any of its direct or indirect parent companies; (xii) any other activities that are, in the good faith judgment of the Board of Directors or an Officer of such Person, related, incidental or ancillary to any of the foregoing clauses (i) to (xi) and the ownership of assets required therefor; and (xiii) other activities and assets not specifically enumerated above that are *de minimis* in nature.

"**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 monies 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, valued at the greater of any maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or any liquidation preference thereof; and

(h) Redeemable Capital Stock of such Person, valued at the greater of any maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or any liquidation preference thereof,

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 Issuer 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; (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; and (v) any leases of property (or guarantees thereof) which would be considered operating leases in accordance with IFRS. 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 Issuer or any Parent Entity (each an "**IPO Entity**") following which there is a Public Market.

"**Intercreditor Agreement**" means the Security Pooling and Intercreditor Agreement, dated September 7, 2016, among the Issuer, the lenders under the Issuer Facilities Agreement and the Security Trustee, and the other parties named therein, as amended, restated or otherwise modified or varied from time to time.

"**Intercreditor Agreement LTV Ratio**" means, as of any date of determination, the ratio of (1) the aggregate amount of outstanding Indebtedness of the Issuer and any Restricted Subsidiary that is a member of the Issuer Group that is secured by the Collateral (and subject to the Intercreditor Agreement) to (2) the Continental Share Value in relation to shares of Capital Stock of Continental which are subject to the Collateral as of such date.

The Intercreditor Agreement LTV Ratio shall be calculated by giving *pro forma* effect to:

(a) the incurrence, repayment, repurchase, redemption, defeasance or other discharge (including with the proceeds of new Indebtedness) of Indebtedness on such date of determination by the Issuer or any of its Restricted Subsidiaries that is a member of the Issuer Group (provided, however, that the *pro forma* calculation shall not give effect to (i) any Indebtedness incurred on such date of determination pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness*" or (ii) the discharge on such date of determination of any Indebtedness to the extent such discharge results from the proceeds of Indebtedness

incurred on such date of determination pursuant to the second paragraph under the caption "—*Certain covenants—Limitation on Indebtedness*"); and

(b) the acquisition by the Issuer or any of its Restricted Subsidiaries that is a member of the Issuer Group of any shares of Capital Stock of Continental on such date of determination (including with the proceeds of new Indebtedness).

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 Issuer.

"**Interest Period**" means the period commencing on and including an interest payment date and ending on and including the day immediately preceding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the Issue Date and end on and include the day immediately preceding the first scheduled interest payment date.

"**Investment Grade Rating**" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, or an equivalent rating by any other Rating Agency.

"**Investments**" means, with respect to any Person, any direct or indirect advance, loan or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase, acquisition 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 to the extent such transactions involve the transfer of cash or other property. "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 Issuer 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 Issuer 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 Issuer's Investments in such Restricted Subsidiary that were not sold or disposed of. 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.

"**ISIN**" means the international securities identification number of the relevant Notes.

"**Issue Date**" means September 22, 2016.

"**Issuer Facilities Agreement**" means the €800 million syndicated term loan and revolving credit facilities agreement dated September 7, 2016, among, *inter alia*, the Issuer as borrower, the arrangers named therein, Deutsche Bank Luxembourg S.A. as facility agent and Deutsche Bank AG, Filiale Luxemburg as security trustee, as amended, restated or otherwise modified or varied from time to time.

"**Issuer Group**" means, as of the Issue Date, the Issuer and will include any future Subsidiary of any member or members of the Issuer Group if designated as a member of the Issuer Group.

"**Issuer Group LTV Ratio**" means, as of any date of determination, the ratio of (1) the aggregate amount of outstanding Indebtedness of the Issuer and the Restricted Subsidiaries that are members of the Issuer Group on a combined basis (after intercompany eliminations among such Persons) (excluding Indebtedness owed to any Restricted Subsidiary that is a member of any Restricted OpCo Group, but including any Indebtedness owed to any Unrestricted Subsidiary) as of such date (the "**Aggregate Issuer Group Indebtedness**") to (2) the sum (the "**Aggregate Issuer Group Share Value**") of (i) if shares of Capital Stock of Continental are then admitted to trading on any stock exchange, the Continental Share Value as of such date, (ii) if shares of Capital Stock of Schaeffler AG are then

admitted to trading on any stock exchange, the Schaeffler Share Value as of such date, (iii) the aggregate market value of all shares of Capital Stock of any Person (other than Continental and Schaeffler AG) admitted to trading on any stock exchange and held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group as of such date, such market value to be determined on the basis of the arithmetic average of the daily volume-weighted average price per share of such Person quoted on the relevant stock exchange during the 60 trading days before and excluding the relevant determination date (or, if no volume-weighted average price is reported for any trading day, the last reported sale price on such day or, if no sale price is reported, the average of the bid and ask prices on such day), and (iv) with respect to any Person whose shares of Capital Stock are not then admitted to trading on any stock exchange (a "**Private Company**"), the aggregate value of all shares of Capital Stock of such Private Company held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group as of such date, such value to be determined as the lower of (A) the cash purchase price and (B) the book value as shown on the most recently available Local GAAP balance sheet of the relevant member or members of the Issuer Group; provided that, if such Private Company is a Subsidiary of a member of the Issuer Group that conducts only Holding Company Activities and that holds or acquires shares of Capital Stock in any other Person ("**Target Shares**"), the Issuer may, at its option, instead determine the aggregate value of the shares of Capital Stock of such Private Company as the Ownership Percentage with respect to such Private Company of (X)(i) if such Target Shares are then admitted to trading on any stock exchange, on the basis of the arithmetic average of the daily volume-weighted average price per share of such Target Shares quoted on the relevant stock exchange during the 60 trading days before and excluding the relevant determination date (or, if no volume-weighted average price is reported for any trading day, the last reported sale price on such day or, if no sale price is reported, the average of the bid and ask prices on such day), or (ii) if such Target Shares are not then admitted to trading on any stock exchange, the lower of (A) the cash purchase price paid by the Private Company for the Target Shares owned by such Private Person at such date of determination and (B) the book value of such Target Shares as shown on the most recently available Local GAAP balance sheet of the Private Company, less (Y) the aggregate amount of Indebtedness of the Private Company outstanding on such date of determination (but excluding any Indebtedness owed to the Issuer or any Restricted Subsidiary that is a member of the Issuer Group); and provided, further, that if any such shares of Capital Stock of the Private Company were acquired by the relevant member or members of the Issuer Group (or, as the case may be, such Target Shares were acquired by the Private Person) after date of the most recently available Local GAAP balance sheet, the value of such shares shall be determined by reference to the cash purchase price of such shares only (and not by reference to the book value).

With respect to the calculation of the Issuer Group LTV Ratio:

(a) the Aggregate Issuer Group Indebtedness shall be calculated by giving *pro forma* effect to the incurrence, repayment, repurchase, redemption, defeasance or other discharge (including with the proceeds of new Indebtedness) of Indebtedness on such date of determination by the Issuer or any of its Restricted Subsidiaries that is a member of the Issuer Group (provided, however, that the *pro forma* calculation shall not give effect to (i) any Indebtedness incurred on such date of determination pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness*" or (ii) the discharge on such date of determination of any Indebtedness to the extent such discharge results from the proceeds of Indebtedness incurred on such date of determination pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness*"); and

(b) the Aggregate Issuer Group Share Value shall be calculated by giving *pro forma* effect to the acquisition by the Issuer or any of its Restricted Subsidiaries that is a member of the Issuer Group of any shares of Capital Stock of any Person (or, as the case may be, the acquisition of any Target Shares by any Private Company) on such date of determination (including with the proceeds of new Indebtedness).

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 Issuer. For the avoidance of doubt, the Aggregate Issuer Group Share Value shall be calculated by reference to all relevant shares of Capital Stock held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group, regardless of whether such shares are subject to any Lien for the benefit of any Person.

"**Lien**" means with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement or any lease in the nature thereof.

"**Moody's**" means Moody's Investors Service, Inc.

"**Net Proceeds**" means the aggregate cash proceeds received by the Issuer 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 Issuer 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 Issuer 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 any 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.

"**OpCo Group**" means (i) as of the Issue Date, the Schaeffler OpCo Group (for as long as Schaeffler AG remains a Subsidiary of the Issuer or any of its Restricted Subsidiaries) and (ii) any Person that becomes an OpCo Group TopCo and the Subsidiaries of such OpCo Group TopCo from time to time.

"**OpCo Group TopCo**" means any direct Subsidiary of any member or members of the Issuer Group which is not designated as a member of the Issuer Group (for as long as such OpCo Group TopCo remains a direct Subsidiary of any member or members of the Issuer Group).

"**Opération Blanche**" means, in the case of an increase of the share capital of any Person, the sale and disposal by the Issuer or any of its Restricted Subsidiaries to a third party of a portion of the subscription rights (*Bezugsrechte*) for shares of Capital Stock of such Person arising for its benefit as a result of such capital increase, and the direct and immediate use of the net proceeds of such sale and disposal towards the acquisition of additional shares of Capital Stock of such Person by the Issuer or

such Restricted Subsidiary by exercising other subscription rights arising for its benefit as a result of that capital increase.

"**Ownership Percentage**" means, as of any date of determination, the fraction, expressed as a percentage, the numerator of which is the number of shares of Capital Stock of any Subsidiary (including, without limitation, Schaeffler AG) owned by the Issuer (directly or indirectly through one or more Restricted Subsidiaries) as of such date, and the denominator of which is the total number of shares of Capital Stock of such Subsidiary outstanding as of such date.

"**Parent Entity**" means any direct or indirect parent company or entity of the Issuer.

"**Pari Passu Indebtedness**" means (i) any Indebtedness of the Issuer which is *pari passu* in right of payment with the Notes and (ii) Indebtedness of a Guarantor which is *pari passu* in right of payment with its Note Guarantee.

"**Permitted Business**" means any business, service or activity engaged in by the Issuer or Continental or any of their respective Subsidiaries on the Issue Date and any business, service or activity that, in the good faith judgment of the Board of Directors or an Officer of the Issuer, supports, is related, incidental, ancillary, complementary or similar to, or any extension, expansion or development of, any such business, service or activity.

"**Permitted Collateral Liens**" means the following types of Liens on the Collateral:

(i) Liens on the Collateral to secure the Notes and any Note Guarantees issued on the Issue Date and any Additional Notes (including the related Note Guarantees) issued from time to time in payment of accrued interest or Additional Amounts on the Notes;

(ii) Liens on the Collateral to secure Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace or discharge, any Indebtedness which is secured by a Lien on the Collateral pursuant to clause (i) above, this clause (ii) or clause (iv) below; provided that all property and assets of the Issuer and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and any 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 Intercreditor Agreement;

(iii) Liens on the Collateral to secure Indebtedness of the Issuer or any Restricted Subsidiary that is a member of the Issuer Group 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 Issuer and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and any 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 Intercreditor Agreement;

(iv) Liens on the Collateral to secure (A) Indebtedness permitted under clause (i) of the first paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*" or (B) Permitted Refinancing Indebtedness of Indebtedness incurred under clause (5) or (15) of the second paragraph of such covenant; provided that such Permitted Refinancing Indebtedness referred to under the foregoing sub-clause (B) is not owed to the Issuer or any of its Subsidiaries; and, in each case of the foregoing sub-clauses (A) and (B), further provided that the Intercreditor Agreement LTV Ratio would be less than 1.0 to 1.75 after giving *pro forma* effect to the incurrence of such Indebtedness or Permitted Refinancing Indebtedness, as applicable, referred to under this clause (iv);

(v) Liens securing obligations of the Issuer or any Restricted Subsidiary that is a member of the Issuer Group under Hedging Obligations (other than Hedging Obligations in respect of commodity prices and only to the extent such Hedging Obligations relate to Indebtedness (A) referred to in clauses (i) through (iv) above or (B) incurred in connection with foreign exchange rate hedging arrangements entered into in the ordinary course of business) permitted by clause (10)(b) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*;" provided that all property and assets of the Issuer 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 Intercreditor Agreement; and

(vi) Liens of the type described in clauses (iii), (iv), (v), (vi), (vii), (viii)(B), (x), (xiii), (xv), (xvi), (xvii), (xix), (xx), (xxi), (xxiv), (xxvi) and (xxvii) 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 Issuer or a Restricted Subsidiary; or (ii) another Person if as a result of such Investment such other Person becomes a Restricted Subsidiary or such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary;

(b) expenses, loans or advances to cover payroll, travel, entertainment, moving, other relocation and similar matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS;

(c) Investments existing on, or made pursuant to legally binding commitments in existence on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; provided that the amount of any such Investment may be increased (x) as required by the terms of such Investment as in existence on the Issue Date; or (y) as otherwise permitted under the Indenture;

(d) loans and advances (or guarantees to third party loans, but not any forgiveness of such loans or advances) to directors, officers or employees of the Issuer or any of its Subsidiaries made in the ordinary course of business and consistent with the Issuer'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 Issuer) of shares of the Issuer'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)(c) of the second paragraph of the covenant described under the caption "*—Certain covenants—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 Issuer or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (y) litigation, arbitration or other disputes;

(g) Investments resulting from the acquisition of a Person that at the time of such acquisition held instruments constituting Investments that were not acquired in contemplation of the acquisition of such Person;

(h) Investments in joint ventures (other than an Investment, directly or indirectly, in a Parent Entity) and in Unrestricted Subsidiaries (including, for the avoidance of doubt, in connection with the designation of an Unrestricted Subsidiary) 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) €375.0 million; and (ii) 3.0% 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 and Members of Issuer Group and OpCo Group,*" 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 Issuer or any Restricted Subsidiary;

(k) Investments represented by Hedging Obligations permitted by clause (10)(b) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*;"

(l) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business; or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "*—Certain covenants—Limitation on Liens*;"

(m) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;

(n) any guarantee of Indebtedness permitted to be incurred by the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*;"

(o) any Investment to the extent made using as consideration Qualified Capital Stock of the Issuer, Subordinated Shareholder Debt or Capital Stock of any Parent Entity;

(p) other Investments in any Person (including, for the avoidance of doubt, in Unrestricted Subsidiaries, including in connection with the designation of an Unrestricted Subsidiary, but other than an Investment, directly or indirectly, in a Parent Entity) 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 (p) that are at the time outstanding not to exceed the greater of: (i) €375.0 million; and (ii) 3.0% 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 and Members of Issuer Group and OpCo Group,*" such Investment shall thereafter be deemed to have been made pursuant to clause (a) of the definition of "Permitted Investments" and not this clause (p);

(q) 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*;"

(r) any Investment acquired from the Issuer or any Restricted Subsidiary;

(s) 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; and

(t) any Investment made as a result of the purchase of Capital Stock of any Person upon the exercise of subscription rights held by the Issuer or any of its Restricted Subsidiaries with the purpose or effect of avoiding or mitigating dilution of the Issuer's or such Restricted Subsidiary's shareholding in such Person in connection with any rights offering by such Person; provided that, if such Person is not Schaeffler AG, (a) the Issuer, on the date of such transaction after giving *pro forma* effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, would have been able to incur €1.00 of additional Indebtedness pursuant to clause (i)(x) of the first paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness*" or (b) the purchase is effected by way of an Opération Blanche.

"**Permitted Liens**" means:

(i) any Lien securing the Notes (including any Additional Notes) and/or any 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 Issuer or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Issuer 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 Issuer 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 Issuer 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 Issuer or a 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 Issuer 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 Issuer 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 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;

(xii) any Lien on any proceeds loan made by the Issuer or any Restricted Subsidiary in connection with any future incurrence of Indebtedness permitted to be incurred under the Indenture and securing that Indebtedness;

(xiii) 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;

(xiv) 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 Issuer and its Restricted Subsidiaries to such Project Companies or special purpose companies does not in the aggregate exceed €100 million at any time);

(xv) 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);

(xvi) 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;

(xvii) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(xviii) leases, licenses, subleases and sublicenses of assets in the ordinary course of business;

(xix) 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;

(xx) (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 Issuer or any Restricted Subsidiary has easement rights or on any real property leased by the Issuer 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;

(xxi) 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;

(xxii) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(xxiii) 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;

(xxiv) any interest or title of a lessor under any operating lease;

(xxv) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(xxvi) 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;

(xxvii) 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;

(xxviii) 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);

(xxix) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (i) through (xxviii) and the following clauses (xxx) to (xxxii); 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;

(xxx) any Lien over assets of the Issuer or any of its Restricted Subsidiaries securing obligations (including Indebtedness) of the Issuer or any of its Restricted Subsidiaries; provided that, at the time of incurrence and after giving *pro forma* effect thereto, the aggregate amount of obligations (including Indebtedness) outstanding secured by such Liens pursuant to this clause (xxx) does not exceed €100.0 million;

(xxxi) Liens on (i) Unrestricted Continental Shares and (ii) any other assets held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group from time to time (other than (A) shares of Capital Stock of any member of the Issuer Group and Schaeffler AG, (B) any bank accounts held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group and (C) any Restricted Shares), in each case securing Indebtedness permitted to be incurred under the Indenture; and

(xxxii) Liens on the assets of any Restricted Subsidiary that is a member of a Restricted OpCo Group to secure Indebtedness of any Restricted Subsidiary that is a member of a Restricted OpCo Group.

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 Issuer 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 Issuer or any Restricted Subsidiary (other than intercompany Indebtedness between the Issuer and its Restricted Subsidiaries or among Restricted Subsidiaries (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 any 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;

(4) such Indebtedness is incurred by the Issuer, a Guarantor or a Finance Subsidiary, if the Issuer or a Guarantor was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and

(5) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is Indebtedness of any Restricted Subsidiary that is a member of a Restricted OpCo Group, such Indebtedness is incurred only by a Restricted Subsidiary that is a member of such Restricted OpCo Group,

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 Issuer as being a replacement of such Indebtedness; and provided further that clauses (2) and (4) above shall not apply to Indebtedness refinancing or replacing Indebtedness incurred pursuant to clause (5) or (15) of the second paragraph of the covenant described under "*Certain covenants—Limitation on Indebtedness.*"

"**Permitted Upstream Payments**" means the declaration and payment of dividends or other distributions or the making of loans or advances by the Issuer or its Restricted Subsidiaries or the making of payments of principal or interest on any Subordinated Shareholder Debt, in each case to any Restricted Person.

"**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 Issuer 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 Issuer or any of its other Restricted Subsidiaries (other than in relation to shares in or obligations owed by such Project Company).

"**Projected Available RCF Drawings**" means, as of any date of determination, the projected average daily balance of amounts available for drawing under the revolving credit facility of the Issuer Facilities Agreement (and the revolving credit facility of any Credit Facility that refinances or replaces the Issuer Facilities Agreement) for the three-month period commencing on the calendar day next following the relevant interest payment date. The Projected Available RCF Drawings shall be determined in good faith by the chief financial officer of the Issuer on the basis of the liquidity planning system of the Issuer. For the avoidance of doubt, such determination shall not be a duty of the Trustee or any Paying Agent.

"**Projected Cash Balance**" means, as of any date of determination, the projected average daily balance of the aggregate amount of cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries for the three-month period commencing on the calendar day next following the relevant interest payment date. The Projected Cash Balance shall be determined in good faith by the chief financial officer of the Issuer on the basis of the liquidity planning system of the Issuer and shall give *pro forma* effect to the payment of any Cash Interest payable on the Notes and any cash interest payable under the Issuer Facilities Agreement (or any Credit Facility that replaces the Issuer Facilities Agreement) during the relevant period. For the avoidance of doubt, such determination shall not be a duty of the Trustee or any Paying Agent.

"**Projected Liquidity**" means, as of any date of determination, the sum of (i) the Projected Cash Balance as of such date and (ii) the Projected Available RCF Drawings as of such date.

"**Public Equity Offering**" means, with respect to any Person, a bona fide underwritten primary public offering of the shares of common stock or common equity interests of such Person, either:

(1) pursuant to a listing on the regulated market of the Frankfurt Stock Exchange or any other nationally recognized regulated stock exchange or listing authority in a member state of the Pre-Expansion European Union; or

(2) pursuant to an effective registration statement under the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to Equity Interests issued or issuable under any employee benefit plan).

"**Public Market**" means, any time after:

(1) a Public Equity Offering of the IPO Entity has been consummated; and

(2) at least 20% of the total issued and shares of common stock or common equity interests of the IPO Entity has been distributed to investors other than the Permitted Holders (or any Subsidiary or immediate family member thereof or any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a 50% or more controlling interest of which consists of any one or more Permitted Holders or such Subsidiary or family shareholder thereof) or any other direct or indirect shareholders of Schaeffler AG 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 Issuer 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 Issuer 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 senior management of such Restricted Subsidiary) 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 senior management of such Restricted Subsidiary) at the time such financing is entered into; and (c) such financing shall be non-recourse to the Issuer or any of its Restricted Subsidiaries except to a limited extent customary for such transactions (as determined in good faith by the senior management of such Restricted Subsidiary).

"**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 Issuer in circumstances in which the Holders would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity; provided that any Capital Stock that would constitute Qualified Capital Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of any "change of control" or "asset sale" occurring prior to the Stated Maturity of the Notes will not constitute Redeemable Capital Stock if the "change of control" or "asset sale" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "*—Repurchase of the Option of the Holders—Change of Control*" and "*—Repurchase of the Option of the Holders—Asset Sales*" and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Notes as are required to be repurchased pursuant to "*—Repurchase*

of the Option of the Holders—Change of Control" and "*—Repurchase of the Option of the Holders—Asset Sales*."

"**Related Party**" means:

(1) any controlling stockholder, partner or member, or any 50% (or more) owned Subsidiary, or immediate family member (in the case of an individual), of any Family Shareholder; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a 50% or more controlling interest of which consist of any one or more Family Shareholders and/or such other Persons referred to in the immediately preceding clause.

"**Restricted Asset Sale**" means any Asset Sale of Restricted Continental Shares, Restricted Schaeffler Shares or Restricted Shares by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group.

"**Restricted Continental Shares**" means any shares of Capital Stock of Continental securing Indebtedness under the Issuer Facilities Agreement (or Indebtedness under another syndicated credit facility agreement that replaces the Issuer Facilities Agreement, including by way of a refinancing, and that is subject to the Intercreditor Agreement) from time to time.

"**Restricted Investment**" means an Investment other than a Permitted Investment.

"**Restricted OpCo Group**" means any OpCo Group consisting not entirely of Unrestricted Subsidiaries.

"**Restricted OpCo Group TopCo**" means the OpCo Group TopCo of each Restricted OpCo Group.

"**Restricted Payment**" means any of the following:

(a) to declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Capital Stock of the Issuer or any of its Restricted Subsidiaries (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other combination involving the Issuer or any Restricted Subsidiary and including any distribution by way of payment of withholding tax with respect to dividends declared) (other than to the Issuer or any Restricted Subsidiary) except for dividends or distributions payable solely in the Issuer'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 Issuer 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 Issuer and any of its Restricted Subsidiaries or among Restricted Subsidiaries of the Issuer) 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 Issuer's Qualified Capital Stock, options, warrants or other rights to acquire Qualified Capital Stock or Subordinated Shareholder Debt) on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt; or

(e) to make any Restricted Investment.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the Fair Market Value of the asset to be transferred as at the date of transfer.

"**Restricted Person**" means (i) any direct or indirect shareholder of the Issuer, (ii) any Subsidiary of any Person referred to in clause (i), any company or corporation in respect of which any company or entity referred to in clause (i) is a Subsidiary, and (iii) any other Subsidiary of any company or entity referred to in clause (ii), in each case other than the Issuer and its Subsidiaries.

"**Restricted Schaeffler Shares**" means any shares of Capital Stock of Schaeffler AG securing Indebtedness under the Issuer Facilities Agreement (or Indebtedness under another syndicated credit facility agreement that replaces the Issuer Facilities Agreement, including by way of a refinancing, and that is subject to the Intercreditor Agreement) from time to time.

"**Restricted Shares**" means any shares of Capital Stock of any Person acquired after the Issue Date by any member of the Issuer Group, provided that (i) such acquisition of shares of Capital Stock of such Person was financed (whether directly or indirectly) through the incurrence of Indebtedness that is subject to the Intercreditor Agreement and (ii) the shares of Capital Stock of such Person so acquired are subject to Liens securing Indebtedness incurred under the Issuer Facilities Agreement (for the avoidance of doubt, any Restricted Shares shall cease to be Restricted Shares upon release of the Liens over such shares securing Indebtedness under the Issuer Facilities Agreement).

"**Restricted Subsidiary**" means any Subsidiary of the Issuer that is not an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services.

"**Schaeffler AG**" means Schaeffler AG or its successor.

"**Schaeffler Group Senior Facilities Agreement**" means the €2,766 million-equivalent syndicated senior term loan and revolving credit facilities agreement dated October 27, 2014, among, among others, Schaeffler AG, certain of its subsidiaries, the arrangers named therein and Deutsche Bank Luxembourg S.A. as agent, as amended, restated, refinanced or otherwise modified or varied from time to time.

"**Schaeffler OpCo Group**" means Schaeffler AG and its Subsidiaries.

"**Schaeffler OpCo Group Existing Notes**" means the outstanding notes issued by Schaeffler Finance B.V. pursuant to an indenture dated May 14, 2014 and an indenture dated April 13, 2015.

"**Schaeffler Share Value**" means, as of any date of determination, the market value of the shares of Capital Stock of Schaeffler AG (including, for the avoidance of doubt, any Unrestricted Schaeffler Shares) held by the Issuer or any Restricted Subsidiary that is a member of the Issuer Group as of such date and to be determined on the basis of the arithmetic average of the daily volume-weighted average price per preferred share of Schaeffler AG quoted on the Frankfurt stock exchange (Xetra) (or, in case the preferred shares of Schaeffler AG are not quoted on the Frankfurt stock exchange, the principal national or regional securities exchange on which such shares are quoted) during the 60 trading days before and excluding the relevant determination date (or, if no volume-weighted average price is reported for any trading day, the last reported sale price on such day or, if no sale price is reported, the average of the bid and ask prices on such day).

"**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 Issuer or any of its Restricted Subsidiaries in connection with any Qualified Securitization Financing.

"**Securitization Repurchase Obligation**" means any obligation of a seller of Securitization Assets in a Qualified Securitization Financing to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"**Security Documents**" means the security agreements, the pledge agreements, the collateral assignments and other instruments and documents executed and delivered pursuant to the Indenture or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time and pursuant to which the Collateral is pledged, assigned or granted to or on behalf of the Security Trustee for the benefit of (among others) the Holders and the Trustee or notice of such pledge, assignment or grant is given.

"**Significant Subsidiary**" means, at the date of determination, any Restricted Subsidiary that together with its Subsidiaries that are Restricted Subsidiaries as of the end of the most recent fiscal year, was the owner of more than 10% of the Total Assets.

"**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 Guarantees, as the case may be, pursuant to a written agreement.

"**Subordinated Shareholder Debt**" means, collectively, any debt provided to the Issuer 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 Issuer (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 Issuer or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Issuer;

(5) is subordinated in right of payment to the prior payment in full in cash of the Notes in the event of any default, bankruptcy, reorganization, liquidation, winding-up or other disposition of assets of the Issuer at least to the same extent as the "Parent Liabilities" (as defined in the Intercreditor Agreement) are subordinated to the Notes under the Intercreditor Agreement;

(6) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or any Note Guarantees or compliance by the Issuer with its obligations under the Notes 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 Issuer,

provided, however, that any event or circumstance that results in such Indebtedness ceasing to qualify as Subordinated Shareholder Debt, such Indebtedness shall constitute an incurrence of such Indebtedness by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the incurrence of such Indebtedness and any dividend payments made in the form of Subordinated Shareholder Debt since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"**Subsidiary**" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which: (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise; and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity,

provided that none of Continental and its Subsidiaries shall at any time or under any circumstances qualify or be treated as a Subsidiary of the Issuer 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 Issuer or any of its Restricted Subsidiaries as dominating entity (*provided, further* that neither the Issuer nor any of its Restricted Subsidiaries may enter into a profit and loss pooling agreement (*Gewinnabführungsvertrag*) with any member of Continental Group without a domination agreement with Continental being in place); or
(b) Continental or its Subsidiaries would be required to be fully consolidated in the consolidated financial statements of the Issuer or its Subsidiaries prepared in accordance with IFRS (and based on accounting interpretations thereof as in effect as of the Issue Date).

"**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, as of any date of determination, (i) the sum of the consolidated total assets of the Schaeffler OpCo Group and any Restricted OpCo Group (in each case based on the most recently available consolidated balance sheet prepared in accordance with IFRS for the respective OpCo Groups) (in each case, at the respective Ownership Percentage as of such date of determination), plus (ii) the combined total assets of the Issuer and the Restricted Subsidiaries that are members of the Issuer Group (after elimination of any intercompany effects), excluding shares of Capital Stock of any member of the Schaeffler OpCo Group or any Restricted OpCo Group (based on the most recently available unconsolidated balance sheets for the respective members of the Issuer Group prepared in accordance with Local GAAP).

"**Transactions**" has the meaning given to such term in this offering memorandum under the caption "*Summary—The Transactions*."

"**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 September 15, 2018, in the case of the 2021 Dollar Notes, September 15, 2019, in the case of the 2023 Dollar Notes, or September 15, 2021, in the case of the 2026 Dollar Notes; *provided*, however, that if the period from the redemption date to September 15, 2018, in the case of the 2021 Dollar Notes, September 15, 2019, in the case of the 2023 Dollar Notes, or September 15, 2021, in the case of the 2026 Dollar Notes, 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 September 15, 2018, in the case of the 2021 Dollar Notes, September 15, 2019, in the case of the 2023 Dollar Notes, or September 15, 2021, in the case of the 2026 Dollar Notes, 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.

"**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.

"**Unrestricted Continental Shares**" means all shares of Capital Stock of Continental held by the Issuer or any of its Restricted Subsidiaries from time to time other than Restricted Continental Shares.

"**Unrestricted OpCo Group**" means any OpCo Group consisting entirely of Unrestricted Subsidiaries.

"**Unrestricted Schaeffler Shares**" means all shares of Capital Stock of Schaeffler AG held by the Issuer or any of its Restricted Subsidiaries from time to time other than Restricted Continental Shares.

"**Unrestricted Subsidiary**" means (a) as of the Issue Date, Schaeffler AG and its Subsidiaries, (b) any Subsidiary of the Issuer that is designated by the Board of Directors of the Issuer as an Unrestricted Subsidiary pursuant to the covenant described under "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries and Members of Issuer Group and OpCo Group*" and (c) any Subsidiary of an Unrestricted Subsidiary.

"**Voting Stock**" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated

to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

Limitations on Validity and Enforceability of the Collateral and Certain Insolvency Law Considerations

The validity and enforceability of the Collateral will be subject to certain limitations on enforcement and may be limited under applicable law or subject to certain defenses that may limit their validity and enforceability. The following is a summary description of certain limitations on the validity and enforceability of the Collateral, and a summary of certain insolvency law considerations in the jurisdiction in which the Issuer is organized. In the event that any one or more of the Issuer or any of its 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 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 Collateral. If additional Collateral is required to be granted pursuant to the Indenture in the future, such Collateral will also be subject to limitations on enforceability and validity, which may differ from those discussed below.

EU

The Issuer is organized under the laws of Germany, being a member state of the EU.

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.

The EU Insolvency Regulation will be replaced by Regulation (EU) 2015/848 of the European Parliament and of the Council dated May 20, 2015 (the "**New EU Insolvency Regulation**") which became effective as of June 26, 2015, and which will be applicable to insolvency proceedings opened after June 26, 2017. The EU Insolvency Regulation remains applicable to insolvency proceedings opened before that date.

The New EU Insolvency Regulation includes, among others, specifications regarding the identification of the center of main interests. Pursuant to Article 3(1) of the New EU Insolvency Regulation, in the case of a company or legal person, the center of main interests is presumed to be located in the country of the registered office in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another member state within the three-month period prior to the request for the opening of insolvency proceedings. Specifically, the presumption of the center of main interests being at the place of the registered office should be rebuttable if the company's central administration is located in another member state than the one where it has its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual center of management and supervision and the center of the management of its interests is located in that other member state. In this regard, special consideration should be given to creditors and their perception as to where a debtor conducts the administration of its interests. In the event of a shift in the center of main interests, this may require informing the creditors of the new location from which the debtor is carrying out its activities in due course (*e.g.*, by drawing attention to the change of address in commercial correspondence or otherwise making the new location public through other appropriate means). Another change under the New EU Insolvency Regulation focuses on the definition of "establishment" as a prerequisite to open "territorial proceedings" (secondary proceedings). From June 26, 2017 onwards, "establishment" will mean any place of operations where a debtor carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets.

Germany

Insolvency

In the event of insolvency of the Issuer, subject to the statements made above under the heading "—*EU*" and absent any change in circumstances, 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 your interests as creditors as the insolvency laws of other jurisdictions, including, *inter alia*, in respect of priority of creditors' claims, 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, meaning that the debtor is unable to pay its debts as and when they fall due (*Zahlungsunfähigkeit*). According to the relevant provisions of the German Insolvency Code (*Insolvenzordnung*), a debtor is over-indebted when its liabilities exceed the value of its assets (based on their liquidation values), unless, given the circumstances, it is predominantly likely (*überwiegend wahrscheinlich*) that the debtor's business can survive as a going concern (*positive Fortführungsprognose*). 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*), or any other 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 and, under certain circumstances, its shareholders are obliged to file for insolvency without undue delay but not later than three weeks after such illiquidity and/or over-indebtedness was established. Non-compliance with these obligations exposes management to both severe damage claims as well as criminal sanctions. In addition, only the debtor can file for the opening of insolvency proceedings in case of impending illiquidity (*drohende Zahlungsunfähigkeit*), meaning that the company is currently able to service its payment obligations but will presumably not be able to continue to do so at some point in time within a certain prognosis period, 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*), unless the debtor has petitioned for debtor-in-possession status (*Eigenverwaltung*), meaning an insolvency process in which the debtor's management generally remains in charge of administering the debtor's business affairs under the supervision of a provisional custodian (*vorläufiger Sachwalter*), with this petition not being obviously futile. 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 assets (which includes the continuation of the business carried out by the debtor) 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 €6 million (after deducting an equity shortfall if the debtor is over-indebted), revenues of at least €12 million in the twelve months prior to the last balance sheet date and/or 50 or more employees on an annual average basis. 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 provisional custodians (*vorläufiger 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 (*Abweisung mangels Masse*).

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 status (*Eigenverwaltung*) is ordered. 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 (*Masseverbindlichkeiten*) will be preferred to any insolvency claims of unsecured creditors (with the residual claim of a secured creditor remaining after realization of the available collateral (if any) also qualifying as unsecured insolvency claim).

All creditors, whether secured or unsecured (unless they have a right to separate an asset from the insolvency estate (*Aussonderungsrecht*) as opposed to a preferential right (*Absonderungsrecht*)), 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 Code (*Insolvenzordnung*). Any individual enforcement action brought against the debtor by any of its creditors is, in principle, 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 generally not entitled to enforce their security interests after an insolvency petition has been filed to the extent the German Insolvency Code (*Insolvenzordnung*) 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 commence, 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. The insolvency administrator generally has the sole right to realize any movable assets within its/the debtor's possession which are subject to preferential rights (*Absonderungsrechte*) (*e.g.*, pledges over movable assets (*Mobiliarpfandrechte*), security transfer of title (*Sicherungsübereignung*)) as well as to collect any claims that are subject to security assignment agreements (*Sicherungsabtretungen*). In case the enforcement right is vested with the insolvency administrator, the enforcement proceeds minus certain contributory charges for (i) assessing the value of the secured assets (*Feststellungskosten*) and (ii) realizing the secured assets (*Verwertungskosten*) which, in the aggregate, usually add up to 9% of the gross enforcement proceeds plus VAT (if any), are disbursed to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims. Remaining amounts ("excess proceeds") will be allocated to the insolvency estate (*Insolvenzmasse*) and would, after deduction of the costs of the insolvency proceedings and after satisfaction of certain preferential liabilities, be distributed among the non-preferential unsecured creditors, including, to the extent their claims exceed the enforcement proceeds of the security interests, the Note Holders. If the Issuer 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 Issuer. 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, among other things and subject to certain exceptions, the consent of the debtor as well as the consent of each class of creditors in accordance with specific majority rules and the approval of the insolvency court. Under German insolvency laws, it is possible to implement a debt-to-equity swap through an insolvency plan. However, it will not be possible to force a creditor into a debt-to-equity swap if it does not consent to such debt-to-equity swap.

If the debtor files for insolvency proceedings on grounds of over-indebtedness (*Überschuldung*) or imminent illiquidity (*drohende Zahlungsunfähigkeit*), it may also file for protective shield proceedings (*Schutzschirmverfahren*) unless, from a third party perspective, there is no reasonable chance of a successful restructuring. Such protective shield will not be available if the debtor is already illiquid; however, if the debtor actually becomes illiquid at a later point in time this will not automatically terminate protective shield proceedings. Upon request of the debtor, the court deciding on the application for protective shield proceedings will appoint a provisional custodian (*vorläufiger Sachwalter*) and order provisional measures which appear necessary in order to avoid any detriment to the financial status of the debtor until the decision on the opening of main proceedings (*vorläufige Sicherungsmaßnahmen*), including a stay on certain enforcement measures, for up to three months. During such period, the debtor shall, together with its creditors and the provisional custodian, 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 legislator is currently discussing a draft bill initiated by the German Government concerning the facilitation of the handling

of group insolvencies (*Gesetzentwurf der Bundesregierung – Gesetz 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 (*Insolvenzordnung*) 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 proposed or modified form, this bill might be adopted by the German parliament.

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 opt for performance.

Under German insolvency law, termination rights, automatic termination events or "escape clauses" entitling one party to terminate an agreement, or resulting in an automatic termination of an agreement, upon the opening of insolvency proceedings in respect of the other party, the filing for insolvency proceedings or the occurrence of reasons justifying the opening of insolvency proceedings (*insolvenzbezogene Kündigungsrechte oder Lösungsklauseln*) may be invalid if they frustrate the election right of the insolvency administrator whether or not to perform the contract unless they reflect the termination rights (*Wahlrecht des Insolvenzverwalters*) applicable under statutory law. This may also relate to agreements that are not governed by German law.

Hardening Periods and Fraudulent Transfer

Generally, if transactions, performances or other acts are successfully avoided by the insolvency administrator, any amounts or other benefits derived from such challenged transaction, performance or act will have to be returned to the insolvency estate.

In the event of insolvency proceedings with respect to the Issuer based on and governed by the insolvency laws of Germany, the payment of any amounts to the Note Holders as well as the granting of collateral for or providing credit support in respect of the Notes 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 avoid (*anfechten*) transactions, performances or other acts that are deemed detrimental to insolvency creditors and were effected prior to the commencement of insolvency proceedings during applicable avoidance periods. Such transactions can include the payment of any amounts to the Note Holders as well as granting them any security interest. The administrator's right to avoid 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 a transaction, performance or other act is successfully avoided, the Security Trustee and the Note Holders would be under an obligation to repay any amounts derived from such challenged transaction, performance or act to the insolvency estate or to waive the benefit of the security interest.

In particular, an act (*Rechtshandlung*) or a transaction (*Rechtsgeschäft*) (which term also includes the provision of security and the repayment of debt) detrimental to the creditors of the debtor may be avoided according to the German Insolvency Code (*Insolvenzordnung*), *inter alia*, in the following cases:

- any act granting a creditor, or enabling a creditor to obtain, a security or satisfaction for a debt (*Befriedigung*) can be avoided if such act was effected (i) during the last three months prior to the filing of a petition for the commencement of insolvency proceedings, if at the time when such act was taken the debtor was illiquid (*zahlungsunfähig*, *i.e.*, unable to pay its debt when due) and the creditor had knowledge thereof (or of circumstances that imperatively suggested such illiquidity), 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 (or of circumstances that imperatively suggested such illiquidity or filing);
- any act granting a creditor, or enabling a creditor to obtain, a security or satisfaction for a debt to which such creditor had no right, no right at the respective time or no right as to the respective manner, can be avoided if such act was taken during the last month prior to the filing of a petition for the commencement of insolvency proceedings or after such filing; if the act was taken during the second or third month prior to the filing, it can be avoided if at the time of such act (i) the debtor was illiquid, or (ii) the creditor knew that the transaction would be detrimental to the creditors of the debtor (or had knowledge of circumstances that imperatively suggested such detrimental effect);
- 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) during 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;
- any act whereby a debtor grants a security interest for a third party debt might be regarded as having been granted gratuitously (*unentgeltlich*); a gratuitous transaction can be avoided if it was effected during the four years prior to the filing of a petition for the commencement of insolvency proceedings against the debtor;
- any act performed by the debtor during a period of ten years prior to the filing of the petition for the opening of insolvency proceedings or at any time after such filing can be avoided if the debtor acted with the intent to prejudice its creditors and the other party had knowledge of such intent at the time of such act;
- any non-gratuitous contract concluded between the debtor and an affiliated party which directly operates to the detriment of the creditors can be avoided unless such contract was concluded earlier than two years prior to the filing of the petition for the opening of insolvency proceedings or the other party had no knowledge of the debtor's intention to prejudice its creditors as of the time the contract was concluded; in relation to corporate entities, the term 'affiliated party' includes, subject to certain limitations, members of the management or supervisory board, general partners and 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 other persons that are spouses, relatives or members of the household of any of the foregoing persons;
- any act that provides security or satisfaction for a shareholder loan (*Gesellschafterdarlehen*) made to the debtor or an equivalent claim can be avoided if (i) in the event it provided security, the act

was taken during 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, the act was taken during the last year prior to the filing of a petition for commencement of insolvency proceedings or thereafter; and

- any act whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party can be avoided if the act was taken during 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 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."

If the Collateral granted by the Issuer 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*). The prerequisites vary to a certain extent from the rules described above and the avoidance periods are calculated from the date when a creditor exercises its rights of avoidance in the courts.

In addition, under German law, a creditor who provided additional, or extended existing, funding to a debtor or obtained security from a debtor may be liable in tort if such creditor was aware of the debtor's (impending) insolvency or of circumstances indicating such debtor's (impending) insolvency at the time such funding was provided or extended or such security was granted. The German Federal Supreme Court (*Bundesgerichtshof*) held that this could be the case if, for example, the creditor was to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of *bonos mores* (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the debtor as the grantor of the security was close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

The German legislator is currently discussing a draft bill initiated by the German Government concerning certain amendments to the statutory avoidance provisions in the German Insolvency Code (*Insolvenzordnung*) and the German Act on Avoidance (*Gesetzentwurf der Bundesregierung – Gesetz zur Verbesserung der Rechtssicherheit bei Anfechtungen nach der Insolvenzordnung und nach dem Anfechtungsgesetz*). Amendments are envisaged with regards to, among others, the provisions for avoidance claims in connection with willful intent (*Vorsatzanfechtung*), for cash transactions (*Bargeschäfte*) and the interest rates on avoidance claims (*Verzinsung des Anfechtungsanspruchs*). It is also intended to privilege creditors which have obtained coverage of their claims on the basis of a valid enforcement order. It is currently unclear if and when, and whether in its proposed or modified form, this bill might be adopted by the German parliament.

Finally, the insolvency estate shall serve to satisfy the liquidated claims held by the personal creditors against the debtor on the date when the insolvency proceedings were opened. The following claims shall be satisfied ranking below the other claims of insolvency creditors in the order given below, and according to the proportion of their amounts if ranking with equal status: (i) interest and penalty payments accrued on the claims of the insolvency creditors from the opening of the insolvency proceedings; (ii) costs incurred by individual insolvency creditors due to their participation in the proceedings; (iii) fines, regulatory fines, coercive fines and administrative fines, as well as such incidental legal consequences of a criminal or administrative offense binding the debtor to pay money; (iv) claims to the debtor's gratuitous performance of a consideration and (v) claims for restitution of a loan replacing equity capital or claims resulting from legal transactions corresponding in economic terms to such a loan.

Parallel Debt

Under German law, certain "accessory" (*akzessorisch*) security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor of the secured claim be the same person. Such accessory security interests (*akzessorische Sicherungsrechte*) (i) will automatically lapse to the extent a secured claim is settled, discharged or novated, (ii) cannot be assigned independently but would automatically follow the claims which they secure in case that the relevant secured claim is assigned and (iii) 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 Issuer 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 German law will only secure the parallel debt claims of the Security Trustee rather than securing the Note Holders' claims under the Notes directly. The parallel debt procedure has not been tested in court under German law, therefore the possibility cannot be ruled out that this concept will not be recognized by German courts or that the courts will eliminate or mitigate the validity or the enforceability of accessory security interests, and that the ability of the Security Agent to enforce the collateral may thus be restricted. In addition, Note Holders bear some risk associated with a possible insolvency or bankruptcy of the Security Trustee.

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 depositaries. 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; or

(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 $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 to 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, the Issuer, 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.

While the Notes may only be traded in denominations of €100,000 and $200,000 and integral multiples of €1 and $1 in excess thereof, for purpose of the clearing systems the denominations may be considered as €1 and $1. For the avoidance of doubt the clearing systems may not be required to monitor or enforce the minimum amount.

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 and Additional PIK Notes (as defined in the "*Description of the Notes*"). It is based on the laws in force on the date of this Offering Memorandum, of general nature only and neither intended as, nor to be understood as, legal or tax advice. Any information given hereafter reflects the opinion of the Issuer and must not be misunderstood as a representation or guarantee with regard to potential tax deductions. Further, the withholding tax consequences depend on the individual facts and circumstances at the level of the investor and may be subject to future changes in law which could potentially have retroactive effect. Unless the context requires otherwise, references in this section "*—Taxation in the Federal Republic of Germany*" to the Notes include any Additional PIK 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), Cash Interest payments on the Notes and, under certain conditions, also any PIK Interest are subject to withholding tax (*Kapitalertragsteuer*), provided that the Notes are held in custody with or administrated by a German custodian, which deducts the withholding tax from such investment income paid or credited (the "**Disbursing Agent**," *auszahlende Stelle*). Disbursing Agents are German credit institutions, financial services institutions (each 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 who are subject to church tax, an electronic information system for church withholding tax purposes applies in relation to investment income, with the effect that also 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 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 PIK Interest was taxed as accrued, the taxed amount should be recognized as acquisition costs of the Additional PIK Notes or as additional acquisition costs of the Notes for taxation purposes. If Notes of the same category or type (*gattungsgleiche Schuldverschreibungen*) held or administrated 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 Cash 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 and to proceeds from the payment of PIK Interest claims, if the PIK Interest was not taxed as accrued.

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 from another Member State of the EU or the EEA or certain other countries in accordance with Article 17 para. 2 of 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 January 18, 2016, 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 as 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 deducts 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 capital investments with the exception of shares). It also deducts 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 credits 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. Furthermore, no withholding tax will be deducted if the investor has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungs-Bescheinigung*) issued by the competent local tax office.

German resident corporate and other German resident business investors should generally not be subject to withholding tax on capital gains from the disposal or redemption of the Notes (*i.e.*, for these investors only Cash Interest payments and, under certain conditions, PIK Interest 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 in respect of the receipt of Cash Interest payments, PIK Interest and capital 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 payments on 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 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 advisors 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 December 23, 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 June 21, 2005 implementing Council Directive 2003/48/EC of June 3, 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%. 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%.

The Proposed Financial Transactions Tax

On February 14, 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax (the "**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes or Additional PIK 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 or Additional PIK 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.

However, the FTT proposal remains subject to negotiation between Participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes or Additional PIK 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, 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

Characterization of the Notes

As described under "*Description of the Notes*" and in more detail below, under certain circumstances the Issuer may make additional payments on the Notes or have the option to make payments of interest as PIK Interest. Although not free from doubt, the Issuer intends to take the position that U.S. Holders should account for the Notes for U.S. federal income tax purposes using a payment schedule which assumes all interest payments on the Notes will be paid in cash and which does not include such additional payments or payments of PIK Interest. However, these additional payments and/or payments of PIK Interest could be viewed by the U.S. Internal Revenue Service ("**IRS**") as causing the Notes to be treated as contingent payment debt instruments ("**CPDIs**"). If the Notes were to be treated as CPDIs, U.S. Holders may be required to recognize income for U.S. federal income tax purposes at different times and in different amounts than described below, to treat any income realized on a taxable disposition of a Note as ordinary income rather than capital gain, and to suffer additional adverse U.S. federal income tax consequences. The Issuer intends to take the position that, for U.S. federal income tax purposes, the Notes should not be treated as CPDIs. No rulings have been or will be sought from the IRS on this matter. The Issuer's determination that the Notes should not be treated as CPDIs is binding on a holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations.

Prospective purchasers are urged to consult their tax advisors regarding the U.S. federal income tax consequences in the event the Notes are treated as CPDIs for U.S. federal income tax purposes.

Original Issue Discount

The Notes will be treated as being issued with original issue discount ("**OID**") for U.S. federal income tax purposes because their "stated redemption price at maturity" will exceed their "issue price" by an amount equal to or greater than a statutorily defined *de minimis* amount. The "stated redemption price at maturity" of the Notes will be equal to the sum of all payments due on the Notes other than "qualified stated interest." The "issue price" will be equal to the first price at which a substantial amount of the Notes is sold for money, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. Qualified stated interest on a debt instrument is stated interest that is "unconditionally payable" in cash or property (other than debt instruments of the Issuer) at least annually at a single fixed rate. Because interest on the Notes may, if certain conditions are satisfied, be payable at the option of the Issuer in PIK Interest, and the payment of PIK Interest is not a remote contingency, interest on the Notes (including any Cash Interest) will not be treated as unconditionally payable at least annually and will therefore not be treated as qualified stated interest. Accordingly, the Notes will be treated as being issued with OID for U.S. federal income tax purposes and the "stated redemption price at maturity" will include all payments due on the Notes. The amount of OID will be equal to the excess of the Notes' stated redemption price at maturity over their issue price.

U.S. Holders of Notes will be required to include OID (including additional amounts in respect of withholding taxes and without reduction for any amounts withheld, if any) 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 ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period is determined by multiplying the "adjusted issue price" (as defined herein) of the Note at the beginning of the accrual period by the "yield to maturity" of such Note (determined on the basis of compounding at the close of each accrual period and properly adjusted to reflect the length of the accrual period). The "**adjusted issue price**" of a Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of all cash payments made with respect to such Note in all prior accrual periods. The "**yield to maturity**" of the Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note.

In certain circumstances the Issuer has the option to redeem all or a portion of the Notes on certain dates or upon certain 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 that, as of the issue date, the Issuer will not exercise its redemption option (see "*Description of the Notes—Optional redemption*") because such exercise would not reduce the yield of the Notes. Furthermore, the payment schedule of the Notes that does not take into account a holder's option to require the Issuer to repurchase the Notes at a premium upon certain change of control events (see "*Description of the Notes—Repurchase at the option of Holders—Change of Control*") should also be used for purposes of determining the yield and maturity of the Notes because such payment schedule is significantly more likely than not to occur and/or because such contingency should be viewed as remote or incidental.

In addition, for purposes of computing the yield to maturity of the Notes and the amount of OID attributable to each accrual period, we intend to take the position that the Issuer and each U.S. Holder are required under U.S. Treasury regulations to use a payment schedule in which all of the stated interest on the Notes is initially assumed to be paid in cash (rather than PIK Interest). This assumption is made solely for U.S. federal income tax purposes and does not constitute a representation by the Issuer regarding the likelihood that interest on the Notes will be paid in cash.

If the Issuer, however, exercises its redemption option or its option to pay PIK Interest, or makes a mandatory redemption payment for excess PIK Interest, if a holder exercises its option to require the Issuer to repurchase the Notes upon the occurrence of certain change of control events or if any other change in circumstances results in the payment of Additional Amounts, the yield and maturity of the Notes will be redetermined using the new payment schedule by treating the Notes (solely for purposes of redetermining the yield, maturity and OID) 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, in each case, with respect to Notes that continue to remain outstanding

after such change in circumstances. Such deemed reissued Notes could be subject to the Treasury regulations applicable to CPDIs.

Any PIK Interest will generally not be treated as a payment of interest on an original Note for U.S. federal income tax purposes. Instead, any Additional PIK Note together with the original Note will be treated as a single debt instrument for U.S. federal income tax purposes.

In the case of the Euro Notes, OID will be determined for any accrual period in euro and then translated into U.S. dollars. The U.S. dollar value of any accrued OID will be determined by translating such OID at the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the U.S. Holder’s taxable year). A U.S. Holder may elect to translate accrued OID using the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the U.S. Holder’s taxable year. Additionally, if the last day of an accrual period is within five business days of the date of receipt of the accrued OID, an electing U.S. Holder may instead translate the accrued OID into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

OID accrued with respect to the Notes should generally constitute income from sources outside the United States, subject to the rules regarding the U.S. foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon).

The tax rules relating to the determination of the amount of OID allocable by a U.S. Holder to each accrual period are complex. Prospective investors are urged to consult their own tax advisors regarding any tax consequences to them of our decision to exercise, or not exercise, the redemption option or the option to pay PIK Interest, including any deemed retirement and reissuance of the Notes upon the exercise of any such option.

Payments of Cash Interest

In general, each payment made in cash under a Note will be treated first as a payment of any accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first, and secondly as a payment of principal (which is not includible in income). A U.S. Holder generally will not be required to include separately in income cash payments received on a Note to the extent such payments constitute payments of previously accrued OID.

Non-U.S. withholding tax, if any, imposed on a U.S. Holder would, subject to limitations and conditions and at the election of such holder, be treated as foreign income tax eligible for credit against such holder’s U.S. federal income tax liability or a deduction in computing taxable income, to the extent such tax is not otherwise refundable.

In the case of the Euro Notes, upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or other disposition of a Euro Note) denominated in euro, a U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference, if any, between the amount received (translated into U.S. dollars at the exchange rate on the date of receipt) and the U.S. dollar value of the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. Exchange gain or loss generally will be treated as U.S. source.

Sale, Exchange, Redemption or Other Taxable Disposition of Notes

Generally, upon the sale, exchange, redemption or other taxable disposition 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 and such U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note will generally equal the cost of such Note to such U.S. Holder increased by the amount of OID previously included in the U.S. Holder's income with respect to the Note and reduced by the amount of any cash payments made with respect to the Note. A U.S. Holder's tax basis in a Note will be determined by reference to the U.S. dollar cost of the Notes and the U.S. dollar value of any cash payments made with respect to the Note. The U.S. dollar cost of a Note purchased with a foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

Although not free from doubt, a U.S. Holder's adjusted tax basis in a Note should be allocated between the original Note and any Additional PIK Note issued upon the Issuer's exercise of the option to pay PIK Interest in proportion to their relative principal amounts.

Gain or loss recognized upon a sale, exchange, redemption or other taxable disposition (except as discussed below with respect to exchange 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, redemption or other taxable disposition the Note has been held by such U.S. Holder for more than one year, and will generally be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation.

Although not free from doubt, a U.S. Holder's holding period with respect to an Additional PIK Note issued if the option to pay PIK Interest is exercised would likely be identical to its holding period for the original Note with respect to which the Additional PIK Note was received.

The amount realized on a sale or other disposition of the Euro 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 Euro Notes traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that are 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 and cannot be revoked without the consent of the IRS.

In the case of a U.S. Holder that is an individual, estate or trust, the maximum federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of a Euro Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss and generally will not be treated as interest income or expense. 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 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). In addition, upon the sale or other taxable disposition of a Note, a U.S. holder may recognize foreign currency exchange gain or loss attributable to amounts received with respect to accrued and unpaid OID, if any, which will be treated as discussed above under "—*Original Issue Discount*" and "—*Payments of Cash Interest*." However, upon a sale or other taxable disposition of a Note, exchange gain or loss

(including with respect to accrued OID) is taken into account only to the extent of total gain or loss realized on such sale or other taxable disposition of the Euro Note.

Non-U.S. Holders

Subject to the discussion concerning information reporting and backup withholding below, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes and gain from the sale, redemption or other disposition of the Notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States; (ii) in the case of any gain realized on the sale or exchange of a Note by an individual Non-U.S. Holder, that Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain U.S. expatriates.

Information Reporting and Backup Withholding

In general, payments of principal, interest (including accrued OID) on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain U.S. Holders (including, among others, corporations) are not subject to information reporting and backup withholding. A U.S. Holder can claim a credit against its U.S. federal income tax liability, or a refund, for amounts withheld under the backup withholding rules by timely filing appropriate U.S. tax returns.

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 advisors 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 advisors 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 ERISA Plans 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 a 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.

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) it is not a Plan and 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 between the Issuer 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, Citigroup Global Markets Limited, Merrill Lynch International and HSBC Bank plc. The Initial Purchasers of the Dollar Notes are Deutsche Bank Securities Inc., Citigroup Global Markets Limited, Merrill Lynch, Pierce, Fenner & Smith Incorporated and HSBC Bank plc.

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 has 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 September 22, 2016 which 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 Notes on the date of pricing or the next six business days will be required, by virtue of the fact that the 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 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 purchaser receives when it sells will be favorable.

In connection with the offering, the Initial Purchasers are not acting for anyone other than the Issuer and will not be responsible to anyone other than the Issuer 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 and its 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 or its affiliates.

In addition, the Initial Purchasers have provided a term loan facility and a revolving credit facility to the Schaeffler Group in the aggregate amount of €2,300 million. Furthermore, Bank of America, N.A. and certain U.S. entities of the Schaeffler Group entered into a separate loan agreement providing for a $75 million revolving credit facility. Each of the Initial Purchasers or their respective affiliates is a lender under the Issuer Facilities Agreement. The Initial Purchasers or their respective affiliates will receive customary fees for their services in such capacities.

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 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:

(i) You acknowledge that:

(a) the Notes have not been registered under the U.S. Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws; and

(b) unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraphs (v) and (vi) below.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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 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; or

(e) 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's 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 may continue until one year after the issuer, or any affiliate of the issuer, was the owner of such note or held an interest in such global note, and so may continue indefinitely.

(vi) 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) we and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes under clauses (d) or (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the Trustee; and

(c) 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 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 OR (E) 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) OR (E) 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) IT IS NOT, AND NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE AND HOLD THIS SECURITY OR INTEREST THEREIN CONSTITUTES ASSETS OF, (1) AN "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) A 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" (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) 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 OR NON-U.S. LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY 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.

(vii) 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.

(viii) You represent and warrant that either (a) you are not, and no portion of the assets used by you to acquire and hold such Notes or interest therein constitutes assets of, (1) an "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) a 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" (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) 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 or non-U.S. laws or regulations that are substantially similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**") or (b) the acquisition, holding and disposition of such Notes 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.

(ix) You acknowledge that, 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.

(x) 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.

(xi) You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements. You agree that if any of the acknowledgements, 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 acknowledgements, representations and agreements on behalf of each account.

(xii) 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 United States federal, New York, English and German 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, New York, English and German 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 Issuer and Schaeffler AG for the fiscal years ended December 31, 2015 and 2014 were KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**"), Ganghoferstrasse 29, 80339 Munich, Germany. KPMG audited the Issuer's unconsolidated financial statements as of and for the fiscal year ended December 31, 2015, prepared in accordance with German GAAP. KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to the Issuer's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2015.

KPMG audited Schaeffler AG's consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014, prepared in accordance with IFRS. KPMG has issued an unqualified auditor's report in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to Schaeffler AG's audited consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014. KPMG reviewed Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016, prepared in accordance with IFRS applicable to interim financial reporting. KPMG has issued a review report in accordance with the applicable provisions of the WpHG, in particular section 37 w para. 5 WpHG, with respect to Schaeffler AG's unaudited consolidated condensed financial statements as of and for the six-month period ended June 30, 2016.

KPMG conducted its audits in accordance with generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V.*, "**IDW**").

KPMG is a member of the Chamber of Public Accountants (*Wirtschaftsprüferkammer*) and a member of the IDW.

Service of Process and Enforcement of Civil Liabilities

The Issuer is a limited liability company organized under the laws of Germany. In addition, any future providers of Collateral may also be organized under the laws of non-U.S. jurisdictions. Most of the members of the Supervisory Board and the Board of Managing Directors of Schaeffler AG and many of the directors and officers of the Issuer 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 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 has appointed an agent for the service of process in New York, or to enforce, in original actions, liabilities against the Issuer based on those laws. In addition, as many of the Issuer's assets and the assets of its 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, investors will need to enforce such judgment in jurisdictions where the Issuer has assets.

Even though the enforceability of U.S. court judgments outside the United States is described below for Germany, 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.

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, or in case of non-compliance with such requirements, (i) the defendant does not invoke such non-compliance or (ii) has nevertheless appeared in the proceedings;

(c) the judgment is not contrary to (i) any judgment 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 proceedings in Germany that have become pending earlier;

(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 the Federal Republic 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.

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, are admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so 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;
- the financial statements included in this Offering Memorandum; and
- the Indenture.

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 or post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

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, are admitted to 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 has 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 September 5, 2016.

Financial Information

Schaeffler AG has prepared consolidated financial statements as of and for the fiscal years ended December 31, 2015 and 2014. So long as the Notes remain outstanding, Schaeffler AG will continue to prepare consolidated financial statements in the future.

Clearing Information

The 2021 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 149015256 and 149015370, respectively. The international securities identification numbers (the "**ISINs**") for the 2021 Euro Notes sold pursuant to Regulation S and Rule 144A are XS1490152565 and XS1490153704, respectively.

The 2023 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 149015388 and 149015906, respectively. The ISINs for the 2023 Euro Notes sold pursuant to Regulation S and Rule 144A are XS1490153886 and XS1490159065, respectively.

The 2026 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 149015949 and 149015973, respectively. The ISINs for the 2026 Euro Notes sold pursuant to Regulation S and Rule 144A are XS1490159495 and XS1490159735, respectively.

The 2021 Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of DTC. The ISINs of the 2021 Dollar Notes sold pursuant to Regulation S and Rule 144A are USD6710TAA81 and US80627DAA46, respectively. The CUSIP numbers for the 2021 Dollar Notes sold pursuant to Regulation S and Rule 144A are D6710T AA8 and 80627D AA4, respectively. The Common Codes for the 2021 Dollar Notes sold pursuant to Regulation S and Rule 144A are 149244794 and 149281878, respectively.

The 2023 Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of DTC. The ISINs of the 2023 Dollar Notes sold pursuant to Regulation S and Rule 144A are USD6710TAB64 and US80627DAB29, respectively. The CUSIP numbers for the 2023 Dollar Notes sold pursuant to Regulation S and Rule 144A are D6710T AB6 and 80627D AB2, respectively. The Common Codes of the 2023 Dollar Notes sold pursuant to Regulation S and Rule 144A are 149258337 and 149281959, respectively.

The 2026 Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of DTC. The ISINs of the 2026 Dollar Notes sold pursuant to Regulation S and Rule 144A are USD6710TAC48 and US80627DAC02, respectively. The CUSIP numbers for the 2026 Dollar Notes sold pursuant to Regulation S and Rule 144A are D6710T AC4 and 80627D AC0, respectively. The Common Codes of the 2026 Dollar Notes sold pursuant to Regulation S and Rule 144A are 149258248 and 149242953, respectively.

Significant Change

Except as disclosed in this Offering Memorandum:

- there has been no material adverse change in the financial condition or prospects of the Issuer since December 31, 2015; 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, Compliance, Insurance and Legal—Litigation and Administrative Proceedings*.”

Glossary of Technical Terms

Term	Definition
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	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.
Electric mobility	Refers to the possibility to use drive vehicles that use one or more electric motors or traction motors for propulsion.
Electromechanical actuators	Can be used instead of hydraulic systems. They originate in aviation and are now used in steering systems and chassis applications.
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 movable assemblies of a machine and to keep the direction of movement of a linear raceway.
Mechatronic	Multidisciplinary field of engineering.
OEM	Original equipment manufacturer.
Valve train	Mechanism for transferring the cam stroke to the lifting valves in a combustion engine.
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.

Appendix 1 – Form of Notice

[*The following notice shall be sent to the Luxembourg Stock Exchange via email to ost@bourse.lu.*]

DATE:

We hereby inform you of the issuance by IHO Verwaltungs GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany (the "**Issuer**"), of €[●], €[●], €[●], $[●], $[●] and $[●] of additional Senior PIK Toggle Notes on [date] (the "**Additional PIK Notes**") as payment for interest due on its €750,000,000 2.750% / 3.500% Senior Secured PIK Toggle Notes due 2021, €750,000,000 3.250% / 4.000% Senior Secured PIK Toggle Notes due 2023, €750,000,000 3.750% / 4.500% Senior Secured PIK Toggle Notes due 2026, $500,000,000 4.125% / 4.875% Senior Secured PIK Toggle Notes due 2021, $500,000,000 4.500% / 5.250% Senior Secured PIK Toggle Notes due 2023 and $500,000,000 4.750% / 5.500% Senior Secured PIK Toggle Notes due 2026 issued on September 22, 2016 (the "**Original PIK Notes**" and, together with the Additional PIK Notes, the "**PIK Notes**"), the terms of which are described in the Issuer's listing particulars dated [month] [day], [year] (the "**Listing Particulars**").

The aggregate principal amount of the Issuer's PIK Notes that are admitted to listing on the Official List and to trading on the Euro MTF shall be increased on the soonest practicable date following receipt by the Luxembourg Stock Exchange of this notice in the following manner:

Additional PIK Notes represented:

(a) by a 2021 Euro 144A Global Note (ISIN XS1490153704, Common Code 149015370) shall be increased by €[●];

(b) by a 2021 Euro Regulation S Global Note (ISIN XS1490152565, Common Code 149015256) shall be increased by €[●];

(c) by a 2023 Euro 144A Global Note (ISIN XS1490159065, Common Code 149015906) shall be increased by €[●];

(d) by a 2023 Euro Regulation S Global Note (ISIN XS1490153886, Common Code 149015388) shall be increased by €[●];

(e) by a 2026 Euro 144A Global Note (ISIN XS1490159735, Common Code 149015973) shall be increased by €[●];

(f) by a 2026 Euro Regulation S Global Note (ISIN XS1490159495, Common Code 149015949) shall be increased by €[●];

(g) by a 2021 Dollar 144A Global Note (CUSIP No. 80627D AA4, ISIN US80627DAA46, Common Code 149281878) shall be increased by $[●];

(h) by a 2021 Dollar Regulation S Global Note (CUSIP No. D6710T AA8, ISIN USD6710TAA81, Common Code 149244794) shall be increased by $[●];

(i) by a 2023 Dollar 144A Global Note (CUSIP No. 80627D AB2, ISIN US80627DAB29, Common Code 149281959) shall be increased by $[●];

(j) by a 2023 Dollar Regulation S Global Note (CUSIP No. D6710T AB6, ISIN USD6710TAB64, Common Code 149258337) shall be increased by $[●];

(k) by a 2026 Dollar 144A Global Note (CUSIP No. 80627D AC0, ISIN US80627DAC02, Common Code 149242953) shall be increased by $[●]; and

(l) by a 2026 Dollar Regulation S Global Note (CUSIP No. D6710T AC4, ISIN USD6710TAC48, Common Code 149258248) shall be increased by $[●].

Capitalized terms that are used and not otherwise defined herein shall have the respective meanings ascribed to such terms in the Issuer's Listing Particulars dated [month] [day], [year].

Sincerely,

IHO Verwaltungs GmbH

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Unaudited consolidated condensed financial statements of Schaeffler AG as of and for the six-month period ended June 30, 2016

1. Consolidated income statement

No. 015

in € millions	1st six months 2016	1st six months 2015	Change in %	2nd quarter 2016	2nd quarter 2015	Change in %
Revenue	6,712	6,721	-0.1	3,369	3,382	-0.4
Cost of sales	-4,792	-4,837	-0.9	-2,393	-2,439	-1.9
Gross profit	**1,920**	**1,884**	**1.9**	**976**	**943**	**3.5**
Research and development expenses	-378	-350	8.0	-194	-174	11.5
Selling expenses	-450	-461	-2.4	-228	-241	-5.4
Administrative expenses	-218	-208	4.8	-108	-102	5.9
Other income	15	19	-21.1	11	3	> 100
Other expenses	-30	-66	-54.5	-19	-45	-57.8
Earnings before financial result and income taxes (EBIT)	**859**	**818**	**5.0**	**438**	**384**	**14.1**
Financial income	112	213	-47.4	10	-153	-
Financial expenses	-265	-550	-51.8	-98	-8	> 100
Financial result	**-153**	**-337**	**-54.6**	**-88**	**-161**	**-45.3**
Earnings before income taxes	**706**	**481**	**46.8**	**350**	**223**	**57.0**
Income taxes	-206	-165	24.8	-106	-76	39.5
Net income	**500**	**316**	**58.2**	**244**	**147**	**66.0**
Attributable to shareholders of the parent company	494	309	59.9	241	142	69.7
Attributable to non-controlling interests	6	7	-14.3	3	5	-40.0
Earnings per common share (basic/diluted, in €)	0.74	0.46	60.9	0.36	0.21	71.4
Earnings per common non-voting share (basic/diluted, in €)	0.75	0.78	-3.8	0.37	0.36	2.8

2. Consolidated statement of comprehensive income

No. 016

	1st six months						2nd quarter					
	2016			2015			2016			2015		
in € millions	before taxes	taxes	after taxes	before taxes	taxes	after taxes	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income	**706**	**-206**	**500**	**481**	**-165**	**316**	**350**	**-106**	**244**	**223**	**-76**	**147**
Foreign currency translation differences for foreign operations	-30	0	-30	193	0	193	48	0	48	-104	0	-104
Net change from hedges of net investments in foreign operations	14	-4	10	-77	22	-55	-18	5	-13	22	-6	16
Effective portion of changes in fair value of cash flow hedges	4	-1	3	22	-5	17	-17	5	-12	42	-12	30
Net change in fair value of available-for-sale financial assets	0	0	0	0	0	0	0	0	0	-1	0	-1
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**-12**	**-5**	**-17**	**138**	**17**	**155**	**13**	**10**	**23**	**-41**	**-18**	**-59**
Remeasurement of net defined benefit liability	-413	116	-297	75	-21	54	-168	46	-122	377	-101	276
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**-413**	**116**	**-297**	**75**	**-21**	**54**	**-168**	**46**	**-122**	**377**	**-101**	**276**
Total other comprehensive income (loss)	**-425**	**111**	**-314**	**213**	**-4**	**209**	**-155**	**56**	**-99**	**336**	**-119**	**217**
Total comprehensive income (loss) for the period	**281**	**-95**	**186**	**694**	**-169**	**525**	**195**	**-50**	**145**	**559**	**-195**	**364**
Total comprehensive income (loss) attributable to shareholders of the parent company	275	-91	184	678	-165	513	190	-48	142	556	-192	364
Total comprehensive income (loss) attributable to non-controlling interests	6	-4	2	16	-4	12	5	-2	3	3	-3	0

3. Consolidated statement of financial position

No. 017

in € millions	06/30/2016	12/31/2015	06/30/2015	Change in %
ASSETS				
Intangible assets	585	589	566	-0.7
Property, plant and equipment	4,242	4,180	3,942	1.5
Other financial assets	1,922	2,123	2,064	-9.5
Other assets	41	57	56	-28.1
Income tax receivables	4	4	8	0.0
Deferred tax assets	603	485	493	24.3
Total non-current assets	**7,397**	**7,438**	**7,129**	**-0.6**
Inventories	1,914	1,812	1,810	5.6
Trade receivables	2,266	2,023	2,215	12.0
Other financial assets	119	123	362	-3.3
Other assets	222	211	228	5.2
Income tax receivables	64	74	57	-13.5
Cash and cash equivalents	572	799	420	-28.4
Total current assets	**5,157**	**5,042**	**5,092**	**2.3**
Total assets	**12,554**	**12,480**	**12,221**	**0.6**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	666	666	600	0.0
Capital reserves	2,348	2,348	1,600	0.0
Other reserves	-769	-935	-1,217	-17.8
Accumulated other comprehensive income (loss)	-909	-599	-533	51.8
Equity attributable to shareholders of the parent company	**1,336**	**1,480**	**450**	**-9.7**
Non-controlling interests	89	88	82	1.1
Total shareholders' equity	**1,425**	**1,568**	**532**	**-9.1**
Provisions for pensions and similar obligations	2,358	1,942	1,945	21.4
Provisions	138	182	72	-24.2
Financial debt	5,442	5,685	6,653	-4.3
Income tax payables	219	210	254	4.3
Other financial liabilities	7	12	13	-41.7
Other liabilities	6	6	7	0.0
Deferred tax liabilities	116	107	95	8.4
Total non-current liabilities	**8,286**	**8,144**	**9,039**	**1.7**
Provisions	419	431	289	-2.8
Financial debt	4	3	12	33.3
Trade payables	1,384	1,405	1,287	-1.5
Income tax payables	135	112	203	20.5
Other financial liabilities	506	512	476	-1.2
Other liabilities	395	305	383	29.5
Total current liabilities	**2,843**	**2,768**	**2,650**	**2.7**
Total shareholders' equity and liabilities	**12,554**	**12,480**	**12,221**	**0.6**

4. Consolidated statement of cash flows

No. 018

in € millions	1st six months 2016	1st six months 2015	Change in %	2nd quarter 2016	2nd quarter 2015	Change in %
Operating activities						
EBIT	859	818	5.0	438	384	14.1
Interest paid	-107	-379	-71.8	-72	-304	-76.3
Interest received	73	40	82.5	70	38	84.2
Income taxes paid	-161	-158	1.9	-62	-73	-15.1
Depreciation, amortization and impairments	358	343	4.4	181	173	4.6
(Gains) losses on disposal of assets	1	0	-	0	-1	-100
Changes in:						
• Inventories	-112	-41	> 100	-36	-27	33.3
• Trade receivables	-264	-245	7.8	-38	24	-
• Trade payables	89	53	67.9	37	16	> 100
• Provisions for pensions and similar obligations	-19	6	-	-11	12	-
• Other assets, liabilities and provisions	60	-15	-	64	-4	-
Cash flows from operating activities [1]	**777**	**422**	**84.1**	**571**	**238**	**> 100**
Investing activities						
Proceeds from disposals of property, plant and equipment	1	8	-87.5	0	7	-100
Capital expenditures on intangible assets	-10	-18	-44.4	-5	-11	-54.5
Capital expenditures on property, plant and equipment	-551	-483	14.1	-238	-246	-3.3
Other investing activities	-1	-1	0.0	0	0	0.0
Cash used in investing activities	**-561**	**-494**	**13.6**	**-243**	**-250**	**-2.8**
Financing activities						
Dividends paid to shareholders and non-controlling interests	-329	-251	31.1	-329	-251	31.1
Receipts from loans	1	215	-99.5	-14	207	-
Repayments of loans [2]	-208	-209	-0.5	-207	-209	-1.0
Other financing activities	98	85	15.3	98	85	15.3
Cash provided by financing activities	**-438**	**-160**	**> 100**	**-452**	**-168**	**> 100**
Net increase (decrease) in cash and cash equivalents	**-222**	**-232**	**-4.3**	**-124**	**-180**	**-31.1**
Effects of foreign exchange rate changes on cash and cash equivalents	-5	16	-	3	-9	-
Cash and cash equivalents as at beginning of period	799	636	25.6	693	609	13.8
Cash and cash equivalents as at end of period	**572**	**420**	**36.2**	**572**	**420**	**36.2**

[1] Excluding interest payments, cash flows from operating activities for the period from 01/01 to 06/30/2016 amount to EUR 884 m (prior year: EUR 801 m).
[2] Including EUR 21 m in cash inflows from cross-currency swaps terminated early in connection with the voluntary prepayment of the loan tranches.

5. Consolidated statement of changes in equity

No. 019

in € millions	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)				Subtotal	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasure-ment reserve			
Balance as at January 01, 2015	**600**	**1,600**	**-1,276**	**-109**	**-75**	**1**	**-554**	**187**	**71**	**258**
Net income			309					309	7	316
Other comprehensive income (loss)				133	17		54	204	5	209
Total comprehensive income (loss) for the period	**0**	**0**	**309**	**133**	**17**	**0**	**54**	**513**	**12**	**525**
Dividends		0	-250					-250	-1	-251
Total amount of transactions with shareholders	**0**	**0**	**-250**					**-250**	**-1**	**-251**
Balance as at June 30, 2015	**600**	**1,600**	**-1,217**	**24**	**-58**	**1**	**-500**	**450**	**82**	**532**
Balance as at January 01, 2016	**666**	**2,348**	**-935**	**-79**	**-29**	**0**	**-491**	**1,480**	**88**	**1,568**
Net income			494					494	6	500
Other comprehensive income (loss)				-16	3		-297	-310	-4	-314
Total comprehensive income (loss) for the period	**0**	**0**	**494**	**-16**	**3**	**0**	**-297**	**184**	**2**	**186**
Dividends			-328					-328	-1	-329
Total amount of transactions with shareholders	**0**	**0**	**-328**					**-328**	**-1**	**-329**
Balance as at June 30, 2016	**666**	**2,348**	**-769**	**-95**	**-26**	**0**	**-788**	**1,336**	**89**	**1,425**

6. Consolidated segment information

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

No. 020

	Automotive		Industrial		Total	
	1st six months		1st six months		1st six months	
in € millions	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue	5,179	5,069	1,533	1,652	6,712	6,721
Cost of sales	-3,698	-3,687	-1,094	-1,150	-4,792	-4,837
Gross profit	1,481	1,382	439	502	1,920	1,884
EBIT	739	651	120	167	859	818
• in % of revenue	14.3	12.8	7.8	10.1	12.8	12.2
Depreciation, amortization and impairments	-262	-245	-96	-98	-358	-343
Inventories [1]	1,221	1,148	693	662	1,914	1,810
Trade receivables [1]	1,752	1,661	514	554	2,266	2,215
Property, plant and equipment [1]	3,185	2,927	1,057	1,015	4,242	3,942
Additions to intangible assets and property, plant and equipment	376	351	93	84	469	435

	Automotive		Industrial		Total	
	2nd quarter		2nd quarter		2nd quarter	
in € millions	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue	2,603	2,554	766	828	3,369	3,382
Cost of sales	-1,853	-1,862	-540	-577	-2,393	-2,439
Gross profit	750	692	226	251	976	943
EBIT	367	308	71	76	438	384
• in % of revenue	14.1	12.1	9.3	9.2	13.0	11.4
Depreciation, amortization and impairments	-133	-124	-48	-49	-181	-173
Inventories [1]	1,221	1,148	693	662	1,914	1,810
Trade receivables [1]	1,752	1,661	514	554	2,266	2,215
Property, plant and equipment [1]	3,185	2,927	1,057	1,015	4,242	3,942
Additions to intangible assets and property, plant and equipment	202	194	50	54	252	248

Prior year information presented based on 2016 segment structure.
[1] Amounts as at June 30.

7. Condensed notes to the consolidated interim financial statements

Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestraße 1–3, 91074 Herzogenaurach. The company was founded on April 19, 1982, and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The condensed consolidated financial statements of Schaeffler AG as at June 30, 2016, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). The Schaeffler Group is a leading global integrated automotive and industrial supplier.

Basis of preparation

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

The consolidated interim financial statements of Schaeffler AG, Herzogenaurach, for the reporting period ended June 30, 2016, have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". They do not include all information necessary for a complete set of consolidated financial statements.

The accounting policies used in these consolidated interim financial statements are largely based on the accounting policies used in the 2015 consolidated financial statements, where the latter are discussed in detail. Except as described below, these accounting policies have been applied consistently in these consolidated interim financial statements.

In the past, customer payments for development services were presented in the consolidated income statement as service revenue. Starting in 2016, these customer payments are netted against the related development costs and reported under research and development expenses in the consolidated income statement. Figures for the comparison period, the first half of 2015, for revenue (decrease of EUR 11 m) and research and development expenses (decrease of EUR 11 m) were adjusted retrospectively. The change was made to provide better financial information and to bring the presentation into line with common industry practice.

The amendments to and new requirements of IFRS effective starting in 2016 do not have a significant impact on these consolidated interim financial statements.

In the preparation of financial statements in accordance with IFRS, management exercises judgment in making estimates and assumptions. Such estimates and judgments are unchanged from the matters described in the consolidated financial statements of the Schaeffler Group as at and for the year ended December 31, 2015. The only change relates to the assumptions regarding the discount rate used to measure the company's pension obligations. These assumptions were adjusted to reflect current market trends. The adjustment has led to an increase in pension obligations and a reduction in shareholders' equity. Please refer to "Provisions for pensions and similar obligations" below for more detailed information.

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

Income taxes were determined based on best estimate.

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

Foreign currency translation
The exchange rates between the group's most significant currencies and the Euro are as follows:

Selected foreign exchange rates No. 021

	Closing rates			Average rates	
				1st six months	
1 Euro equals	06/30/2016	12/31/2015	06/30/2015	2016	2015
BRL (Brazil)	3.62	4.31	3.47	4.14	3.31
CNY (China)	7.38	7.06	6.94	7.29	6.94
USD (U.S.A.)	1.11	1.09	1.12	1.12	1.12
KRW (Korea)	1,278.00	1,280.78	1,251.27	1,318.99	1,227.07
INR (India)	75.09	72.02	71.19	74.99	70.15
MXN (Mexico)	20.64	18.92	17.53	20.16	16.89

Scope of consolidation

The consolidated financial statements of Schaeffler AG as at June 30, 2016, cover, in addition to Schaeffler AG, 153 (December 31, 2015: 153) subsidiaries; 51 (December 31, 2015: 51) entities are domiciled in Germany and 102 (December 31, 2015: 102) in other countries.

The scope of consolidation of Schaeffler AG did not change significantly compared to December 31, 2015, with respect to the consolidated financial statements of the Schaeffler Group.

In the consolidated financial statements as at June 30, 2016, five (December 31, 2015: five) investments (including two joint ventures; December 31, 2015: two) are accounted for at equity.

Current/Non-current financial debt

Financial debt (current/non-current) No. 022

	06/30/2016			12/31/2015		
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 and institutional loans	421	4	417	635	3	632
Bonds	5,020	0	5,020	5,048	0	5,048
Other financial debt	5	0	5	5	0	5
Financial debt	**5,446**	**4**	**5,442**	**5,688**	**3**	**5,685**

The decrease in financial debt compared to December 31, 2015, was primarily attributable to the prepayment of institutional loan tranches and the impact of translating the financial debt denominated in U.S. Dollar to Euro.

In May 2016, Schaeffler AG voluntarily prepaid approximately EUR 229 m of its institutional loan tranches, paying off EUR 85 m of its Senior Term Loan B EUR and USD 160 m of its Senior Term Loan B USD.

Transaction costs related to the refinancing transaction in July 2016 have increased financial debt by EUR 25 m. Please refer to the discussion of events after the reporting period for further detail.

Provisions for pensions and similar obligations

Interest rate levels as at June 30, 2016, have declined compared to December 31, 2015. As a result, the Schaeffler Group has adjusted the discount rate used to value its key pension plans as at the reporting date. The Schaeffler Group's average discount rate as at June 30, 2016, amounted to 1.8 % (December 31, 2015: 2.6 %). The resulting remeasurement of the company's obligations under defined benefit pension plans resulted in actuarial losses of EUR 413 m as at June 30, 2016, which were recognized in the consolidated statement of comprehensive income and are reported under accumulated other comprehensive income net of deferred taxes.

Provisions

Non-current provisions decreased by EUR 44 m to EUR 138 m (December 31, 2015: EUR 182 m), primarily because certain non-current provisions were reclassified to current provisions as they had become current.

Current provisions decreased by EUR 12 m to EUR 419 m (December 31, 2015: EUR 431 m), since the impact of the reclassification described was offset by the utilization of a provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014.

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. Investments in associated companies and derivatives subject to hedge accounting are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

Financial instruments by class and category in accordance with IFRS 7.8 No. 023

			06/30/2016		12/31/2015		06/30/2015	
in € millions	Category per IFRS 7.8	Level per IFRS 13	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class								
Trade receivables	LaR		2,266	2,266	2,023	2,023	2,215	2,215
Other financial assets								
• Investments in associates[1]	n. a.		3	-	3	-	3	-
• Other investments [2]	AfS		14	-	17	-	14	-
• Marketable securities	AfS	1	15	15	14	14	14	14
• Derivatives designated as hedging instruments	n. a.	2	47	47	127	127	97	97
• Derivatives not designated as hedging instruments	HfT	2	252	252	235	235	374	374
• Miscellaneous other financial assets	LaR	2 [3]	1,710	1,728	1,850	1,856	1,924	1,863
Cash and cash equivalents	LaR		572	572	799	799	420	420
Financial liabilities, by class								
Financial debt	FLAC	1, 2 [4]	5,446	5,521	5,688	5,793	6,665	6,863
Trade payables	FLAC		1,384	1,384	1,405	1,405	1,287	1,287
Other financial liabilities								
• Derivatives designated as hedging instruments	n. a.	2	17	17	16	16	56	56
• Derivatives not designated as hedging instruments	HfT	2	41	41	33	33	35	35
• Miscellaneous other financial liabilities	FLAC		455	455	475	475	398	398
Summary by category								
Available-for-sale financial assets (AfS)			29	-	31	-	28	-
Financial assets held for trading (HfT)			252	-	235	-	374	-
Loans and receivables (LaR)			4,548	-	4,672	-	4,559	-
Financial liabilities at amortized cost (FLAC)			7,285	-	7,568	-	8,350	-
Financial liabilities held for trading (HfT)			41	-	33	-	35	-

[1] Equity-accounted investees.
[2] Investments accounted for at cost.
[3] Level shown based on long-term loan receivable of EUR 1,674 m (December 31, 2015: EUR 1,773 m).
[4] Level 1: EUR 5,082 m (December 31, 2015: EUR 5,069 m; June 30, 2015: EUR 0 m); Level 2: EUR 439 m (December 31, 2015: EUR 724 m; June 30, 2015: EUR 6,863 m)

The carrying amounts of trade receivables, miscellaneous other financial assets and cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments. However, this does not apply to loans receivable of EUR 1,674 m (December 31, 2015: EUR 1,773 m) included in miscellaneous other financial assets, which mature in December 2024.

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 the first six months of 2016, and no (partial) disposals are planned in the foreseeable future.

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

- Level 1: The fair value of marketable securities as well as bonds payable included in financial debt is determined using the exchange-quoted price as at the reporting date.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period, as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates).
  The fair value of miscellaneous other financial assets and of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. No such transfers were made between the various levels of the fair value hierarchy (Level 1-3) during the period.

Contingent liabilities

The statements made in the annual report 2015 with respect to contingent liabilities in connection with investigations for possible agreements violating antitrust law and third party claims for damages as well as legal cases are largely unchanged.

Segment reporting

The allocation of customers and products to segments is reviewed regularly and adjusted where necessary. To ensure that the information on the Automotive division and Industrial division segments is comparable, prior year information is also presented using the current year's customer and product structure.

Since January 01, 2016, the Industrial division segment is primarily managed by the regions due to its broad customer and business structure. On the basis, the Europe, Americas, Greater China, and Asia/ Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. Within the regions, the Industrial business is grouped into eight sectors: wind, raw materials, aerospace, rail, offroad, two wheelers, power transmission, and industrial automation. Sales to distributors (Industrial Distribution) round out the Industrial division's regional business.

Reconciliation of segment information No. 024

	1st six months	
Reconciliation to earnings before income taxes in € millions	2016	2015
EBIT Automotive [1]	739	651
EBIT Industrial [1]	120	167
EBIT	**859**	**818**
Financial result	-153	-337
Earnings before income taxes	**706**	**481**

[1] Prior year information presented based on 2016 segment structure.

Related parties

The extent of transactions with related persons and entities remained largely unchanged compared to the 2015 consolidated financial statements.

Due to a partial repayment of EUR 98 m, the balance of loans receivable from Schaeffler Verwaltung Zwei GmbH declined to EUR 1,674 m (December 31, 2015: EUR 1,773 m). Interest income earned on these loans in 2016 amounted to EUR 33 m.

On April 22, 2016, the Schaeffler AG annual general meeting declared a dividend of EUR 328 m in respect of 2015, including EUR 245 m for the common shares held by Schaeffler Verwaltung Zwei GmbH.

Transactions with associated companies and joint ventures were insignificant in the first half of 2016.

Events after the reporting period

Schaeffler AG signed a new loan agreement on July 18, 2016. The funds were first used to repay the previous loan agreement including the two remaining institutional term loans totaling approximately EUR 417 m. In a second step, the company plans to redeem on August 18, 2016, the EUR bonds with a principal of EUR 600 m, a coupon of 4.25 %, and an original maturity of May 2018.

The new loan agreement consists of a EUR 1.0 bn term loan and a EUR 1.3 bn revolving credit facility. Both facilities have a five year maturity plus certain renewal options and are provided by a consortium of 15 international banks. In addition to offering considerably better interest terms, the new loan agreement especially enhances the Schaeffler Group's operating and financial flexibility by providing for significantly more favorable general credit terms and the release of nearly all assets pledged as in rem security, which will subsequently also be released from such pledges under the secured bond agreements.

On July 20, 2016, rating agency Moody's upgraded the unsecured bond rating to Ba3. The upgrade reflects the improved position of the unsecured bonds following the release of nearly all assets pledged as in rem security under the secured bond agreements. The release of such security was agreed upon in connection with the new loan agreement entered into on July 18, 2016.

No other material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after June 30, 2016.

Herzogenaurach, August 08, 2016

The Board of Managing Directors

Review Report*

To Schaeffler AG, Herzogenaurach

We have reviewed the condensed interim consolidated financial statements of the Schaeffler AG – 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 condensed Notes – together with the interim group management report of the Schaeffler AG, for the period from January 1 to June 30, 2016 that are part of the semi annual financial report according to § 37 w WpHG [„Wertpapierhandelsgesetz": „German Securities Trading Act"]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, August 09, 2016

KPMG AG

Wirtschaftsprüfungsgesellschaft

Alt-Scherer	Koeplin
Wirtschaftsprüferin	Wirtschaftsprüfer

* This review report, prepared in accordance with § 37w Abs. 5 WpHG ["Wertpapierhandelsgesetz": "German Securities Trading Act"], refers to the complete Condensed Consolidated Interim 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 Condensed Notes to the Condensed Consolidated Interim Financial Statements, together with the interim group management report of Schaeffler AG for the period from January 1, 2016 to June 30, 2016. The interim group management report is not included in this Offering Memorandum. The above-mentioned review report and condensed consolidated interim financial statements are both translations of the respective German-language documents.

Audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2015

1. Consolidated income statement

No. 065

in € millions	Note	2015	2014	Change in %
Revenue	3.1	13,226	12,124	9.1
Cost of sales		-9,448	-8,708	8.5
Gross profit		**3,778**	**3,416**	**10.6**
Research and development expenses		-720	-622	15.8
Selling expenses		-920	-819	12.3
Administrative expenses		-407	-412	-1.2
Other income	3.2	57	49	16.3
Other expenses	3.3	-386	-89	> 100
Earnings before financial result and income taxes (EBIT)		**1,402**	**1,523**	**-7.9**
Financial income	3.5	327	256	27.7
Financial expenses	3.5	-874	-875	-0.1
Financial result	**3.5**	**-547**	**-619**	**-11.6**
Earnings before income taxes		**855**	**904**	**-5.4**
Income taxes	3.6	-250	-242	3.3
Net income		**605**	**662**	**-8.6**
Attributable to shareholders of the parent company		591	654	-9.6
Attributable to non-controlling interests		14	8	75.0
Earnings per common share (basic/diluted, in €)	3.7	0.88	1.29	-31.8
Earnings per common non-voting share (basic/diluted, in €)	3.7	1.28	1.29	-0.8

2. Consolidated statement of comprehensive income

No. 066

in € millions	2015 before taxes	2015 taxes	2015 after taxes	2014 before taxes	2014 taxes	2014 after taxes
Net income	**855**	**-250**	**605**	**904**	**-242**	**662**
Foreign currency translation differences for foreign operations	103	0	103	229	0	229
Net change from hedges of net investments in foreign operations	-96	27	-69	-105	23	-82
Effective portion of changes in fair value of cash flow hedges [1]	62	-16	46	-97	27	-70
Net change in fair value of available-for-sale financial assets	-1	0	-1	1	0	1
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**68**	**11**	**79**	**28**	**50**	**78**
Remeasurement of net defined benefit liability	87	-24	63	-444	128	-316
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**87**	**-24**	**63**	**-444**	**128**	**-316**
Total other comprehensive income (loss)	**155**	**-13**	**142**	**-416**	**178**	**-238**
Total comprehensive income (loss) for the period	**1,010**	**-263**	**747**	**488**	**-64**	**424**
Total comprehensive income (loss) attributable to shareholders of the parent company	985	-256	729	469	-60	409
Total comprehensive income (loss) attributable to non-controlling interests	25	-7	18	19	-4	15

[1] Including income of EUR 12 m (prior year: income of EUR 94 m) reclassified to profit and loss.

See Notes 4.10 and 4.13 to the consolidated financial statements for further detail.

3. Consolidated statement of financial position

No. 067

in Mio. EUR	Note	12/31/2015	12/31/2014	Change in %
ASSETS				
Intangible assets	4.1	589	555	6.1
Property, plant and equipment	4.2	4,180	3,748	11.5
Other financial assets	4.6	2,123	1,978	7.3
Other assets	4.6	57	58	-1.7
Income tax receivables	4.3	4	8	-50.0
Deferred tax assets	4.3	485	455	6.6
Total non-current assets		**7,438**	**6,802**	**9.4**
Inventories	4.4	1,812	1,713	5.8
Trade receivables	4.5	2,023	1,900	6.5
Other financial assets	4.6	123	343	-64.1
Other assets	4.6	211	181	16.6
Income tax receivables	4.3	74	42	76.2
Cash and cash equivalents	4.7	799	636	25.6
Total current assets		**5,042**	**4,815**	**4.7**
Bilanzsumme		**12,480**	**11,617**	**7.4**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		666	600	11.0
Capital reserves		2,348	1,600	46.8
Other reserves		-935	-1,276	-26.7
Accumulated other comprehensive income (loss)		-599	-737	-18.7
Equity attributable to shareholders of the parent company		**1,480**	**187**	**> 100**
Non-controlling interests		88	71	23.9
Total shareholders' equity	**4.8**	**1,568**	**258**	**> 100**
Provisions for pensions and similar obligations	4.10	1,942	1,984	-2.1
Provisions	4.11	182	70	> 100
Financial debt	4.9	5,685	6,413	-11.4
Income tax payables	4.3	210	237	-11.4
Other financial liabilities	4.12	12	21	-42.9
Other liabilities	4.12	6	8	-25.0
Deferred tax liabilities	4.3	107	106	0.9
Total non-current liabilities		**8,144**	**8,839**	**-7.9**
Provisions	4.11	431	232	85.8
Financial debt	4.9	3	1	> 100
Trade payables	4.13	1,405	1,261	11.4
Income tax payables	4.3	112	155	-27.7
Other financial liabilities	4.12	512	558	-8.2
Other liabilities	4.12	305	313	-2.6
Total current liabilities		**2,768**	**2,520**	**9.8**
Total shareholders' equity and liabilities		**12,480**	**11,617**	**7.4**

4. Consolidated statement of cash flows

No. 068

in Mio. EUR	2015	2014	Change in %
Operating activities			
EBIT	1,402	1,523	-7.9
Interest paid	-508	-520	-2.3
Interest received	43	8	> 100
Income taxes paid	-358	-277	29.2
Dividends received	0	1	- 100
Depreciation, amortization and impairments	694	649	6.9
(Gains) losses on disposal of assets	-18	1	-
Changes in:			
• Inventories	-75	-108	-30.6
• Trade receivables	-79	-142	-44.4
• Trade payables	38	129	-70.5
• Provisions for pensions and similar obligations	-9	-27	-66.7
• Other assets, liabilities and provisions	242	-337	-
Cash flows from operating activities [1]	**1,372**	**900**	**52.4**
Investing activities			
Proceeds from disposals of property, plant and equipment	26	8	> 100
Capital expenditures on intangible assets	-48	-50	-4.0
Capital expenditures on property, plant and equipment	-977	-807	21.1
Other investing activities	-3	-3	0.0
Cash used in investing activities	**-1,002**	**-852**	**17.6**
Financing activities			
Dividends paid to shareholders and non-controlling interests	-251	-1	> 100
Proceeds from issuing shares [2]	810	0	
Receipts from loans	207	727	-71.5
Repayments of loans	-1,175	-429	> 100
Other financing activities	197	-26	-
Cash provided by (used in) financing activities	**-212**	**271**	**-**
Net increase (decrease) in cash and cash equivalents	**158**	**319**	**-50.5**
Effects of foreign exchange rate changes on cash and cash equivalents	5	17	-70.6
Cash and cash equivalents as at beginning of period	636	300	> 100
Cash and cash equivalents as at end of period	**799**	**636**	**25.6**

[1] Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2015 amount to EUR 1,880 m (prior year: EUR 1,420 m).
[2] See Note 5.3 to the consolidated financial statements for further detail.

5. Consolidated statement of changes in equity

No. 069

in € millions	Share capital	Capital Reserves	Other Reserves	Accumulated other comprehensive income (loss)				Subtotal	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve			
Balance as at January 01, 2014	**500**	**0**	**-2,031**	**-249**	**-5**	**0**	**-238**	**-2,023**	**57**	**-1,966**
Net income			654					654	8	662
Other comprehensive income (loss)				140	-70	1	-316	-245	7	-238
Total comprehensive income (loss) for the period	**0**	**0**	**654**	**140**	**-70**	**1**	**-316**	**409**	**15**	**424**
Transactions with shareholders										
Issuance of new shares	100	1,600						1,700		1,700
Capital contribution			101					101	0	101
Dividends			0					0	-1	-1
Total amount of transactions with shareholders	**100**	**1,600**	**101**					**1,801**	**-1**	**1,800**
Balance as at December 31, 2014	**600**	**1,600**	**-1,276**	**-109**	**-75**	**1**	**-554**	**187**	**71**	**258**
Balance as at January 01, 2015	**600**	**1,600**	**-1,276**	**-109**	**-75**	**1**	**-554**	**187**	**71**	**258**
Net income			591					591	14	605
Other comprehensive income (loss)				30	46	-1	63	138	4	142
Total comprehensive income (loss) for the period	**0**	**0**	**591**	**30**	**46**	**-1**	**63**	**729**	**18**	**747**
Transactions with shareholders										
Issuance of new shares	66	748						814		814
Capital contribution	0	0	0					0	0	0
Dividends			-250					-250	-1	-251
Total amount of transactions with shareholders	**66**	**748**	**-250**					**564**	**-1**	**563**
Balance as at December 31, 2015	**666**	**2,348**	**-935**	**-79**	**-29**	**0**	**-491**	**1,480**	**88**	**1,568**

See Note 4.8 to the consolidated financial statements for further detail.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 070

	Automotive		Industrial		Total	
	01/01-12/31		01/01-12/31		01/01-12/31	
in € millions	2015	2014	2015	2014	2015	2014
Revenue	9,993	8,986	3,233	3,138	13,226	12,124
Cost of sales	-7,189	-6,501	-2,259	-2,207	-9,448	-8,708
Gross profit	2,804	2,485	974	931	3,778	3,416
EBIT	1,124	1,238	278	285	1,402	1,523
• in % of revenue	11.2	13.8	8.6	9.1	10.6	12.6
Depreciation, amortization and impairments	-507	-453	-187	-196	694	649
Inventories [1]	1,107	1,019	705	694	1,812	1,713
Trade receivables [1]	1,556	1,389	467	511	2,023	1,900
Property, plant and equipment [1]	3,164	2,749	1,016	999	4,180	3,748
Additions to intangible assets and property, plant and equipment	916	755	202	188	1,118	943

Prior year information presented based on 2015 segment structure.
[1] Amounts as at 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 publicly listed corporation domiciled in Germany with its registered office located at Industriestraße 1 – 3, 91074 Herzogenaurach. The company was founded on April 19, 1982 and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2015 comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). The Schaeffler Group is a leading global integrated automotive and industrial supplier.

1.2 Basis of preparation

In accordance with section 315a (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2015 have been prepared 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. 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 also prepared based on these standards.

General presentation
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 consolidated statement of financial position is classified using the current/non-current distinction. The Schaeffler 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 Schaeffler is contractually required or has a constructive obligation to settle them within twelve months after the end of the reporting period.

Since the beginning of 2015, expenses of the purchasing function and quality assurance expenses are reported as cost of sales in their entirety. Comparative figures for 2014 for cost of sales (increase of EUR -54 m), research and development expenses (decrease of EUR 4 m), selling expenses (decrease of EUR 8 m), and administrative expenses (decrease of EUR 42 m) were adjusted retrospectively. The Schaeffler Group considers the amended presentation to provide more accurate information.

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 significant issues are subject to estimation uncertainty with respect to the application of accounting policies and management judgment:

- 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,
- assessment of the recoverability of deferred tax assets, and
- share-based payment.

Except for the provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014 and the measurement of defined benefit pension obligations, changes in assumptions made in the past and the resolution of previously existing uncertainties related to the above items did not have a significant impact in 2015. 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 4.10).

1.3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements.

Consolidation principles
All significant domestic and foreign subsidiaries of the Schaeffler Group have been consolidated in the company's consolidated financial statements. Subsidiaries are entities directly or indirectly controlled by Schaeffler AG. Control generally exists if Schaeffler 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 Schaeffler 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 Schaeffler 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 interests' proportionate share of the fair value of assets acquired and liabilities assumed (partial goodwill method).

Balances and transactions with consolidated subsidiaries and any related income and expenses are eliminated in full 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, 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 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 Schaeffler Group presents its financial statements in Euros, Schaeffler AG'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 the weighted average exchange rate for the period 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 Schaeffler Group's operations is 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 Schaeffler,
- the costs associated with the transaction can be measured reliably,
- Schaeffler 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,
- 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 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.

Earnings per share

Earnings per share are calculated by dividing net income attributable to Schaeffler AG's shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.

As required by IAS 33, newly issued shares were reflected in the calculation of the average number of shares outstanding on a pro rata temporis basis from the date they were entered in the Commercial Register. However, as these new shares are entitled to profits for the full year, consolidated net income attributable to the new shares was included in full. In addition, the average number of shares outstanding and, hence, earnings per share for all periods presented were adjusted retrospectively for the share split and the conversion of common shares to common non-voting shares.

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. 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 Schaeffler Group management. This detailed forecast is based on specific assumptions regarding macroeconomic trends (currency, interest, and commodity price trends), external sales forecasts and internal assessments of demand and projects, sales prices, and the volume of additions to intangible assets and property, plant and equipment. Please refer to the report on expected developments in the management report for further detail. Past trends and historic experience are also used in developing the forecast. 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 at production cost. Intangible assets with a definite useful life are amortized on a straight-line basis over their expected useful lives of three years for software and six years for capitalized development costs. Other intangible assets are tested for impairment when there is an objective indication that the asset may be impaired.

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.

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 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.

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 Schaeffler 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.

The Schaeffler Group initially 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
A financial instrument is defined as 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 accounted for using settlement date accounting.

Primary financial instruments

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.

Schaeffler classifies its financial instruments into the following categories:

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 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, miscellaneous 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 receivables and miscellaneous 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: Schaeffler 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

Schaeffler holds derivative financial instruments to hedge the foreign exchange risk exposures inherent in its assets and liabilities and in future cash flows. In addition, certain of its non-derivative host instruments contain embedded derivatives (such as prepayment options).

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.

At fair value through profit or loss: 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.

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.

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.

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 using the asset and liability method.

Except where 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 reflects these in income tax payables as appropriate, based on amounts expected to be payable to taxation authorities. Potential risks arising from tax audits are covered by a provision.

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 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, net of the related plan assets measured at fair value where applicable. 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 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 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, Schaeffler pays fixed contributions to an independent third party. As the Schaeffler 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, 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 consolidated financial statements provided certain criteria are met.

Provisions are 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.

Share-based payment

The Schaeffler Group's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined using generally accepted financial valuation models. The fair value is recognized as personnel expense over the relevant vesting period and presented under the appropriate functional area.

1.4 New accounting pronouncements

In 2015, 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:

New accounting pronouncements – initially applied in 2015 No. 071

Standard	Effective date	Subject of Standard/Interpretation or amendment
Annual Improvements to IFRS 2011-2013	01/01/2015	Various improvements to IFRS 1, IFRS 3, IFRS 13, and IAS 40

The amendments contained in Annual Improvements 2011-2013 do not affect the Schaeffler Group's financial reports.

The Schaeffler 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 2015, and none were adopted early.

New accounting pronouncements – endorsed by the EU but not yet effective No. 072

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Annual Improvements 2010-2012		02/01/2015	Various improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38	none
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	02/01/2015	Amendments to accounting for contributions from employees or third parties	none
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 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 aquisitions of joint operations	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 Schaeffler Group management. None of these were adopted early.

New accounting pronouncements – not yet endorsed by the EU No. 073

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	-	Clarification of accounting for gains and losses on transactions between an investor and its associate or joint venture	none
Amendments to IAS 7	Statement of Cash Flows	01/01/2017	Improved disclosures about an entity's debt	Scope of disclosures related to statement of cash flows
Amendments to IAS 12	Recognition of Deferred Tax Assets	01/01/2017	Clarification that decreases below cost in the carrying amount of debt instruments measured at fair value resulting from a change in market interest rates give rise to deductible temporary differences	none
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]
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Principles of recognition of revenue from contracts with customers	Revenue recognition [1]
IFRS 16	Leases	01/01/2019	Capitalization of all leasing arrangements with few exceptions	Under examination [1]

[1] Detailed statements regarding the extent of the impact are not yet possible.

2. Principles of consolidation

2.1 Scope of consolidation

In 2015, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 153 (prior year: 155) subsidiaries; 51 (prior year: 53) entities are domiciled in Germany and 102 (prior year: 102) in other countries.

The scope of consolidation of Schaeffler AG did not change significantly compared to December 31, 2014 with respect to the consolidated financial statements of the Schaeffler Group.

In the consolidated financial statements as at December 31, 2015, five (prior year: five) investments (including two joint ventures; prior year: two) are accounted for at equity.

Please refer to Note 5.10 for further detail on the Schaeffler Group's companies.

3. Notes to the consolidated income statement

3.1 Revenue

Revenue No. 074

in € millions	2015	2014
Revenue from the sale of goods	13,044	11,962
Other revenue	182	162
Total	**13,226**	**12,124**

Other revenue primarily includes EUR 92 m (prior year: EUR 88 m) in revenue from services as well as EUR 86 m (prior year: EUR 72 m) from the sale of tools and machines constructed by the company.

3.2 Other income

Other income No. 075

in € millions	2015	2014
Gains on disposal of assets	23	1
Miscellaneous income	34	48
Total	**57**	**49**

3.3 Other expenses

Other expenses No. 076

in € millions	2015	2014
Exchange losses	40	0
Miscellaneous expenses	346	89
Total	**386**	**89**

Foreign exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2015, netting foreign exchange gains and losses resulted in a net exchange loss (prior year: gain).

The increase in **miscellaneous other expenses** compared to the prior year resulted primarily from a provision of EUR 238 m recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March of 2014 and expenses related to the realignment of the Industrial division ("CORE" program) of EUR 36 m.

3.4 Personnel expense and headcount

Average number of employees by region No. 077

	2015	2014
Europe	58,496	56,755
Americas	12,662	12,200
Greater China	10,037	9,121
Asia/Pacific	2,735	2,692
Total	**83,930**	**80,768**

The number of employees at December 31, 2015 was 84,198, 2.3 % higher than the prior year level of 82,294.

The Schaeffler Group's personnel expense can be analyzed as follows:

Personnel expense No. 078

in € millions	2015	2014
Wages and salaries	3,253	2,934
Social security contributions	621	564
Other personnel expense	116	81
Total	**3,990**	**3,579**

The increase in personnel expense in 2015 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

Schaeffler Group financial result No. 079

	2015		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt	-513	0	-513
Interest income on shareholder loans	0	72	72
Foreign exchange gains and losses	-224	0	-224
Fair value changes and compensation payments on derivatives	6	228	234
Fair value changes on embedded derivatives	-96	17	-79
Interest income and expense on pensions and partial retirement obligations	-42	0	-42
Other	-5	10	5
Total	**-874**	**327**	**-547**

	2014		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt	-488	0	-488
Interest income on shareholder loans	0	4	4
Foreign exchange gains and losses	-244	0	-244
Fair value changes and compensation payments on derivatives	-5	231	226
Fair value changes on embedded derivatives	-66	11	-55
Interest income and expense on pensions and partial retirement obligations	-51	0	-51
Other	-21	10	-11
Total	**-875**	**256**	**-619**

Interest expense on financial debt of EUR 513 m for 2015 (prior year: EUR 488 m) includes interest of EUR 296 m (prior year: EUR 320 m) paid and accrued on the group's external financing arrangements, prepayment penalties of EUR 173 m (prior year: EUR 114 m) for the redemption of bonds, and EUR 44 m (prior year: EUR 44 m) in amortization of transaction costs, including those incurred in connection with past refinancing transactions.

Interest income on loans to shareholders amounted to EUR 72 m (prior year: EUR 4 m) and resulted from the loans granted in December 2014 and primarily receivable from Schaeffler Verwaltung Zwei GmbH in 2015.

Foreign exchange losses on financial assets and liabilities amounted to EUR 224 m (prior year: EUR 244 m) and resulted primarily from translating financing instruments denominated in U.S. Dollar to Euro (see Note 1.3 to the consolidated financial statements). The company has hedged this financial debt using cross-currency derivatives and reports the resulting offsetting impact of EUR 234 m (prior year: ERU 226 m) under **fair value changes and compensation payments on derivatives**.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 79 m (prior year: EUR 55 m).

Pensions and partial retirement obligations gave rise to net interest expense of EUR 42 m (prior year: EUR 51 m). See Note 4.10 to the consolidated financial statements for additional details on pensions.

3.6 Income taxes

Income taxes No. 080

in € millions	2015	2014
Current income taxes	287	332
Deferred income taxes	-37	-90
Income taxes	**250**	**242**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2015.

The average domestic tax rate was 28.4 % in 2015 (prior year: 28.3 %). 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 12.5 % (prior year: 12.4 %).

The current income tax benefit related to prior years amounted to EUR 24 m (prior year: EUR 32 m) in 2015. Schaeffler incurred EUR 17 m in deferred tax expense related to prior years (prior year: EUR 11 m) in 2015.

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 2015 is based on the Schaeffler Group's 28.4 % (prior year: 28.3 %) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation No. 081

in € millions	2015	2014
Net income before tax	855	904
Expected tax expense	**243**	**256**
Addition/reduction due to deviating local tax bases	7	8
Foreign/domestic tax rate differences	-14	-4
Change in tax rate and law	-1	0
Non-recognition of deferred tax assets	-1	-6
Tax credits and other tax benefits	-6	-12
Non-deductible expenses	26	29
Taxes for previous years	-7	-21
Other	3	-8
Reported tax expense	**250**	**242**

Deviations from the expected tax rate represents the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-deductible expenses include non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries.

3.7 Earnings per share

Earnings per share No. 082

in € millions	2015	2014
Net income	605	662
Net income attributable to shareholders of the parent company	591	654
Earnings attributable to common shares (basic/diluted)	442	545
Earnings attributable to common non-voting shares (basic/diluted)	149	109
Average number of common shares issued in millions	500	421
Average number of common non-voting shares issued in millions	116	84
Earnings per common share (basic/diluted, in €)	0.88	1.29
Earnings per common non-voting share (basic/diluted, in €)	1.28	1.29

There were no dilutive items at December 31, 2015 or in the prior year. Diluted earnings per share equal basic earnings per share.

Schaeffler AG's share capital amounted to EUR 666 m at December 31, 2015 (prior year: EUR 600 m) and was divided into 500 million common shares (prior year: 60 million) and 166 million common non-voting shares (prior year: 0 million). The change in the components of share capital is the result of the following resolutions amending the company's articles of incorporation passed by the extraordinary shareholder meeting of Schaeffler AG on September 08, 2015:

- Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by ten no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). Thus, share capital was re-divided into 600 million registered no-par-value shares.
- The company's shares, which previously represented registered shares, were converted to bearer shares.
- The 10 million (100 million following the share split) common shares held by Schaeffler Verwaltungs GmbH were converted to common non-voting no-par-value bearer shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.
- Schaeffler AG increased its share capital by EUR 66 m from EUR 600 m to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares, each representing an interest in share capital of EUR 1.00, in return for cash. The common non-voting shares carry dividend rights from January 01, 2015. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.

The resolutions passed by the extraordinary shareholder meeting on September 08, 2015 became legally effective when they were entered into the Commercial Register on October 05, 2015.

The 66 million new common non-voting bearer shares were included in the calculation of earnings per share starting on the date they were entered in the Commercial Register. In addition, the average number of shares outstanding and, hence, earnings per share for all periods presented were adjusted retrospectively for the share split and the conversion of common shares to common non-voting shares in accordance with IAS 33. The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 421 million) and 116 million (prior year: 84 million), respectively.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

Intangible assets — No. 083

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2014	**483**	**1,008**	**244**	**1,735**
Additions	0	19	31	50
Disposals	0	-3	0	-3
Transfers	0	0	0	0
Foreign currency translation	0	5	0	5
Balance as at December 31, 2014	**483**	**1,029**	**275**	**1,787**
Balance as at January 01, 2015	483	1,029	275	1,787
Additions	0	47	23	70
Disposals	0	-9	-12	-21
Transfers	0	2	6	8
Foreign currency translation	0	3	1	4
Balance as at December 31, 2015	483	1,072	293	1,848
Accumulated amortization and impairment losses				
Balance as at January 01, 2014	**0**	**985**	**212**	**1,197**
Amortization	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**
Balance as at January 01, 2015	0	1,001	231	1,232
Amortization	0	16	15	31
Disposals	0	-7	0	-7
Foreign currency translation	0	3	0	3
Balance as at December 31, 2015	0	1,013	246	1,259
Net carrying amounts				
As at January 01, 2014	**483**	**23**	**32**	**538**
As at December 31, 2014	**483**	**28**	**44**	**555**
As at January 01, 2015	483	28	44	555
As at December 31, 2015	483	59	47	589

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 Schaeffler Group tests its goodwill for impairment at least annually using the approach described in Note 1.3.

For purposes of determining recoverable amount, cash flows beyond the detailed forecasting horizon of 2018 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, Schaeffler uses an assumed pre-tax interest rate of 13.3 % (prior year: 13.7 %) as the weighted average cost of capital for the Automotive segment and 13.5 % (prior year: 13.8 %) for the Industrial segment. This corresponds to a post-tax interest rate of 9.4 % for the Automotive segment (prior year: 9.7 %) and 9.4 % for the Industrial segment (prior year: 9.7 %).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2015 and the prior year, they were not impaired.

Internally generated intangible assets consist largely of development costs of EUR 37 m (prior year: EUR 29 m), including EUR 5 m (prior year: EUR 26 m) in assets not yet available for use that were not yet subject to amortization.

Amortization of intangible assets totaled EUR 31 m (prior year: EUR 33 m) and was recognized in the following line items in the consolidated income statement: cost of sales EUR 5 m (prior year: EUR 9 m), research and development expenses EUR 4 m (prior year: EUR 5 m), selling expenses EUR 2 m (prior year: EUR 2 m), and administrative expenses EUR 20 m (prior year: EUR 17 m).

4.2 Property, plant and equipment

Property, plant and equipment No. 084

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2014	**2,209**	**6,650**	**891**	**389**	**10,139**
Additions	21	351	82	439	893
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**
Balance as at January 01, 2015	**2,336**	**7,254**	**970**	**543**	**11,103**
Additions	43	391	83	531	1,048
Disposals	-15	-185	-44	-2	-246
Transfers	56	322	32	-418	-8
Foreign currency translation	28	54	9	9	100
Balance as at December 31, 2015	**2,448**	**7,836**	**1,050**	**663**	**11,997**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2014	**1,115**	**4,932**	**718**	**5**	**6,770**
Depreciation	75	469	70	0	614
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**
Balance as at January 01, 2015	**1,209**	**5,373**	**768**	**5**	**7,355**
Depreciation	79	510	74	0	663
Impairments	0	0	0	0	0
Disposals	-9	-178	-43	-1	-231
Transfers	0	0	0	0	0
Foreign currency translation	11	14	6	-1	30
Balance as at December 31, 2015	**1,290**	**5,719**	**805**	**3**	**7,817**
Net carrying amounts					
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**
As at January 01, 2015	**1,127**	**1,881**	**202**	**538**	**3,748**
As at December 31, 2015	**1,158**	**2,117**	**245**	**660**	**4,180**

At December 31, 2015, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 352 m (prior year: EUR 262 m).

4.3 Deferred tax assets and liabilities and income tax receivables and payables

Deferred tax assets and liabilities

The following items gave rise to recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities No. 085

	12/31/2015		12/31/2014	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	4	-22	3	-18
Property, plant and equipment	94	-156	88	-147
Financial assets	1	-15	1	-32
Inventories	98	-6	78	-5
Trade receivables and other assets	51	-146	42	-137
Provisions for pensions and similar obligations	328	-30	378	-60
Other provisions and other liabilities	219	-87	219	-108
Interest- and loss carryforwards	45	0	53	0
Other	0	0	1	-7
Deferred taxes (gross)	**840**	**-462**	**863**	**-514**
Netting	-355	355	-408	408
Deferred taxes, net	**485**	**-107**	**455**	**-106**

The group had gross carryforwards under the interest deduction cap of EUR 103 m (prior year: EUR 135 m) at the end of the reporting period. The decrease in interest carryforwards was primarily the result of an adjustment related to prior years.

The company has recognized deferred tax assets on all interest carryforwards.

At December 31, 2015, the Schaeffler Group had gross loss carryforwards of EUR 115 m (prior year: EUR 120 m) for corporation tax and EUR 6 m (prior year: EUR 38 m) for trade tax, including EUR 66 m (prior year: EUR 79 m) in corporation tax losses and EUR 6 m (prior year: EUR 12 m) in trade tax losses for which no deferred taxes have been recognized.

The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 8 m (prior year: EUR 6 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

No deferred taxes have been recognized on EUR 1,717 m (prior year: EUR 1,348 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 18 m (prior year: EUR 29 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2015, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 259 m (prior year: EUR 272 m) and mainly related to hedges of net investments in foreign operations, changes in the fair value of derivatives designated as hedging instruments, as well as remeasurements of pensions and similar obligations.

Income tax receivables and payables

At December 31, 2015, income tax receivables amounted to EUR 78 m (prior year: EUR 50 m), including non-current balances of EUR 4 m (prior year: EUR 8 m).

At December 31, 2015, income tax payables amounted to EUR 322 m (prior year: EUR 392 m), including non-current balances of EUR 210 m (prior year: EUR 237 m). The decrease in income tax payables was primarily the result of additional income tax installments Schaeffler paid on a voluntary basis for prior assessment periods.

4.4 Inventories

Inventories No. 086

in € millions	12/31/2015	12/31/2014
Raw materials and supplies	343	317
Work in progress	452	431
Finished goods and merchandise	1,015	960
Advance payments	2	5
Total	1,812	1,713

EUR 9,319 m (prior year: EUR 8,523 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2015.

Write-downs of inventories recognized in 2015 amounted to EUR 234 m (prior year: EUR 209 m).

4.5 Trade receivables

Trade receivables No. 087

in € millions	12/31/2015	12/31/2014
Trade receivables (gross)	2,051	**1,924**
Impairment allowances	-28	-24
Trade receivables (net)	2,023	**1,900**

Movements in impairment allowances on these trade receivables can be reconciled as follows:

Impairment allowances on trade receivables No. 088

in € millions	2015	2014
Impairment allowances as at January 01	-24	**-23**
Additions	-9	-6
Allowances used to cover write-offs	2	0
Reversals	3	5
Impairment allowances as at December 31	-28	**-24**

Trade receivables past due were as follows:

Trade receivables past due No. 089

in € millions		12/31/2015	12/31/2014
Carrying amount		2,023	**1,900**
Not past due		1,884	**1,767**
Past due	up to 60 days	117	122
	61 - 120 days	12	7
	121 - 180 days	3	1
	181 - 360 days	5	2
	> 360 days	2	1

At December 31, 2015, trade receivables of EUR 999 m (prior year: EUR 940 m) were pledged as collateral under loan and bond agreements.

The Schaeffler Group's exposure to currency and liquidity risk related to trade receivables is disclosed in Note 4.13.

4.6 Other financial assets and other assets

Other financial assets (current/non-current) No. 090

in € millions	12/31/2015 Non-current	12/31/2015 Current	12/31/2015 Total	12/31/2014 Non-current	12/31/2014 Current	12/31/2014 Total
Other financial assets						
Loans receivable and financial receivables	1,775	0	1,775	1,701	271	1,972
Derivative financial assets	309	53	362	244	25	269
Miscellaneous financial assets	39	70	109	33	47	80
Total	**2,123**	**123**	**2,246**	**1,978**	**343**	**2,321**

Non-current **loans receivable and financial receivables** consisted primarily of EUR 1,773 m in loans receivable from the company's shareholder Schaeffler Verwaltung Zwei GmbH. In the prior year, these loans totaled EUR 1,700 m and were receivable from Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG. The loans resulted from the capital increase by way of a contribution in kind completed as part of the realignment of the Schaeffler Group's group structure in 2014. Both loans mature in December 2024 and bore interest at 4.0 % p.a. in 2015.

In 2015, EUR 197 m of the loans was prepaid voluntarily and a current receivable related to the cash pool function was converted to a long-term loan to Schaeffler Verwaltung Zwei GmbH of EUR 270 m, giving rise to the change in 2015.

It was agreed that shares in Continental AG with a market value (reference XETRA, August 31, 2015) 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 were held by Schaeffler Verwaltung Zwei GmbH at December 31, 2015.

Please refer to Note 5.5 for further detail.

At December 31, 2015, 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 Schaeffler Group uses to hedge currency risk.

Current **miscellaneous other financial assets** consisted largely of accrued interest.

At December 31, 2015, other financial assets of EUR 2,081 m were pledged as collateral under loan- and bond agreements (prior year: EUR 2,099 m).

The Schaeffler Group's exposure to currency and liquidity risk related to other financial assets is disclosed in Note 4.13 on financial instruments.

Other assets (current/non-current) No. 091

		12/31/2015			12/31/2014	
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other assets						
Pension asset	34	0	34	36	0	36
Tax receivables	1	175	176	1	145	146
Miscellaneous assets	22	36	58	21	36	57
Total	**57**	**211**	**268**	**58**	**181**	**239**

Tax receivables consisted predominantly of value-added tax refunds receivable.

The majority of **miscellaneous other assets** represented the current and non-current portions of prepaid assets and deferred charges.

At December 31, 2015, other assets of EUR 1 m were pledged as collateral under loan and bond agreements (prior year: EUR 3 m).

4.7 Cash and cash equivalents

At December 31, 2015, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 198 m (prior year: EUR 172 m) held by subsidiaries in Argentina, Brazil, Chile, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Taiwan, Thailand, Venezuela, and Vietnam and other countries. These subsidiaries are subject to exchange restrictions and other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

At the end of the reporting period, cash and cash equivalents of EUR 449 m (prior year: EUR 296 m) were pledged as collateral under loan- and bond agreements.

4.8 Shareholders' equity

Shareholders' equity No. 092

in € millions	12/31/2015	12/31/2014
Share capital	666	600
Capital reserves	2,348	1,600
Other reserves	-935	-1,276
Accumulated other comprehensive income (loss)	-599	-737
Equity attributable to shareholders of the parent company	**1,480**	**187**
Non-controlling interests	88	71
Total shareholders' equity	**1,568**	**258**

The extraordinary shareholder meeting of Schaeffler AG on September 08, 2015 passed resolutions to amend the company's articles of incorporation as follows:

- Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by ten no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). Thus, share capital was re-divided into 600 million registered no-par-value shares.
- The company's shares, which previously represented registered shares, were converted to bearer shares.
- The 10 million (100 million following the share split) common shares held by Schaeffler Verwaltungs GmbH were converted to common non-voting no-par-value bearer shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.
- Schaeffler AG increased its share capital by EUR 66 m from EUR 600 m to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares, each representing an interest in share capital of EUR 1.00, in return for cash. The common non-voting shares carry dividend rights from January 01, 2015. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share. The subscription rights of Schaeffler Verwaltungs GmbH and Schaeffler Verwaltung Zwei GmbH were excluded.

The resolutions became legally effective when they were entered into the Commercial Register on October 05, 2015.

As a result, Schaeffler AG's **share capital** amounted to EUR 666 m at December 31, 2015 and was divided into 500 million common shares and 166 million common non-voting shares. The common shares are held by Schaeffler Verwaltung Zwei GmbH. 94,350,774 of the common non-voting shares are held by Schaeffler Verwaltungs GmbH and 71,649,226 are widely held. Share capital is fully paid up and Schaeffler AG had no authorized or contingent capital or any resolutions with respect to these types of capital as at December 31, 2015.

At December 31, 2015, **capital reserves** amounted to EUR 2,348 m. The increase of EUR 748 m was the result of the capital increase in October 2015, which resulted in additional paid-in capital of EUR 759 m pre-tax, partially offset by EUR 11 m in transaction costs charged to shareholders equity (net of tax of EUR 4 m).

The change in **other reserves** in 2015 was attributable to consolidated net income and the dividends.

Distributions to shareholders are limited to Schaeffler AG's retained earnings, as determined in accordance with German commercial law. For 2015, a dividend of EUR 228 m and a special dividend of EUR 100 m will be proposed to the Schaeffler AG annual general meeting. EUR 83 m of the total dividend relate to the common non-voting shares. This represents a total dividend of EUR 0.50 per common non-voting share and EUR 0.49 per common share. As the proposed dividend is subject to shareholder approval at the annual general meeting, it has not been recognized as a liability in these consolidated financial statements.

Accumulated other comprehensive income mainly consisted of the impact of currency translation, 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.

At December 31, 2015, **non-controlling interests** related primarily to third-party interests in the equity of FAG Bearings India Ltd., India which do not convey control to the holder.

4.9 Current/Non-current financial debt

Financial debt (current/non-current) No. 093

in € millions	12/31/2015 Total	12/31/2015 Due in up to 1 year	12/31/2015 Due in more than 1 year	12/31/2014 Total	12/31/2014 Due in up to 1 year	12/31/2014 Due in more than 1 year
Bank and institutional loans	635	3	632	1,775	1	1,774
Bonds	5,048	0	5,048	4,634	0	4,634
Other financial debt	5	0	5	5	0	5
Financial debt	**5,688**	**3**	**5,685**	**6,414**	**1**	**6,413**

The decrease in financial debt compared to December 31, 2014 resulted primarily from voluntary partial repayments, partially offset by the impact of translating the financial debt denominated in U.S. Dollar to Euro.

In April 2015, Schaeffler Finance B.V. placed three new bond issues with a total principal of approximately EUR 1.5 bn that are listed on the Euro MTF market of the Luxembourg Stock Exchange. The proceeds of the new bond issues were largely used to redeem the two EUR 2017 and USD 2017 series of bonds. In addition, the proceeds of the transaction were also used to finance the related transaction costs, primarily the prepayment penalty for the bonds redeemed.

On June 30, 2015, Schaeffler AG voluntarily partially prepaid a total of approximately EUR 210 m of its institutional loan tranches, paying off EUR 75 m of its Senior Term Loan B EUR and USD 150 m of its Senior Term Loan B USD.

Following the listing, Schaeffler AG used the proceeds of the listing to voluntarily partially prepay a further approximately EUR 821 m of its institutional loan tranches on October 16, 2015, paying off EUR 330 m of its Senior Term Loan B EUR and USD 560 m of its Senior Term Loan B USD.

On November 30, 2015, Schaeffler AG voluntarily partially prepaid a total of approximately EUR 236 m of its institutional loan tranches, paying off EUR 95 m of its Senior Term Loan B EUR and USD 150 m of its Senior Term Loan B USD.

At December 31, 2015, the group's debt consisted of two loan tranches with a total principal equivalent to approximately EUR 654 m obtained from institutional investors (Facilities Agreement), nine bond series totaling the equivalent of approximately EUR 5,075 m and a revolving line of credit with a principal of EUR 1,000 m.

The Facilities Agreement consists of the following loan tranches at December 31, 2015:

Facility agreement loan tranches No. 094

Tranche	Currency	Face value in millions 12/31/2015	Face value in millions 12/31/2014	Carrying amount in € millions 12/31/2015	Carrying amount in € millions 12/31/2014	Coupon 12/31/2015	Coupon 12/31/2014	Maturity
Senior Term Loan B	EUR	250	750	251	757	Euribor + 3.50 % [1]	Euribor + 3.50 % [1]	05/15/2020
Senior Term Loan B	USD	440	1,300	392	1,031	Libor + 3.50 % [2]	Libor + 3.50 % [2]	05/15/2020
Revolving Credit Facility [3]	EUR	1,000	1,000	-11	-14	Euribor + 2.6875 % [4]	Euribor + 2.875 %	10/27/2019
Total				632	**1,774**			

[1] Euribor floor of 0.75 %.
[2] Libor floor of 0.75 %.
[3] EUR 24 m (December 31, 2014: EUR 34 m) were drawn down as at December 31, 2015, primarily in the form of letters of credit.
[4] Since October 16, 2015.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at the end of the reporting period:

Schaeffler Group bonds No. 095

ISIN	Currency	Face value in millions 12/31/2015	Face value in millions 12/31/2014	Carrying amount in € millions 12/31/2015	Carrying amount in € millions 12/31/2014	Cupon	Maturity
XS0923613060	EUR	600	600	597	596	4.25 %	05/15/2018
XS1067864881 [1]	EUR	500	500	497	496	3.25 %	05/15/2019
XS1067862919	EUR	500	500	497	496	2.75 %	05/15/2019
XS1212469966	EUR	400	0	396	0	2.50 %	05/15/2020
US806261AJ29	USD	700	700	637	571	4.25 %	05/15/2021
US806261AE32	USD	850	850	777	696	4.75 %	05/15/2021
XS1067864022	EUR	500	500	499	499	3.50 %	05/15/2022
US806261AM57	USD	600	0	553	0	4.75 %	05/15/2023
XS1212470972	EUR	600	0	595	0	3.25 %	05/15/2025
XS0741938624 [2]	EUR	0	800	0	791	7.75 %	02/15/2017
US806261AC75 [2]	USD	0	600	0	489	7.75 %	02/15/2017
Total				5,048	**4,634**		

[1] Bond is unsecured.
[2] Bonds were redeemed early on April 27, 2015.

The differences between face value and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying value of the revolving credit facility consisted entirely of unamortized transaction costs.

An additional EUR 39 m (prior year: EUR 55 m) in interest accrued on the bonds up to December 31, 2015 are reported in other financial liabilities (see Note 4.12).

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 a senior debt leverage cover and a 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 are disclosed as required in the notes relating to the various assets concerned.

4.10 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler 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. The provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans
The Schaeffler Group's defined benefit plans include pension plans, termination payments mandatorily payable upon retirement regardless of the reason why 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 obligations attributable to Germany.

Germany

In Germany, the company grants pension benefits largely in the form of pension commitments based on pension units as well as under deferred compensation arrangements.

For the significant pension plans, pension benefits in the form of pension units largely result from Schaeffler's Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension unit on eligible income and also contain a minimum guarantee. When the Schaeffler Company Pension Scheme was introduced in 2006, the other pension schemes in Germany were closed to new entrants. Benefits are always paid on an annuity basis. The pension obligations arising from these pension commitments are financed by provisions. Pension benefits are paid out of cash flows from operating activities.

In addition, employees have various deferred compensation arrangements to choose from. Some Schaeffler 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, Schaeffler 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 Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2015, approximately 73 % (prior year: 72 %) of pension obligations in the U.S. and approximately 113 % (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, 2015:

Amounts recognized in the statement of financial position for pensions and similar obligations No. 096

	12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,778	-59	-1	-104	-1,942
Pension asset (plan assets net of related liabilities)	7	0	26	1	34
Net defined benefit liability	**-1,771**	**-59**	**25**	**-103**	**-1,908**

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,819	-63	-7	-95	-1,984
Pension asset (plan assets net of related liabilities)	26	0	10	0	36
Net defined benefit liability	**-1,793**	**-63**	**3**	**-95**	**-1,948**

At the end of the reporting period, the defined benefit obligations and related plan assets amounted to the following:

Analysis of net defined benefit liability No. 097

	12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-1,005	-84	0	-218	-1,307
Present value of defined benefit obligation (deferred members)	-108	-27	-134	-4	-273
Present value of defined benefit obligation (pensioners)	-806	-112	-70	-26	-1,014
Present value of defined benefit obligations (total)	**-1,919**	**-223**	**-204**	**-248**	**-2,594**
Fair value of plan assets	148	164	229	145	686
Net defined benefit liability	**-1,771**	**-59**	**25**	**-103**	**-1,908**

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-1,013	-83	0	-226	-1,322
Present value of defined benefit obligation (deferred members)	-113	-42	-131	-13	-299
Present value of defined benefit obligation (pensioners)	-846	-97	-57	-47	-1,047
Present value of defined benefit obligations (total)	**-1,972**	**-222**	**-188**	**-286**	**-2,668**
Fair value of plan assets	179	159	191	191	720
Net defined benefit liability	**-1,793**	**-63**	**3**	**-95**	**-1,948**

Movements in the net defined pension benefit liability in 2015 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 No. 098

in € millions	2015 Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/asset (+) as at January 01	**-1,793**	**-63**	**3**	**-95**	**-1,948**
Benefits paid	59	0	0	6	65
Service cost	-56	-1	0	-20	-77
Net interest on net defined benefit liability	-38	-2	1	-2	-41
Employer contributions	-4	9	0	10	15
Transfers in/out	-17	-1	17	0	-1
Remeasurement of net defined benefit liability	76	5	5	1	87
Changes in foreign exchange rates	2	-6	-1	-3	-8
Net defined benefit liability (-)/asset (+) as at December 31	**-1,771**	**-59**	**25**	**-103**	**-1,908**

in € millions	2014 Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/asset (+) as at January 01	**-1,362**	**-38**	**3**	**-75**	**-1,472**
Benefits paid	59	0	-1	4	62
Service cost	-30	1	0	-18	-47
Net interest on net defined benefit liability	-47	-2	0	-2	-51
Employer contributions	0	9	0	17	26
Transfers in/out	-16	-1	0	0	-17
Remeasurement of net defined benefit liability	-398	-28	0	-18	-444
Changes in foreign exchange rates	1	-4	1	-3	-5
Net defined benefit liability(-)/asset (+) as at December 31	**-1,793**	**-63**	**3**	**-95**	**-1,948**

The increase in service cost to EUR 77 m (prior year: EUR 47 m) in 2015 was mainly driven by the significant decrease in the discount rate for Germany as at December 31, 2014 to 2.1 % from 3.5 % as at the end of 2013. The reason is as follows: The decrease in the discount rate increases the settlement amount of the defined benefit plans, resulting in higher service cost than in the prior year.

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:

Reconciliation of present value of defined benefit obligation January 01/December 31 — No. 099

					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,972**	**-222**	**-188**	**-286**	**-2,668**
Benefits paid	63	10	18	16	107
Current service cost	-56	-2	0	-17	-75
Past service cost	0	0	0	-5	-5
Interest cost	-41	-9	-8	-8	-66
Employee contributions	-10	-1	0	-1	-12
Transfers in/out	28	0	-28	0	0
Settlements paid	0	9	0	55	64
Gains (+) / losses (-) on settlements	0	1	0	2	3
Gains (+) / losses (-) - changes in financial assumptions	72	8	7	5	92
Gains (+) / losses (-) - changes in demographic assumptions	0	4	7	0	11
Gains (+) / losses (-) - experience adjustments	-1	4	-1	-5	-3
Changes in foreign exchange rates	-2	-25	-11	-4	-42
Present value of defined benefit obligations as at December 31	**-1,919**	**-223**	**-204**	**-248**	**-2,594**

					2014
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,501**	**-165**	**-153**	**-222**	**-2,041**
Benefits paid	62	8	6	10	86
Current service cost	-30	0	0	-13	-43
Past service cost	0	0	0	-5	-5
Interest cost	-52	-8	-7	-8	-75
Employee contributions	-8	-1	0	-1	-10
Transfers in/out	-39	0	0	0	-39
Settlements paid	0	3	0	0	3
Gains (+) / losses (-) on settlements	0	1	0	0	1
Gains (+) / losses (-) - changes in financial assumptions	-401	-23	-24	-36	-484
Gains (+) / losses (-) - changes in demographic assumptions	0	-14	0	-3	-17
Gains (+) / losses (-) - experience adjustments	-2	-1	0	2	-1
Changes in foreign exchange rates	-1	-22	-10	-10	-43
Present value of defined benefit obligations as at December 31	**-1,972**	**-222**	**-188**	**-286**	**-2,668**

Settlements paid in 2015 relate primarily to changes made to the legal structure of the pension plans in the Netherlands. As a result of these changes, these pension plans will be accounted for as defined contribution plans in the future. As the benefit obligation was largely funded at the time of the change, there was no material settlement gain or loss.

Movements in and types of plan assets
The opening and closing balances of the fair value of plan assets can be reconciled as follows:

Reconciliation of fair value of plan assets January 01/December 31 No. 100

					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**179**	**159**	**191**	**191**	**720**
Benefits paid	-4	-10	-18	-10	-42
Interest income on plan assets	3	7	9	6	25
Employee contributions	10	1	0	1	12
Employer contributions	-4	9	0	10	15
Transfers in/out	-45	-1	45	0	-1
Settlements paid	0	-9	0	-55	-64
Return on plan assets excluding interest income	5	-11	-8	1	-13
Changes in foreign exchange rates	4	19	10	1	34
Fair value of plan assets as at December 31	**148**	**164**	**229**	**145**	**686**

					2014
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**139**	**127**	**156**	**150**	**572**
Benefits paid	-3	-8	-7	-6	-24
Interest income on plan assets	5	6	7	6	24
Employee contributions	8	1	0	1	10
Employer contributions	0	9	0	17	26
Transfers in/out	23	-1	0	0	22
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	**179**	**159**	**191**	**191**	**720**

The Schaeffler Group expects to make contributions to plan assets of EUR 25 m in 2016, including EUR 1 m in the U.S. and EUR 24 m in other countries.

Negative employer contributions represent refunds of additional contributions made in the past to cover temporary shortfalls.

Plan assets consisted of the following:

Classes of plan assets No. 101

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2015
Equity instruments	79	66	62	18	225
Debt instruments	24	97	49	106	276
Real estate	0	0	26	14	40
Cash	20	1	2	1	24
(Reimbursement) insurance policies	25	0	0	6	31
Mixed funds	0	0	90	0	90
Total	**148**	**164**	**229**	**145**	**686**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2014
Equity instruments	93	63	46	19	221
Debt instruments	33	96	38	101	268
Real estate	0	0	0	12	12
Cash	6	0	1	2	9
(Reimbursement) insurance policies	25	0	0	57	82
Mixed funds	22	0	106	0	128
Total	**179**	**159**	**191**	**191**	**720**

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 for the funded defined benefit plans in the United Kingdom and in the U.S. at regular intervals, 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:

Comprehensive income related to defined benefit pension plans No. 102

					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	56	2	0	17	75
Past service cost	0	0	0	5	5
• plan amendments	0	0	0	5	5
Gains (-)/losses (+) on settlements	0	-1	0	-2	-3
Service cost	**56**	**1**	**0**	**20**	**77**
Interest cost	41	9	8	8	66
Interest income	-3	-7	-9	-6	-25
Net interest on net defined benefit liability/asset	**38**	**2**	**-1**	**2**	**41**
Gains (-)/losses (+) - changes in financial assumptions	-72	-8	-7	-5	-92
Gains (-)/losses (+) - changes in demographic assumptions	0	-4	-7	0	-11
Gains (-)/losses (+) - experience adjustments	1	-4	1	5	3
Return on plan assets excluding interest income	-5	11	8	-1	13
Remeasurements of net defined benefit liability/asset	**-76**	**-5**	**-5**	**-1**	**-87**
Total comprehensive income on defined benefit obligations	**18**	**-2**	**-6**	**21**	**31**

					2014
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	30	0	0	13	43
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	**30**	**-1**	**0**	**18**	**47**
Interest cost	52	8	7	8	75
Interest income	-5	-6	-7	-6	-24
Net interest on net defined benefit liability/asset	**47**	**2**	**0**	**2**	**51**
Gains (-)/losses (+) - changes in financial assumptions	401	23	24	36	484
Gains (-)/losses (+) - changes in demographic assumptions	0	14	0	3	17
Gains (-)/losses (+) - experience adjustments	2	1	0	-2	1
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	**398**	**28**	**0**	**18**	**444**
Total comprehensive income on defined benefit obligations	**475**	**29**	**0**	**38**	**542**

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

Net pension expense in the income statement No. 103

					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	31	-1	0	16	46
Research and development expenses	10	0	0	1	11
Selling expenses	4	0	0	2	6
Administrative expenses	11	2	0	1	14
Included in EBIT	**56**	**1**	**0**	**20**	**77**
Interest expense	41	9	8	8	66
Interest income on plan assets	-3	-7	-9	-6	-25
Included in financial result	**38**	**2**	**-1**	**2**	**41**
Total	**94**	**3**	**-1**	**22**	**118**

					2014
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	18	-1	0	14	31
Research and development expenses	6	0	0	1	7
Selling expenses	2	0	0	2	4
Administrative expenses	4	0	0	1	5
Included in EBIT	**30**	**-1**	**0**	**18**	**47**
Interest expense	52	8	7	8	75
Interest income on plan assets	-5	-6	-7	-6	-24
Included in financial result	**47**	**2**	**0**	**2**	**51**
Total	**77**	**1**	**0**	**20**	**98**

Duration

The weighted average duration of defined benefit obligations is 18.1 years (prior year: 18.7 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 18.6 years (prior year: 19.2 years), 12.1 years (prior year: 13.1 years), and 24.9 years (prior year: 25.5 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 weighted averages of the principal actuarial assumptions for the Schaeffler Group are as follows:

Actuarial assumptions No. 104

					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	2.3 %	4.2 %	4.1 %	2.6 %	2.6 %
Future salary increases	3.3 %	n.a. [1]	n.a. [1]	3,2 %	3.3 %
Future pension increases	1.8 %	2.5 %	3.2 %	0.3 %	1.9 %

					2014
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
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 %

[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 specifically include appropriate assumptions to take into account future increases in life expectancy.

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.

Sensitivity analysis of present value of defined benefit obligation No. 105

						2015
in € millions		Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0 %	-296	-25	-42	-29	-392
	Minus 1.0 %	408	30	58	35	531
Future salary increases	Plus 1.0 %	41	n.a. [1]	n.a. [1]	19	60
	Minus 1.0 %	-36	n.a. [1]	n.a. [1]	-17	-53
Future pension increases	Plus 1.0 %	199	0	25	5	229
	Minus 1.0 %	-166	0	-21	-2	-189

						2014
in € millions		Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0 %	-311	-26	-41	-37	-415
	Minus 1.0 %	426	32	57	46	561
Future salary increases	Plus 1.0 %	44	n.a. [1]	n.a. [1]	18	62
	Minus 1.0 %	-38	n.a. [1]	n.a. [1]	-16	-54
Future pension increases	Plus 1.0 %	215	0	24	16	255
	Minus 1.0 %	-179	0	-20	-10	-209

[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 90 m (prior year: EUR 94 m) in Germany, EUR 6 m (prior year: EUR 7 m) in the U.S., and EUR 7 m (prior year: EUR 7 m) in the United Kingdom.

As in the prior year, the above sensitivities were calculated using the same method as for the present value of the pension obligations as at the balance sheet date. The sensitivities presented above do not take into account interaction between assumptions; rather, the analysis assumes that each assumption changes separately. In practice, this would be unusual, as assumptions are frequently correlated.

Risk and risk management
The existing defined benefit plans expose the Schaeffler Group to the usual actuarial risks.

The existing plan assets are managed independently on a decentralized basis in the various countries.

Defined contribution pension plans
In 2015, Schaeffler incurred EUR 18 m (prior year: EUR 10 m) in expenses related to defined contribution plans. At EUR 12 m (prior year: EUR 6 m), the majority of this amount relates to plans in the U.S.

4.11 Provisions

Provisions No. 106

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2015	**96**	**0**	**64**	**30**	**112**	**302**
Additions	37	42	52	5	299	435
Utilization	-30	0	-28	-11	-39	-108
Reversals	0	0	-7	-2	-10	-19
Interest expense	0	0	0	0	0	0
Foreign currency translation	0	0	2	0	1	3
Balance as at December 31, 2015	**103**	**42**	**83**	**22**	**363**	**613**

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

Provisions (current/non-current) No. 107

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	43	60	103	55	41	96
Restructuring	28	14	42	0	0	0
Warranties	0	83	83	0	64	64
Other taxes	0	22	22	0	30	30
Other	111	252	363	15	97	112
Total	**182**	**431**	**613**	**70**	**232**	**302**

Provisions for employee benefits consisted primarily of EUR 54 m (prior year: EUR 50 m) in provisions for long-time service awards and partial retirement programs and EUR 23 m (prior year: EUR 25 m) in provisions for personnel-related structural measures at the Schweinfurt and Wuppertal locations.

Restructuring provisions primarily included provisions of EUR 36 m related to the realignment of the Industrial division ("CORE" program). Estimating future restructuring costs is subject to significant uncertainty, particularly because it requires making assumptions about future costs on the basis of historical experience and the expected duration of restructuring measures.

Provisions for other taxes primarily comprised land transfer tax related to internal reorganizations of the group structure.

The increase in **other provisions** is primarily attributable to a provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. Non-current provisions include EUR 95 m of this provision and EUR 143 m is included in current provisions. Estimating future costs of litigation and other judicial proceedings as a rule raises complex issues and is subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each suit is brought, and differences in applicable law. The outcomes of currently pending and future proceedings cannot be predicted. As a result of a judgment in court proceedings or the conclusion of a settlement, the Schaeffler Group may incur charges which exceed presently recognized provisions.

4.12 Other financial liabilities and other liabilities

Other financial liabilities (current/non-current) No. 108

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial liabilities						
Amounts payable to staff	0	227	227	0	240	240
Derivative financial liabilities	3	46	49	10	77	87
Miscellaneous financial liabilities	9	239	248	11	241	252
Total	**12**	**512**	**524**	**21**	**558**	**579**

Amounts payable to staff primarily included profit sharing accruals.

Derivative financial liabilities included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The decrease was primarily caused by the increase in the fair value of the forward exchange contracts and the cross-currency swaps, which were included in this balance in the prior year but had a positive fair value at the reporting date.

Miscellaneous other financial liabilities mainly included accrued selling costs (customer bonuses, rebates, early-payment discounts) and accrued bond interest.

The Schaeffler Group's exposure to currency and liquidity risk related to other financial liabilities is disclosed in Note 4.13.

Other liabilities (current/non-current) No. 109

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other liabilities						
Social security contributions payable	2	38	40	3	40	43
Advance payments received	0	29	29	0	31	31
Other tax payables	0	102	102	0	84	84
Miscellaneous liabilities	4	136	140	5	158	163
Total	**6**	**305**	**311**	**8**	**313**	**321**

Social security contributions payable consisted mainly of unpaid contributions to social security schemes.

Other tax payables included, in particular, value-added taxes payable and payroll withholding taxes payable.

Miscellaneous other liabilities primarily contained accrued vacation and overtime accounts.

4.13 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. Investments in associated companies are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

Financial instruments by class and category in accordance with IFRS 7.8 No. 110

		12/31/2015		12/31/2014	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	2,023	2,023	1,900	1,900
Other financial assets					
• Investments in associates [1]	n.a.	3	-	4	-
• Other investments [2]	AfS	17	-	14	-
• Marketable securities	AfS	14	14	12	12
• Derivatives designated as hedging instruments	n.a.	127	127	24	24
• Derivatives not designated as hedging instruments	HfT	235	235	245	245
• Miscellaneous financial assets	LaR	1,850	1,856	2,022	2,036
Cash and cash equivalents	LaR	799	799	636	636
Financial liabilities, by class					
Financial debt	FLAC	5,688	5,793	6,414	6,846
Trade payables	FLAC	1,405	1,405	1,261	1,261
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	16	16	64	64
• Derivatives not designated as hedging instruments	HfT	33	33	23	23
• Miscellaneous financial liabilities	FLAC	475	475	492	492
Summary by category					
Available-for-sale financial assets (AfS)		31	-	26	-
Financial assets held for trading (HfT)		235	-	245	-
Loans and receivables (LaR)		4,672	-	4,558	-
Financial liabilities at amortized cost (FLAC)		7,568	-	8,167	-
Financial liabilities held for trading (HfT)		33	-	23	-

[1] At equity-accounted investees.
[2] Investments accounted for at cost.

The carrying amounts of trade receivables, miscellaneous other financial assets and cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments. However, this does not apply to loans receivable of EUR 1,773 m (prior year: EUR 1,700 m) included in miscellaneous other financial assets, which mature in December 2024.

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 2015, and no (partial) disposals are planned in 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 and forward exchange contracts as hedging instruments here.

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 Facilities Agreement and the bond agreements (see Note 4.9). 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.

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

- Level 1: The fair value of marketable securities is determined using the exchange-quoted price at the end of the reporting period. The fair value of bonds payable included in financial debt is determined using the exchange-quoted price.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities and credit default swap rates (CDS rates).
  The fair value of miscellaneous other financial assets and of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

The 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.

Financial assets and liabilities by fair value hierarchy level No. 111

in € millions	Level 1	Level 2	Total
December 31, 2015			
Marketable securities	14	-	14
Derivatives designated as hedging instruments	-	127	127
Derivatives not designated as hedging instruments	-	235	235
Other financial assets	-	1,779	1,779
Total financial assets	**14**	**2,141**	**2,155**
Financial debt	5,069	724	5,793
Derivatives designated as hedging instruments	0	16	16
Derivatives not designated as hedging instruments	0	33	33
Total financial liabilities	**5,069**	**773**	**5,842**
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	-	1,714	1,714
Total financial assets	**12**	**1,983**	**1,995**
Financial debt	0	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**

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. The company transferred certain financial instruments between levels during the period. The publicly listed bonds previously shown in Level 2 were included in Level 1 as at December 31, 2015. Their fair value was previously determined using the exchange-quoted price of the bonds adjusted for the embedded derivatives. Effective December 31, 2015, fair value is based on the exchange-quoted price without adjustment, since the price of the bonds quoted in an active market is considered more reliable evidence of fair value.

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 No. 112

	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impair-ment loss	Foreign currency translation	2015	2014
Available-for-sale financial assets	-	2	-	-	2	1
Financial assets and liabilities held for trading	97	-13	-	-	84	172
Loans and receivables	81	-	-3	38	116	34
Financial liabilities at amortized cost	-517	-	-	-238	-755	-749
Total	**-339**	**-11**	**-3**	**-200**	**-553**	**-542**

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 84 m (prior year: EUR 172 m) relates entirely to derivatives. EUR 168 m (prior year: EUR 190 m) of this net gain is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 79 m (prior year: EUR 55 m).

The impairment loss on financial assets classified as loans and receivables consisted of an impairment reversal of EUR 3 m (prior year: EUR 5 m) and an impairment loss of EUR 6 m (prior year: EUR 6 m) and related entirely to the trade receivables class in 2015.

Financial risk management
Its financial instruments expose the Schaeffler Group to various risks.

Schaeffler's Board of Managing Directors has the 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 Schaeffler Group's Chief Financial Officer on its activities in this area.

Group-wide risk management policies are in place to identify and analyze Schaeffler's risks, set appropriate risk limits and controls, monitor risks, and adhere to the limits. Risk management procedures and systems are reviewed on a regular basis to reflect changes in market conditions and the Schaeffler Group's activities.

The Schaeffler 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 Schaeffler Group distinguishes between liquidity risk, counterparty risk, and market risk (interest rate, currency, and other price risk).

Liquidity risk
The risk that the Schaeffler Group will not be able to meet its payment obligations as they come 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 without incurring unacceptable losses or risking damage to Schaeffler's reputation.

Liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to 12 months. Both liquidity status and liquidity forecast are reported regularly to the Chief Financial Officer.

The Schaeffler Group uses equity, cash pooling arrangements, intercompany loans and existing lines of credit based on the relevant legal and tax regulations to ensure it can meet the financing requirements of its operations and financial obligations. To this end, the Schaeffler Group has access to a revolving credit facility of EUR 1 bn bearing interest at Euribor plus 2.6875 % as well as other bilateral lines of credit.

The Schaeffler Group's contractual payments of interest and principal on financial liabilities and derivative liabilities are summarized as follows:

Cash flows related to non-derivative and derivative financial liabilities No. 113

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2015					
Non-derivative financial liabilities	**7,568**	**8,895**	**2,117**	**3,480**	**3,298**
• Financial debt	5,688	7,014	236	3,480	3,298
• Trade payables	1,405	1,405	1,405	0	0
• Other non-derivative financial liabilities	475	476	476	0	0
Derivative financial liabilities	**49**	**49**	**46**	**3**	**0**
Total	**7,617**	**8,944**	**2,163**	**3,483**	**3,298**
December 31, 2014					
Non-derivative financial liabilities	**8,167**	**9,703**	**2,066**	**3,879**	**3,758**
• Financial debt	6,414	7,949	320	3,871	3,758
• Trade payables	1,261	1,261	1,261	0	0
• Other non-derivative financial liabilities	492	493	485	8	0
Derivative financial liabilities	**87**	**17**	**74**	**-11**	**-46**
Total	**8,254**	**9,720**	**2,140**	**3,868**	**3,712**

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 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 miscellaneous other financial assets.

Counterparty risk arising on trade receivables is managed by constantly monitoring 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 Schaeffler Group guideline.

Counterparty risk inherent in derivative financial instruments is the risk that counterparties will fail to meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The counterparty risk inherent in Schaeffler's long-term loans receivable from related companies of EUR 1.773 m (prior year: EUR 1,700 m) is limited as Schaeffler Verwaltung Zwei GmbH has pledged shares in Continental AG with a market value (reference XETRA, December 12, 2014 and August 31, 2015) 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 Schaeffler Group's Board of Managing Directors 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 other financial assets, will be unable to meet their future contractual obligation.

Trade receivables in the Automotive division are subject to a concentration of risk on several OEMs (see Note 5.4). Receivables from ten OEMs make up 42.0 % of trade receivables.

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 Schaeffler Group's interest-bearing net financial debt.

Schaeffler's financial debt can be summarized by type of interest as follows:

Variable and fixed interest financial debt No. 114

in € millions	12/31/2015	12/31/2014
Variable interest instruments	635	**1,775**
• Financial debt	635	1,775
Fixed interest instruments	5,053	**4,639**
• Financial debt	5,053	4,639

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 in the form of 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, 2015 would affect (increase/decrease) net income and shareholder's equity as follows:

Sensitivity analysis: Shift in yield curve No. 115

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2015				
Variable interest instruments	-3	0	0	0
Interest rate derivatives designated as hedging instruments	0	0	-4	4
Interest rate derivatives not designated as hedging instruments	-10	51	0	0
Total	**-13**	**51**	**-4**	**4**
As at December 31, 2014				
Variable interest instruments	-7	0	0	0
Interest rate derivatives designated as hedging instruments	0	0	2	-2
Interest rate derivatives not designated as hedging instruments	-3	2	0	0
Total	**-10**	**2**	**2**	**-2**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge.

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.

Currency risk from operations
The international nature of the Schaeffler Group's operations involves the flow of goods and cash in a wide range of currencies. This gives rise to 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 Schaeffler 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:

Currency risk from operations No. 116

in € millions	USD	CNY	RON	HUF
December 31, 2015				
Estimated currency risk from operations	740	491	-211	-123
Forward exchange contracts	-622	-336	156	92
Remaining currency risk from operations	**118**	**155**	**-55**	**-31**
December 31, 2014				
Estimated currency risk from operations	1,197	181	-194	-114
Forward exchange contracts	-476	0	76	68
Remaining currency risk from operations	**721**	**181**	**-118**	**-46**

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 hedged items, both recognized and 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 4.7) 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 36 m (prior year: EUR -321 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.

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 Schaeffler 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, 2015, 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 measuring instruments at fair value:

Sensitivity analysis: Changes in foreign exchange rates – operations No. 117

	12/31/2015		12/31/2014	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	16	-67	15	-45
CNY	14	-25	10	0
HUF	1	9	1	5
RON	1	13	-2	9

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31, 2015 would have had the same but opposite effect, again holding all other variables constant.

Currency risk from financing
Loans and deposits between Schaeffler Group companies denominated in a currency other than the functional currency of the entities are fully hedged on a net basis using forward exchange contracts.

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 1,800 m (prior year: USD 2,510 m). Changes in the fair value of those cross-currency swaps not subject to hedge accounting (notional amount of USD 800 m; prior year: USD 1,510 m) were recognized directly in profit or loss in 2015. The Schaeffler Group also uses additional 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, 2015. 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.

Sensitivity analysis: Changes in foreign exchange rates – financing activities No. 118

	12/31/2015		12/31/2014	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-165	-72	-207	-77
Foreign exchange gains and losses on derivatives	170	16	211	14
Total	5	-56	**4**	**-63**

Foreign exchange gains and losses on financial debt affecting shareholders' equity relate to a hedge of a net investment in a foreign operation.

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.

Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the Schaeffler Group's risk management system. Nominal values and fair values of derivative financial instruments as at the reporting date were as follows:

Summary of derivative financial instruments No. 119

	12/31/2015		12/31/2014	
in € millions	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	2,050	53	975	27
thereof: hedge accounting	599	18	159	9
Cross currency swaps	1,653	214	1,376	79
thereof: hedge accounting	919	108	305	15
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,187	49	1,238	77
thereof: hedge accounting	797	16	566	55
Cross currency swaps	0	0	537	10
thereof: hedge accounting	0	0	461	10

The Schaeffler Group applies hedge accounting to certain hedging relationships using the cash flow and net investment hedge accounting models. The Group does not apply fair value hedge accounting.

Cash flow hedges

A portion of Schaeffler's forward exchange contracts in certain currencies are accounted for as cash flow hedges with 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:

Reconciliation of hedging reserve related to currency risk – operations No. 120

in € millions	2015	2014
Balance as at January 01	-45	**37**
Additions	3	-45
Reclassified to income statement		
to financial income	0	-37
to financial expense	45	0
Balance as at December 31	3	**-45**

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 value of USD 1,000 m (prior year: USD 1,000 m). As a result, accumulated gains of EUR 14 m (prior year: losses of EUR 9 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, 2015. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2016 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:

Reconciliation of hedging reserve related to currency risk – financing activities No. 121

in € millions	2015	2014
Balance as at January 01	-56	**-47**
Additions	75	81
Reclassified to income statement		
to financial income	-61	-90
to financial expense	0	0
Balance as at December 31	-42	**-56**

Net investment hedge
The Schaeffler Group hedges the currency risk of part of its net investments in its U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollars (principal of USD 790 m; prior year: USD 940 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 95 m (prior year: EUR 105 m) on designated financial debt were recognized in other comprehensive income and reported in accumulated other comprehensive income in 2015. 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 Schaeffler 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 Schaeffler 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 Schaeffler Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements are as follows:

Offsetting financial assets and financial liabilities No. 122

in € millions	12/31/2015	12/31/2014
Financial assets		
Gross amount of financial assets	362	269
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	362	269
Amounts subject to master netting arrangements		
Derivatives	-47	-59
Net amount of financial assets	315	210
Financial liabilities		
Gross amount of financial liabilities	49	87
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	49	87
Amounts subject to master netting arrangements		
Derivatives	-47	-59
Net amount of financial liabilities	2	28

4.14 Share-based payment

In connection with the Schaeffler AG listing in October 2015, the company implemented its first share-based payment instrument in the form of a Performance Share Unit Plan (PSUP) for members of Schaeffler AG's Board of Managing Directors. The virtual shares granted (known as Performance Share Units, PSUs) entitle the holder to a cash payment equal to the average share price of Schaeffler AG's common non-voting shares on the vesting date. The PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 01 of the year in which the tranche is granted. Thus, the performance period of the 2015 tranche starts retroactively on January 01, 2015. Due to the listing, the grant date is October 09, 2015.

Vesting of PSUs is linked to the following three conditions:

- 50 % of PSUs are granted subject to a service condition (base number). The base number is only paid out if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.
- 25 % of the PSUs are granted subject to a long-term performance target based on free cash flow (FCF), which involves a comparison of accumulated FCF for the performance period to the target FCF.
- 25 % of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine vesting, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The number of PSUs actually payable at the end of the performance period depends on the extent to which the performance targets have been achieved and whether the service condition has been met and can vary between 0 % and 100 %. The amount payable per PSU is capped at double the underlying price of Schaeffler AG common non-voting shares at the grant date.

In 2015, Schaeffler AG granted a total of 474,016 PSUs (prior year: none) under the PSUP; 237,004 PSUs are subject to a service condition (base number) and 118,506 each are subject to the FCF-based performance target and the TSR-based performance target, respectively. All PSUs granted in 2015 were still outstanding as at December 31, 2015. As at December 31, 2015, the PSUs granted as part of the 2015 tranche have a remaining performance period of three years.

Each PSU in the base number or with an FCF-based performance target had a fair value of EUR 14.21 as at December 31, 2015. This amount was determined based on the price of the Schaeffler AG common non-voting share taking into account the present value of dividends, which beneficiaries are not entitled to during the vesting period, as well as the cap.

The fair value per PSU with a TSR-based performance target as at December 31, 2015 was EUR 10.09 and was determined using a binomial model. The valuation model used takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target range for the TRS-based performance target, dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common non-voting shares and the benchmark index MDAX). The valuation as at December 31, 2015 reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.11 %,
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 2.15 %,
- expected volatility of Schaeffler AG common non-voting shares of 33.02 %,
- expected volatility of the benchmark index of 19.53 %,
- expected correlation between the benchmark index and Schaeffler AG common non-voting shares of 0.43.

Expected future volatilities and the correlation between Schaeffler AG common non-voting shares and the benchmark group (MDAX) were estimated based on the daily closing prices of Schaeffler AG common non-voting shares and the benchmark group (MDAX) in the XETRA trading system of the German Stock Exchange.

Obligations under the PSUP as at December 31, 2015 amounted to EUR 0.7 m (prior year: none) and were included in non-current provisions. Expenses arising from the PSUP for 2015 totaled EUR 0.7 m (prior year: none).

4.15 Capital management

The Schaeffler Group has a long-term strategy of pursuing profitable growth. Actively managing capital provides the necessary financial resources, ensures the availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. To this end, the Schaeffler Group has laid the groundwork for obtaining debt and equity funding via the capital markets. The Schaeffler 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 financing terms.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.9). 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 2015 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group 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 calculates further financial indicators. One such further indicator is the ratio of net debt to EBITDA (earnings before financial result, income taxes, depreciation, amortization, and impairment losses), which is determined as follows:

Net financial debt to EBITDA ratio No. 123

in € millions	12/31/2015	12/31/2014
Current financial debt	3	1
Non-current financial debt	5,685	6,413
Total financial debt	**5,688**	**6,414**
Cash and cash equivalents	799	636
Total net financial debt	**4,889**	**5,778**
Earnings before financial result, income taxes, depreciation and amortization (EBITDA) [1]	**2,096**	**2,172**
Net financial debt to EBITDA ratio [2]	**2.3**	**2.7**

[1] EBITDA incl. EUR 274 m (prior year: EUR 38 m) in special items for legal cases and restructuring.
[2] Debt to EBITDA ratio incl. special items (footnote 1) see section 2.3 of group management report.

5. Other disclosures

5.1 Leases

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

Leases No. 124

in € millions	12/31/2015	12/31/2014
Less than one year	56	54
Between one and five years	64	59
More than five years	6	7
Total	**126**	**120**

The obligations consisted primarily of rental agreements for real estate and lease agreements relating to company vehicles and IT and logistics.

In 2015, the Schaeffler Group recognized EUR 84 m in expenses related to operating rental and lease agreements in profit or loss (prior year: EUR 75 m).

5.2 Contingent liabilities

At December 31, 2015, the Schaeffler Group had contingent liabilities of EUR 23 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 for recognition of a provision.

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. Schaeffler Group companies are among the entities subject to these investigations. In addition, there is a risk that third parties may claim damages resulting from antitrust proceedings that are either ongoing or have been finalized. As at the end of the reporting period, the Schaeffler Group has recognized provisions for a portion of these investigations and potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but 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 204 m in receipts from loans were related to the refinancing arrangement completed in the second quarter of 2015 and were used to finance transaction costs and prepayment penalties for the redeemed bonds. The cash outflows for the prepayment penalty and transaction costs are included in cash flows from operating activities. All other transactions under the refinancing arrangements were non-cash in nature (see Note 4.9 for further detail).

Proceeds from issuing shares represent gross proceeds of EUR 825 m partially offset by transaction costs of EUR 15 m.

In connection with the voluntary partial prepayment of its institutional loan tranches, Schaeffler AG also terminated a portion of the cross-currency swaps designed to hedge the USD tranche against currency fluctuations before maturity. Termination involved an exchange of principal and resulted in cash inflows of EUR 92 m due to exchange rate changes. These cash inflows from the hedging instrument as well as the cash inflows from the hedged item are presented under repayments of loans.

Recognition of a provision of EUR 238 m for potential third party claims in connection with the EU antitrust proceedings finalized in March of 2014 has impacted EBIT and other provisions, and did not affect cash flows from operating activities in 2015.

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 Board of Managing Directors. 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's Board of Managing Directors 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 reports provided to the Schaeffler Group's Board of Managing Directors. 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, 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 Board of Managing Directors believes that this 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 once every year and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

Reconciliation of segment information No. 125

Reconciliation to earnings before income taxes in € millions	2015	2014
EBIT Automotive [1]	1,124	1,238
EBIT Industrial [1]	278	285
EBIT	1,402	1,523
Financial result	-547	-619
Earnings before income taxes	**855**	**904**

[1] Prior year information presented based on 2015 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, Greater China, and Asia/Pacific.

In 2015, the Schaeffler Group generated revenue of EUR 1,535 m (prior year: EUR 1,573 m) from one key customer, representing approximately 11.6 % (prior year: 13.0 %) of total group revenue and approximately 15.3 % (prior year: 17.5 %) of Automotive segment revenue.

The Schaeffler Group's operations are geographically divided into the regions Europe, Americas, Greater China, and Asia/Pacific. Revenue and non-current assets of the four regions were as follows in 2015:

Information about geographical areas No. 126

	Revenue [1]		Non-current assets [2]	
in € millions	2015	**2014**	12/31/2015	**12/31/2014**
Europe	7,054	6,908	2,843	2,688
Americas	2,905	2,473	706	613
Asia/Pacific	1,365	1,203	341	293
Greater China	1,902	1,540	879	709
Total	**13,226**	**12,124**	**4,769**	**4,303**

[1] Revenue by market (customer locations). Prior year information presented based on 2015 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, the U.S., and China had revenue of EUR 2,948 m (prior year: EUR 2,977 m), EUR 1,873 m (prior year: EUR 1,432 m), and EUR 1,814 m (prior year: EUR 1,467 m) as well as non-current assets of EUR 1,634 m (prior year: EUR 1,573 m), EUR 399 m (prior year: EUR 316 m), and EUR 878 m (prior year: EUR 708 m), respectively.

5.5 Related parties

Related persons
All common shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler and the close members of their family are related parties of the Schaeffler Group.

The Schaeffler 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 Schaeffler Group, directly or indirectly. For the Schaeffler Group, the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG represent key management personnel, making them and the close members of their family related parties of Schaeffler AG. In addition, the managing directors of the legal predecessor of Schaeffler AG, INA Beteiligungsgesellschaft mit beschränkter Haftung (IBH), and the close members of their family were related parties of Schaeffler AG in the prior year. As Schaeffler AG's Board of Managing Directors was not appointed until October 24, 2014, the following information for 2015 is not fully comparable to the prior year figures.

The remuneration of the Board of Managing Directors of Schaeffler AG for the year totaled EUR 21 m (prior year: EUR 2 m), including EUR 16 m (prior year: EUR 1 m) in short-term benefits. Expenses of EUR 3 m (prior year: EUR 1 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 0.3 m (prior year: nil), and share-based payments totaled EUR 0.7 m (prior year: nil).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 21 m (prior year: EUR 2 m) in 2015.

In addition, the following share-based remuneration was granted to members of the Board of Managing Directors in 2015 under the Performance Share Unit Plan (PSUP) implemented in 2015: 237,004 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.58), 118,506 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.58), and 118,506 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.96). Please refer to the remuneration report for a detailed discussion of the PSUP.

Certain members of the Board of Managing Directors have received advances on their variable short-term remuneration in connection with the change in the remuneration system or adjustment of their fixed remuneration. Advances paid in 2015 amounted to EUR 525 thousand.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.9 m (prior year: EUR 0.2 m).

The company did not pay any other benefits to its key management personnel.

The remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report. The remuneration report also includes information on the remuneration of individual members of the Board of Managing Directors and additional information required by section 314 (1) (6) HGB.

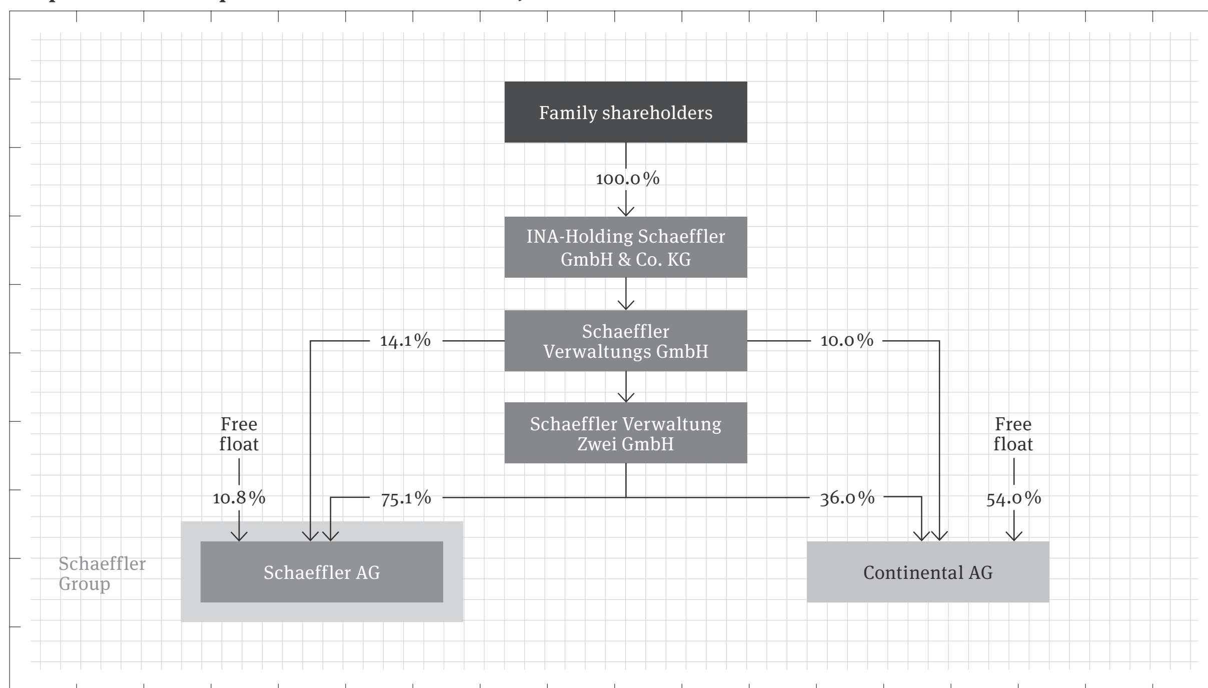
Former members of the Board of Managing Directors (and their surviving dependents) of Schaeffler AG and its legal predecessors received remuneration of EUR 0.3 m in 2015 (prior year: EUR 1 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependents) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 8 m at December 31, 2015 (prior year: EUR 1 m).

Members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG as well as close members of their family have acquired bonds issued in 2015 by Schaeffler Finance B.V. totaling EUR 1 m (prior year: EUR 2 m including managing directors of the company's legal predecessor IBH). Additionally, bonds issued in prior years with a value of EUR 1 m (prior year: EUR 1 m including managing directors of the company's legal predecessor IBH) held by key management personnel and close members of their family were redeemed in 2015. At December 31, 2015, members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG 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 including managing directors of the company's legal predecessor IBH). Key management personnel and close members of their family received interest of EUR 0.2 m (prior year: EUR 0.3 m including managing directors of the company's legal predecessor IBH) on these bonds.

Related entities
Pursuant to IAS 24, the Schaeffler Group's related entities consist of the entities controlled or jointly controlled by Schaeffler AG's ultimate parent company, INA-Holding Schaeffler GmbH & Co. KG, or over which INA-Holding Schaeffler GmbH & Co. KG has significant influence.

Simplified ownership structure as at December 31, 2015 No. 127



As transactions with significant subsidiaries of Schaeffler AG have been eliminated upon consolidation, they need not be discussed here. Transactions with associated companies and joint ventures were insignificant in 2015.

In 2015 and 2014, Schaeffler Group companies had various business relationships with the group's related entities.

On April 14, 2015, the Schaeffler AG annual general meeting declared a dividend of EUR 250 m payable to Schaeffler Verwaltung Zwei GmbH in respect of 2014.

The company had a loan receivable from Schaeffler Verwaltung Zwei GmbH of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG of EUR 629 m as a result of the capital increase by way of a contribution in kind completed as part of the realignment of the Schaeffler Group's structure in December 2014. Schaeffler Verwaltung Zwei GmbH assumed the obligations under the loan receivable by Schaeffler AG from Schaeffler Beteiligungsholding GmbH & Co. KG by way of an assumption of debt in discharge of the previous debtor effective September 01, 2015. The loan remained secured by the shares in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG. Schaeffler Beteiligungsholding GmbH & Co. KG was absorbed by Schaeffler Verwaltung Zwei GmbH effective December 31, 2015. The loans mature in December 2024 and bore interest at 4.0 % p.a. in 2015.

The EUR 236 m short-term receivable from Schaeffler Verwaltung Zwei GmbH, which arose in connection with Schaeffler AG taking on the cash pooling function, was converted to a long-term loan of EUR 270 m as at August 31, 2015. The loan matures in December 2024 and bore interest at 4.0 % p.a. in 2015. 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 to Schaeffler AG. 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 %.

It was agreed that shares in Continental AG with a market value (reference XETRA, August 31, 2015) 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 Verwaltung Zwei GmbH (until December 31, 2015: Schaeffler Beteiligungsholding GmbH & Co. KG).

Two partial repayments of EUR 85 m and EUR 112 m, respectively, have reduced the total principal of the loans receivable from Schaeffler Verwaltung Zwei GmbH to EUR 1,773 m (prior year: EUR 1,071 m). Interest income earned on these loans in 2015 amounted to EUR 72 m (prior year: EUR 4 m).

Business relationships with Continental Group companies existed in the form of supply of vehicle components and tools, 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 related 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 and payables from transactions with related entities No. 128

	Receivables		Payables	
in € millions	12/31/2015	**12/31/2014**	12/31/2015	**12/31/2014**
Related entities	1,787	1,985	8	21

Expenses and income from transactions with related entities No. 129

	Expenses		Income	
in € millions	2015	**2014**	2015	**2014**
Related entities	78	136	176	107

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2015 and required by section 314 (1)(9) HGB to be disclosed total EUR 5.6 m (prior year: EUR 3.6 m) and consist of EUR 2.5 m (prior year: EUR 2.2 m) for financial statement audit services, EUR 1.1 m (prior year: EUR 0.3 m) for other attestation services, EUR 0.8 m (prior year: EUR 0.8 m) for tax advisory services, and EUR 1.2 m (prior year: EUR 0.3 m) 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 Exemptions under section 264 (3) HGB and section 264b HGB

The following domestic subsidiaries meet the requirements of section 264 (3) HGB or 264b HGB to be eligible for these exemptions for 2015 and are availing themselves of these exemptions:

- AS Auslandsholding GmbH, Bühl
- Dürkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft für Arbeitsmedizin und Umweltschutz mbH – AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach
- IAB Verwaltungs GmbH, Herzogenaurach
- INA Automotive GmbH, Herzogenaurach
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Bühl mbH, Bühl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach
- LuK Auslandsholding GmbH, Bühl
- LuK Beteiligungsgesellschaft mbH, Bühl
- LuK Vermögensverwaltungsgesellschaft mbH, Bühl
- PD Qualifizierung und Beschäftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Engineering GmbH, Werdohl
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Eins GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Zwei GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Drei GmbH, Herzogenaurach
- CVT Verwaltungs GmbH & Co. Patentverwertungs KG, Bühl
- FAG Aerospace GmbH & Co. KG, Schweinfurt
- INA – Drives & Mechatronics AG & Co. KG, Suhl
- LuK GmbH & Co. KG, Bühl
- LuK Truckparts GmbH & Co. KG, Kaltennordheim
- LuK Unna GmbH & Co. KG, Unna
- Schaeffler Automotive Aftermarket GmbH & Co. KG, Langen
- Schaeffler Elfershausen AG & Co. KG, Herzogenaurach
- Schaeffler Immobilien AG & Co. KG, Herzogenaurach
- Schaeffler Motorenelemente AG & Co. KG, Herzogenaurach
- Schaeffler Technologies AG & Co. KG, Herzogenaurach
- WPB Water Pump Bearing GmbH & Co. KG, Herzogenaurach

5.8 Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code required by section 161 AktG in December 2015 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.9 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, 2015.

5.10 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG, which is based in Herzogenaurach.

List of shareholdings No. 130

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (51)			
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
Dürkopp 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 für Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
IAB Grundstücksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Bühl 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 Vermögensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschäftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler 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 AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH	Herzogenaurach	DE	100.00
Unterstützungskasse 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
Schaeffler Belrus OOO	Minsk	BY	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
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
Schaeffler Trading (UK) Limited	Sutton Coldfield	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Halandri	GR	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
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Hosur	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	Kongsberg	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
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00
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
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
FAG Aerospace (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	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 (3)

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

II. Foreign (2)

Colinx, LLC	Greenville	US	20.00
Eurings Zrt.	Debrecen	HU	37.00

1) Joint ventures accounted for using the equity method.

C. Unconsolidated entities (1)

NACO Technologies SIA [2)]	Riga	LV	100.00

2) The company is insignificant to the Schaeffler Group's results of operations, financial position, and net assets as at the reporting date.

5.11 Members of the Supervisory Board and of the Board of Managing Directors

Members of the Supervisory Board
Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson), Jürgen Wechsler* (Deputy Chairman), Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Norbert Lenhard*, Dr. Siegfried Luther, Dr. Reinold Mittag*, Yvonne Münch* (since November 19, 2015), Barbara Resch* (since November 19, 2015), Stefanie Schmidt*, Dirk Spindler*, Robin Stalker, Jürgen Stolz*, Salvatore Vicari*, Dr. Otto Wiesheu, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich*, Prof. Dr.-Ing. Tong Zhang

The following members left the Supervisory Board during the year:
Jürgen Bänsch (until November 19, 2015), Thomas Mölkner (until November 19, 2015)

Supervisory Board committees
Mediation committee: Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann, Norbert Lenhard, and Jürgen Wechsler

Executive committee: Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf

Audit committee: Dr. Siegfried Luther (Chairman), Dr. Reinold Mittag, Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, and Jürgen Worrich

Nomination committee: Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, and Prof. Dr. Bernd Gottschalk

Members of the Board of Managing Directors
Klaus Rosenfeld (Chief Executive Officer),

Prof. Dr.-Ing. Peter Gutzmer (Deputy Chief Executive Officer and Chief Technology Officer),

Dr. Ulrich Hauck (Chief Financial Officer; since April 01, 2015),

Norbert Indlekofer (CEO Automotive),

Oliver Jung (Chief Operating Officer),

Prof. Dr. Peter Pleus (CEO Automotive),

Corinna Schittenhelm (Chief Human Resources Officer; since January 01, 2016),

Dr. Stefan Spindler (CEO Industrial; since May 01, 2015)

The following members left the Board of Managing Directors during the year:
Kurt Mirlach (until December 31, 2015), Robert Schullan (until April 30, 2015)

* Employee representative

5.12 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 22, 2016 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, February 22, 2016

Schaeffler Aktiengesellschaft

The Board of Managing Directors

Independent Auditors' Report*

This Auditors' Report, prepared in accordance with § 322 HGB ("Handelsgesetzbuch": "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 its report on the position of the Company and the Group for the business year from January 1, 2015 to December 31, 2015. The above-mentioned Auditors' Report and Consolidated Financial Statements are both translations of the respective German-language documents.

We have audited the consolidated financial statements prepared by the 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 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 01, 2015 to December 31, 2015. 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, February 23, 2016

KPMG AG

Wirtschaftsprüfungsgesellschaft

Alt-Scherer	Koeplin
Wirtschaftsprüferin	Wirtschaftsprüfer

* This auditors' report, prepared in accordance with § 322 HGB ["Handelsgesetzbuch": "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 its report on the position of Schaeffler AG and the Schaeffler Group for the financial year from January 1, 2015 to December 31, 2015. The report on the position 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 Schaeffler AG as of and for the fiscal year ended December 31, 2014

1. Consolidated income statement

No. 029

in € millions	Note	2014	2013	Change in %
Revenue	3.1	12,124	11,205	8.2
Cost of sales		-8,654	-8,029	7.8
Gross profit		**3,470**	**3,176**	**9.3**
Research and development expenses		-626	-611	2.5
Selling expenses		-827	-761	8.7
Administrative expenses		-454	-433	4.8
Other income	3.2	49	72	-31.9
Other expenses	3.3	-89	-435	-79.5
Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)		**1,523**	**1,008**	**51.1**
Financial income	3.5	255	217	17.5
Financial expenses	3.5	-875	-641	36.5
Financial result	**3.5**	**-620**	**-424**	**46.2**
Income from equity-accounted investees		**1**	**2**	**-50.0**
Earnings before income taxes		**904**	**586**	**54.3**
Income taxes	3.6	-242	-452	-46.5
Net income		**662**	**134**	**> 100**
Attributable to shareholders of the parent company		654	127	> 100
Attributable to non-controlling interests		8	7	14.3

2. Consolidated statement of comprehensive income

No. 030

in € millions	2014 before taxes	2014 taxes	2014 after taxes	2013 before taxes	2013 taxes	2013 after taxes
Net income	**904**	**-242**	**662**	**586**	**-452**	**134**
Foreign currency translation differences for foreign operations	229	0	229	-184	0	-184
Net change from hedges of net investments in foreign operations	-105	23	-82	42	-5	37
Effective portion of changes in fair value of cash flow hedges [1]	-97	27	-70	-6	1	-5
Net change in fair value of available-for-sale financial assets	1	0	1	-1	0	-1
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**28**	**50**	**78**	**-149**	**-4**	**-153**
Defined benefit plan actuarial gains (losses)	-444	128	-316	24	-10	14
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**-444**	**128**	**-316**	**24**	**-10**	**14**
Total other comprehensive income (loss)	**-416**	**178**	**-238**	**-125**	**-14**	**-139**
Total comprehensive income (loss) for the period	**488**	**-64**	**424**	**461**	**-466**	**-5**
Total comprehensive income (loss) attributable to shareholders of the parent company	469	-60	409	463	-466	-3
Total comprehensive income (loss) attributable to non-controlling interests	19	-4	15	-2	0	-2
Total comprehensive income (loss) for the period	**488**	**-64**	**424**	**461**	**-466**	**-5**

[1] Including income of EUR 94 m (prior year: loss of EUR 46 m) reclassified to profit and loss.

See Notes 4.10, and 4.13 to the consolidated financial statements for further detail.

3. Consolidated statement of financial position

No. 031

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	33.3
Other investments		14	14	0.0
Other financial assets	4.6	1,960	202	> 100
Other assets	4.6	58	54	7.4
Income tax receivables	4.3	8	12	-33.3
Deferred tax assets	4.3	455	218	> 100
Total non-current assets		**6,802**	**4,410**	**54.2**
Inventories	4.4	1,713	1,536	11.5
Trade receivables	4.5	1,900	1,676	13.4
Other financial assets	4.6	343	232	47.8
Other assets	4.6	181	141	28.4
Income tax receivables	4.3	42	92	-54.3
Cash and cash equivalents	4.7	636	300	> 100
Total current assets		**4,815**	**3,977**	**21.1**
Total assets		**11,617**	**8,387**	**38.5**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		600	500	20.0
Capital reserves		1,600	0	-
Other reserves		-1,276	-2,031	-37.2
Accumulated other comprehensive income (loss)		-737	-492	49.8
Equity attributable to shareholders of the parent company		**187**	**-2,023**	**-**
Non-controlling interests		71	57	24.6
Total shareholders' equity	**4.8**	**258**	**-1,966**	**-**
Provisions for pensions and similar obligations	4.10	1,984	1,510	31.4
Provisions	4.11	70	95	-26.3
Financial debt	4.9	6,413	5,720	12.1
Income tax payables	4.3	237	235	0.9
Other financial liabilities	4.12	21	162	-87.0
Other liabilities	4.12	8	6	33.3
Deferred tax liabilities	4.3	106	142	-25.4
Total non-current liabilities		**8,839**	**7,870**	**12.3**
Provisions	4.11	232	589	-60.6
Financial debt	4.9	1	33	-97.0
Trade payables		1,261	1,022	23.4
Income tax payables	4.3	155	152	2.0
Other financial liabilities	4.12	558	405	37.8
Other liabilities	4.12	313	282	11.0
Total current liabilities		**2,520**	**2,483**	**1.5**
Total shareholders’ equity and liabilities		**11,617**	**8,387**	**38.5**

4. Consolidated statement of cash flows

No. 032

in € millions	2014	2013	Change in %
Operating activities			
EBIT	1,523	1,008	51.1
Interest paid	-520	-605	-14.0
Interest received	8	8	0.0
Income taxes paid	-277	-378	-26.7
Dividends received	1	1	0.0
Depreciation, amortization and impairments	649	652	-0.5
(Gains) losses on disposal of assets	1	1	0.0
Changes in:			
• Inventories	-108	-101	6.9
• Trade receivables	-142	-108	31.5
• Trade payables	129	227	-43.2
• Provisions for pensions and similar obligations	-27	-44	-38.6
• Other assets, liabilities and provisions	-337	366	-
Cash flows from operating activities [1]	**900**	**1,027**	**-12.4**
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
Change in financial allocation account with Schaeffler Verwaltung Zwei GmbH	0	-91	-100
Other financing activities	-26	132	-
Cash provided by (used in) financing activities	**271**	**-582**	**-**
Net increase (decrease) in cash and cash equivalents	**319**	**-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	**636**	**300**	**> 100**

[1] Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2014 amount to EUR 1,420 m (prior year: EUR 1,632 m).

See Note 5.3 to the consolidated financial statements for further detail.

5. Consolidated statement of changes in shareholders' equity

No. 033

in € millions	Share capital	Capital Reserves	Other Reserves	Accumulated other comprehensive income (loss)				Subtotal	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasure-ment reserve			
Balance as at January 01, 2013	**500**	**0**	**-2,796**	**-111**	**0**	**1**	**-252**	**-2,658**	**60**	**-2,598**
Net income			127					127	7	134
Other comprehensive income (loss)				-138	-5	-1	14	-130	-9	-139
Total comprehensive income (loss) for the period	**0**	**0**	**127**	**-138**	**-5**	**-1**	**14**	**-3**	**-2**	**-5**
Transactions with shareholders										
Capital contribution			638					638	0	638
Dividends			0					0	-1	-1
Total amount of transactions with shareholders	**0**	**0**	**638**					**638**	**-1**	**637**
Balance as at December 31, 2013	**500**	**0**	**-2,031**	**-249**	**-5**	**0**	**-238**	**-2,023**	**57**	**-1,966**
Balance as at January 01, 2014	500	0	-2,031	-249	-5	0	-238	-2,023	57	-1,966
Net income			654					654	8	662
Other comprehensive income (loss)				140	-70	1	-316	-245	7	-238
Total comprehensive income (loss) for the period	0	0	654	140	-70	1	-316	409	15	424
Transactions with shareholders										
Issuance of new shares	100	1,600						1,700		1,700
Capital contribution			101					101		101
Dividends			0					0	-1	-1
Total amount of transactions with shareholders	100	1,600	101					1,801	-1	1,800
Balance as at December 31, 2014	600	1,600	-1,276	-109	-75	1	-554	187	71	258

See Note 4.8 to the consolidated financial statements for further detail.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 034

	Automotive		Industrial		Total	
	01/01 – 12/31		01/01 – 12/31		01/01 – 12/31	
in € millions	2014	**2013**	2014	**2013**	2014	**2013**
Revenue	8,983	8,164	3,141	3,041	12,124	11,205
Cost of sales	-6,460	-5,960	-2,194	-2,069	-8,654	-8,029
Gross profit	2,523	2,204	947	972	3,470	3,176
EBIT	1,234	683	289	325	1,523	1,008
• in % of revenue	13.7	8.4	9.2	10.7	12.6	9.0
Depreciation, amortization and impairments	-456	-464	-193	-188	-649	-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 AG, Herzogenaurach (until October 23, 2014: INA Beteiligungsgesellschaft mit beschränkter Haftung, also referred to as "IBH" below), is a corporation domiciled in Germany with its registered office located at Industriestrasse 1 – 3, 91074 Herzogenaurach. The company was founded on April 19, 1982 and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2014 comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). The Schaeffler 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. It was also renamed Schaeffler Verwaltung Zwei GmbH as of that date. On October 24, 2014 (date entered in the Commercial Register), INA Beteiligungsgesellschaft mit beschränkter Haftung 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 (see Note 5.5).

As a result of these transactions, Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) has assumed the role of the Schaeffler Group's lead company. As a result, these consolidated financial statements cover a group of companies that has been modified from the one covered by the consolidated IFRS financial statements of Schaeffler Verwaltung Zwei GmbH. As a result of the realignment, the Schaeffler Group does not hold any direct or indirect investments in Continental AG.

1.3 Basis of preparation

As permitted by section 315a (3) HGB (German Commercial Code), the company has chosen to prepare its consolidated financial statements under IFRS.

Therefore, the consolidated financial statements of the Schaeffler 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.

Presentation of prior period information

For legal purposes, the group structure in place as at December 31, 2014, with Schaeffler AG as the Group's parent company, was created on December 31, 2103. The comparative information presented in the consolidated statement of comprehensive income, consolidated income statement, consolidated statement of cash flows, and consolidated segment information of these consolidated financial statements was determined based on their carrying amounts in the consolidated IFRS financial statements of Schaeffler Verwaltung Zwei GmbH as at December 31, 2013 (predecessor accounting) by way of a carve-out. The Schaeffler Group's operations were restated retrospectively as if the current group structure had already been in place prior to December 31, 2103.

Starting with a balance of zero as at December 31, 2013, the balance of the financial allocation account – the account used to recognize the liquidity requirements of Schaeffler Verwaltung Zwei GmbH as well as certain other transactions between the Schaeffler Group and Schaeffler Verwaltung Zwei GmbH resulting from the carve-out – was derived using a retrograde calculation. In the consolidated statement of cash flows, the change in the financial allocation account is shown as "Change in financial allocation account with Schaeffler Verwaltung Zwei GmbH" under financing activities.

Income tax amounts for Schaeffler AG and its subsidiaries for periods before December 31, 2013 were determined based on the separate return approach, an approach which assumes that the Schaeffler Group's companies are separate taxable entities unless they are linked to each other as part of a tax group. Income taxes were recalculated based on earnings allocated to these companies based on the group structure in place since December 31, 2013. Income tax expense and benefits attributed to taxable entities of the Schaeffler Group in the process of recalculating income taxes but for which the related tax receivables or payables are held by Schaeffler Verwaltung Zwei GmbH were recognized in the financial allocation account.

General presentation

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 consolidated statement of financial position is classified using the current/non-current distinction. The Schaeffler 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 Schaeffler 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 4.10).

1.4 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements.

Consolidation principles

All significant domestic and foreign subsidiaries of the Schaeffler Group have been consolidated in the company's consolidated financial statements. Subsidiaries are entities directly or indirectly controlled by Schaeffler AG. Control generally exists if Schaeffler 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 Schaeffler 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 Schaeffler 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).

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 Schaeffler Group presents its financial statements in Euros, Schaeffler AG'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 Schaeffler 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 Schaeffler,
- the costs associated with the transaction can be measured reliably,
- Schaeffler 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,
- 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 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 Schaeffler 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 Schaeffler 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 Schaeffler 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 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.

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 Schaeffler 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 Schaeffler 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 Schaeffler Group does not apply the fair value option. Please refer to Note 4.13 for an analysis of the Schaeffler 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.

Schaeffler 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, 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 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: Schaeffler 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

Schaeffler 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 Schaeffler 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 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 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 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 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, Schaeffler pays fixed contributions to an independent third party. As the Schaeffler 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, 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 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:

No. 035

Standard		Effective date	Subject of Standard 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 AG.

The additional note disclosures introduced by IFRS 12 are not material in aggregate.

"Transition Guidance (Amendments to IFRS 10, 11 and 12)" does not affect the Schaeffler 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 Schaeffler Group's financial reporting.

The Schaeffler 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.

No. 036

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler 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 Schaeffler Group management. None of these were adopted early.

No. 037

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler 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 aquisitions 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 consolidated financial statements of Schaeffler AG (formerly INA Beteiligungs-gesellschaft mit beschränkter Haftung) cover, in addition to Schaeffler AG, 155 (prior year: 157) subsidiaries; 53 (prior year: 54) entities are domiciled in Germany and 102 (prior year: 103) in other countries.

The scope of consolidation of Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) did not change significantly compared to December 31, 2013 with respect to the consolidated financial statements of the Schaeffler Group.

In the consolidated financial statements as at December 31, 2014, five (prior year: six) investments (including two joint ventures; prior year: two) are accounted for at equity.

Please refer to Note 5.9 for further detail on the Schaeffler Group's companies.

3. Notes to the consolidated income statement

3.1 Revenue

No. 038

in € millions	2014	2013
Revenue from the sale of goods	11,962	10,996
Other revenue	162	209
Total	**12,124**	**11,205**

Other revenue primarily includes EUR 88 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

No. 039

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	30
Total	**49**	**72**

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 4.11 for further detail).

3.3 Other expenses

No. 040

in € millions	2014	2013
Increase in allowances	6	6
Losses on disposal of assets	2	4
Miscellaneous expenses	81	425
Total	**89**	**435**

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 4.11 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

No. 041

Average number of employees by region	2014	2013
Europe	56,755	55,001
Americas	12,200	11,969
Greater China	9,121	7,533
Asia/Pacific	2,692	2,557
Total	**80,768**	**77,060**

The number of employees at December 31, 2014 was 82,294, 5.2 % higher than the prior year level of 78,258.

The Schaeffler Group's personnel expense can be analyzed as follows:

No. 042

in € millions	2014	2013
Wages and salaries	2,934	2,794
Social security contributions	564	530
Other personnel expense	81	72
Total	**3,579**	**3,396**

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

No. 043

in € millions	Financial expenses	Financial income	Financial result
			2014
Interest expense on financial debt [1]	-488	0	-488
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	-26	13	-13
Total	**-875**	**255**	**-620**

in € millions	Financial expenses	Financial income	Financial result
			2013
Interest expense on financial debt [1]	-448	0	-448
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	-46	15	-31
Total	**-641**	**217**	**-424**

[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 and EUR 144 m in expenses incurred in connection with the transactions completed in 2014 to refinance the company's debt.

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 4.10 for further detail on pensions.

3.6 Income taxes

No. 044

in € millions	2014	**2013**
Current income taxes	332	310
Deferred income taxes	-90	142
Income taxes	**242**	**452**

As a corporation, Schaeffler AG 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 32 m (prior year: EUR 23 m) in 2014. Schaeffler incurred EUR 11 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.

No. 045

in € millions	2014	2013
Net income before tax	904	586
Expected tax expense	**256**	**164**
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	-6	45
Tax credits	-12	-7
Non-deductible expenses	29	217
Taxes for previous years	-21	26
Other	-8	7
Reported tax expense	**242**	**452**

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 offsetting impact of capitalizing 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 4.11 for further detail).

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

No. 046

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 amortization and impairment losses				
Balance as at January 01, 2013	**0**	**993**	**189**	**1,182**
Amortization	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
Amortization	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 Schaeffler 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, Schaeffler 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

No. 047

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 initial 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 initial 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 initial 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 initial 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 Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 262 m (prior year: EUR 177 m).

4.3 Deferred tax assets and liabilities

Deferred tax assets and liabilities

The following items gave rise to the recognized deferred tax assets and liabilites:

No. 048

in € millions	12/31/2014 Deferred tax assets	12/31/2014 Deferred tax liabilities	12/31/2013 Deferred tax assets	12/31/2013 Deferred tax liabilities
Intangible assets	3	-18	1	-12
Property, plant and equipment	88	-147	78	-129
Financial assets	1	-32	4	-22
Inventories	78	-5	76	-5
Trade receivables and other assets	42	-137	37	-122
Provisions for pensions and similar obligations	378	-60	252	-63
Other provisions and other liabilities	219	-108	170	-197
Interest- and loss carryforwards	53	0	14	0
Other	1	-7	0	-6
Deferred taxes (gross)	**863**	**-514**	**632**	**-556**
Netting	-408	408	-414	414
Deferred taxes, net	**455**	**-106**	**218**	**-142**

The group had gross carryforwards under the interest deduction cap, net of prior year adjustments, of EUR 135 m (prior year: EUR 558 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 Schaeffler Group had gross loss carryforwards of EUR 120 m (prior year: EUR 158 m) for corporation tax and EUR 38 m (prior year: EUR 13 m) for trade tax, including EUR 79 m (prior year: EUR 107 m) in corporation tax losses and EUR 12 m (prior year: EUR 8 m) in trade tax losses for which no deferred taxes have been recognized.

The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred taxes have been recognized on EUR 1,348 m (prior year: EUR 1,895 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 29 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 272 m (prior year: EUR 94 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 50 m (prior year: EUR 104 m), including non-current balances of EUR 8 m (prior year: EUR 12 m).

At December 31, 2014, income tax payables amounted to EUR 392 m (prior year: EUR 387 m), including non-current balances of EUR 237 m (prior year: EUR 235 m).

4.4 Inventories

No. 049

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).

4.5 Trade receivables

No. 050

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:

No. 051

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:

No. 052

in € millions		12/31/2014	12/31/2013
Carrying amount		1,900	**1,676**
Not past due		1,767	**1,572**
Past due	up to 60 days	122	91
	61 - 120 days	7	8
	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 Schaeffler Group's exposure to currency and liquidity risk related to trade receivables is disclosed in Note 4.13.

4.6 Other financial assets and other assets

No. 053

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial assets						
Loans receivable and financial receivables	1,701	271	1,972	2	114	116
Marketable securities	11	1	12	9	0	9
Derivative financial assets	244	25	269	189	60	249
Miscellaneous financial assets	4	46	50	2	58	60
Total	**1,960**	**343**	**2,303**	**202**	**232**	**434**

The increase in non-current **loans receivable and financial receivables** was primarily related to the capital increase by way of a contribution in kind received in December 2014. As part of this transaction, EUR 1,700 m in loans receivable from related companies were contributed to the Schaeffler Group (see Notes 4.8 and 5.5). The current portion also included financial receivables due from related companies.

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 Schaeffler Group uses to hedge currency risk.

Current miscellaneous financial assets consisted largely of amounts due from employees, claims for damages, and deposits paid.

The Schaeffler 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 2,099 m were pledged as collateral under loan- and bond agreements (prior year: EUR 203 m).

The Schaeffler Group's exposure to currency and liquidity risk related to other financial assets is disclosed in Note 4.13 on financial instruments.

No. 054

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other assets						
Pension asset	36	0	36	38	0	38
Tax receivables	1	145	146	1	116	117
Miscellaneous assets	21	36	57	15	25	40
Total	**58**	**181**	**239**	**54**	**141**	**195**

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.

4.7 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 AG 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.

4.8 Shareholders‘ equity

No. 055

in € millions	12/31/2014	12/31/2013
Share capital	600	500
Capital reserves	1,600	0
Other reserves	-1,276	-2,031
Accumulated other comprehensive income (loss)	-737	-492
Equity attributable to shareholders of the parent company	**187**	**-2,023**
Non-controlling interests	71	57
Total shareholders' equity	**258**	**-1,966**

As the legal group structure of Schaeffler AG, (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) did not exist until December 31, 2013, the required historical financial information, the comparative periods (prior year comparisons), was prepared by way of a carve out (see Note 1.3).

The amount of shareholders’ equity as at December 31, 2013 was derived as the difference between the assets and liabilities transferred to the scope of consolidation of Schaeffler AG (until October 24, 2014: INA Beteiligungsgesellschaft mit beschränkter Haftung) measured at their carrying amounts in the consolidated financial statements (predecessor accounting).

To strengthen its equity base, Schaeffler AG completed the equity transactions described below in 2014.

The transformation of INA Beteiligungsgesellschaft mit beschränkter Haftung to a stock corporation (“Aktiengesellschaft”) on October 24, 2014 did not affect the amount of its shareholders’ equity. Its share capital (“Stammkapital”) of EUR 500 m was converted to Schaeffler AG’s share capital (“Grundkapital”) in the transformation and is divided into 50,000,000 registered no-par-value shares.

On November 03, 2014, the company’s shareholder Schaeffler Verwaltung Zwei GmbH partially waived its loan receivable from Schaeffler AG, increasing **other reserves** by the amount waived of EUR 101 m.

On December 12, 2014, the extraordinary shareholder meeting of Schaeffler AG passed a resolution to increase its **share capital** by EUR 100 m by issuing 10,000,000 new registered no-par-value shares. Subscription of the new shares was exclusive to Schaeffler Verwaltungs GmbH, Herzogenaurach. The new shares participate in profits starting January 01, 2015. The capital increase was registered in the Commercial Register on December 30, 2014.

Schaeffler Verwaltungs GmbH made a contribution in kind in consideration for the new shares it received in the capital increase. This contribution in kind consisted of loans receivable by Schaeffler Verwaltungs GmbH from Schaeffler Verwaltung Zwei GmbH with a principal of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG with a principal of EUR 629 m. Both loans mature in December 2024 and bear interest at 4.0 % p. a. at the end of the reporting period (see Note 5.5). The excess of the fair value of the contribution in kind over the increase in share capital of EUR 1,600 m was recognized in **capital reserves**.

As a result, Schaeffler AG's **share capital** amounted to EUR 600 m at December 31, 2014 and was divided into 60,000,000 registered no-par-value shares, of which 83.3 % were held by Schaeffler Verwaltung Zwei GmbH and 16.7 % were held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up and Schaeffler AG had no authorized or contingent capital or any resolutions with respect to these types of capital as at December 31, 2014. Each share carries one vote.

At December 31, 2014, **capital reserves** resulted from the capital increase completed during the year.

Other reserves consisted largely of the difference between the assets and liabilities received in the carve out (see Note 1.3) determined as at December 31, 2013, retained prior year earnings, consolidated net income for the year, and the impact of the waiver of the loan described above.

Accumulated other comprehensive income mainly consisted of the impact of currency translation, 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.

At December 31, 2014, **non-controlling interests** related primarily to third-party interests in the equity of FAG Bearings India Ltd., India which do not convey control to the holder.

A dividend of EUR 250 m (or EUR 4.17 per share) will be proposed to the Schaeffler AG annual general meeting for 2014.

4.9 Current/Non-current financial debt

No. 056

in € millions	12/31/2014 Total	Due in up to 1 year	Due in more than 1 year	12/31/2013 Total	Due in up to 1 year	Due in more than 1 year
Bank and institutional loans	1,775	1	1,774	2,236	27	2,209
Bonds	4,634	0	4,634	3,506	0	3,506
Other finanical debt	5	0	5	11	6	5
Financial debt	**6,414**	**1**	**6,413**	**5,753**	**33**	**5,720**

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 Schaeffler Group did not have any loans payable to its controlling shareholders as at December 31, 2014 (prior year: EUR 6 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 Schaeffler Group also prepaid the two institutional loan tranches and EUR 309 m of loan tranche D. In May 2014, the Schaeffler Group made an additional partial prepayment of EUR 171 m on loan tranche D.

In October 2014, Schaeffler 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:

No. 057

Tranche	Currency	Face value in millions 12/31/2014	Face value in millions 12/31/2013	Carrying amount in € millions 12/31/2014	Carrying amount in € millions 12/31/2013	Coupon 12/31/2014	Coupon 12/31/2013	Maturity
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 EUR [1]	EUR	750	0	757	0	Euribor + 3.50 % [2]	-	05/15/2020
Senior Term Loan B USD [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.
[5] 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:

No. 058

ISIN	Currency	Face value in millions 12/31/2014	Face value in millions 12/31/2013	Carrying amount in € millions 12/31/2014	Carrying amount in € millions 12/31/2013	Coupon	Maturity
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 [1]	EUR	-	326	-	323	6.75 %	-
XS0741939788 [1]	EUR	-	400	-	398	8.75 %	-
US806261AA10 [1]	USD	-	500	-	361	8.50 %	-

[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 4.12).

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.

4.10 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler 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 Schaeffler 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 Schaeffler 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, Schaeffler 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 Schaeffler 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:

No. 059

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,819	-63	-7	-95	-1,984
Pension asset (plan assets net of related liabilities)	26	0	10	0	36
Net defined benefit liability	**-1,793**	**-63**	**3**	**-95**	**-1,948**

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,392	-38	-5	-75	-1,510
Pension asset (plan assets net of related liabilities)	30	0	8	0	38
Net defined benefit liability	**-1,362**	**-38**	**3**	**-75**	**-1,472**

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:

No. 060

in € millions	12/31/2014 Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-1,013	-83	0	-226	-1,322
Present value of defined benefit obligation (deferred members)	-113	-42	-131	-13	-299
Present value of defined benefit obligation (pensioners)	-846	-97	-57	-47	-1,047
Present value of defined benefit obligations (total)	**-1,972**	**-222**	**-188**	**-286**	**-2,668**
Fair value of plan assets	179	159	191	191	720
Net defined benefit liability	**-1,793**	**-63**	**3**	**-95**	**-1,948**

in € millions	12/31/2013 Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-667	-62	0	-177	-906
Present value of defined benefit obligation (deferred members)	-87	-31	-102	-8	-228
Present value of defined benefit obligation (pensioners)	-747	-72	-51	-37	-907
Present value of defined benefit obligations (total)	**-1,501**	**-165**	**-153**	**-222**	**-2,041**
Fair value of plan assets	139	127	156	150	572
Change due to asset ceiling	0	0	0	-3	-3
Net defined benefit liability	**-1,362**	**-38**	**3**	**-75**	**-1,472**

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 Schaeffler 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:

No. 061

in € millions	2014 Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability/asset as at January 01	**-1,362**	**-38**	**3**	**-75**	**-1,472**
Benefits paid	59	0	-1	4	62
Service cost	-30	1	0	-18	-47
Net interest on net defined benefit liability	-47	-2	0	-2	-51
Employer contributions	0	9	0	17	26
Transfers in/out	-16	-1	0	0	-17
Remeasurement of net defined benefit liability	-398	-28	0	-18	-444
Changes in foreign exchange rates	1	-4	1	-3	-5
Net defined benefit liability/asset as at December 31	**-1,793**	**-63**	**3**	**-95**	**-1,948**

in € millions	2013 Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability/asset as at January 01	**-1,349**	**-70**	**13**	**-95**	**-1,501**
Benefits paid	58	0	0	7	65
Service cost	-29	0	0	-13	-42
Net interest on net defined benefit liability	-44	-2	1	-4	-49
Employer contributions	0	3	0	23	26
Transfers in/out	1	-2	0	0	-1
Remeasurement of net defined benefit liability	1	30	-11	4	24
Changes in foreign exchange rates	0	3	0	3	6
Net defined benefit liability/asset as at December 31	**-1,362**	**-38**	**3**	**-75**	**-1,472**

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:

No. 062

	2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,501**	**-165**	**-153**	**-222**	**-2,041**
Benefits paid	62	8	6	10	86
Current service cost	-30	0	0	-13	-43
Past service cost	0	0	0	-5	-5
Interest cost	-52	-8	-7	-8	-75
Employee contributions	-8	-1	0	-1	-10
Transfers in/out	-39	0	0	0	-39
Settlements paid	0	3	0	0	3
Gains (+) / losses (-) on settlements	0	1	0	0	1
Gains (+) / losses (-) – changes in financial assumptions	-401	-23	-24	-36	-484
Gains (+) / losses (-) – changes in demographic assumptions	0	-14	0	-3	-17
Gains (+) / losses (-) – experience adjustments	-2	-1	0	2	-1
Changes in foreign exchange rates	-1	-22	-10	-10	-43
Present value of defined benefit obligations as at December 31	**- 1,972**	**-222**	**- 188**	**-286**	**- 2,668**

	2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,474**	**-190**	**-146**	**-227**	**-2,037**
Benefits paid	61	7	4	14	86
Current service cost	-29	0	0	-13	-42
Interest cost	-50	-7	-6	-8	-71
Employee contributions	-8	-1	0	-1	-10
Transfers in/out	1	0	0	0	1
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	-2	0	0	-5	-7
Changes in foreign exchange rates	1	8	3	10	22
Present value of defined benefit obligations as at December 31	**- 1,501**	**- 165**	**- 153**	**-222**	**- 2,041**

The transfers shown for 2014 resulted from the adjustments to the group structure completed in 2014. These adjustments also included the defined benefit pension obligations and the related plan assets of the transferred employees (see also Note 5.5).

Movements in and types of plan assets

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

No. 063

	2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**139**	**127**	**156**	**150**	**572**
Benefits paid	-3	-8	-7	-6	-24
Interest income on plan assets	5	6	7	6	24
Employee contributions	8	1	0	1	10
Employer contributions	0	9	0	17	26
Transfers in/out	23	-1	0	0	22
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	**179**	**159**	**191**	**191**	**720**

	2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**125**	**120**	**159**	**132**	**536**
Benefits paid	-3	-7	-4	-7	-21
Interest income on plan assets	6	5	7	4	22
Employee contributions	8	1	0	1	10
Employer contributions	0	3	0	23	26
Transfers in/out	0	-2	0	0	-2
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	**139**	**127**	**156**	**150**	**572**

The Schaeffler 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:

No. 064

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Equity instruments	93	63	46	19	221
Debt instruments	33	96	38	101	268
Real estate	0	0	0	12	12
Cash	6	0	1	2	9
(Reimbursement) insurance policies	25	0	0	57	82
Mixed funds	22	0	106	0	128
Total	**179**	**159**	**191**	**191**	**720**

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Equity instruments	84	77	41	24	226
Debt instruments	29	46	56	69	200
Real estate	0	4	0	12	16
Cash	21	0	59	2	82
(Reimbursement) insurance policies	5	0	0	43	48
Mixed funds	0	0	0	0	0
Total	**139**	**127**	**156**	**150**	**572**

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:

No. 065

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2014
Current service cost	30	0	0	13	43
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	**30**	**-1**	**0**	**18**	**47**
Interest cost	52	8	7	8	75
Interest income	-5	-6	-7	-6	-24
Net interest on net defined benefit liability/asset	**47**	**2**	**0**	**2**	**51**
Gains (-)/losses (+) – changes in financial assumptions	401	23	24	36	484
Gains (-)/losses (+) – changes in demographic assumptions	0	14	0	3	17
Gains (-)/losses (+) – experience adjustments	2	1	0	-2	1
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	**398**	**28**	**0**	**18**	**444**
Total comprehensive income on defined benefit obligations	**475**	**29**	**0**	**38**	**542**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2013
Current service cost	29	0	0	13	42
Service cost	**29**	**0**	**0**	**13**	**42**
Interest cost	50	7	6	8	71
Interest income	-6	-5	-7	-4	-22
Net interest on net defined benefit liability/asset	**44**	**2**	**-1**	**4**	**49**
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	2	0	0	5	7
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	**-1**	**-30**	**11**	**-4**	**-24**
Total comprehensive income on defined benefit obligations	**72**	**-28**	**10**	**13**	**67**

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

No. 066

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	2	0	0	2	4
Administrative expenses	4	0	0	1	5
Included in EBIT	**30**	**-1**	**0**	**18**	**47**
Interest expense	52	8	7	8	75
Interest income on plan assets	-5	-6	-7	-6	-24
Included in financial result	**47**	**2**	**0**	**2**	**51**
Total	**77**	**1**	**0**	**20**	**98**

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	4	0	0	4	8
Included in EBIT	**29**	**0**	**0**	**13**	**42**
Interest expense	50	7	6	8	71
Interest income on plan assets	-6	-5	-7	-4	-22
Included in financial result	**44**	**2**	**-1**	**4**	**49**
Total	**73**	**2**	**-1**	**17**	**91**

Duration

The weighted average duration of defined benefit obligations is 18.7 years (prior year: 16.3 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: 16.5 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 Schaeffler Group are as follows:

No. 067

	2014				
	Germany	U.S.A.	United Kingdom	Other countries	**Total**
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 %**

	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 %**

[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.

No. 068

		Change in present value of defined benefit obligation				
						2014
in € millions		Germany	U.S.A.	United Kingdom	Other countries	**Total**
Discount rate	Plus 1.0 %	-311	-26	-41	-37	**-415**
	Minus 1.0 %	426	32	57	46	**561**
Future salary increases	Plus 1.0 %	44	n.a. [1]	n.a. [1]	18	**62**
	Minus 1.0 %	-38	n.a. [1]	n.a. [1]	-16	**-54**
Future pension increases	Plus 1.0 %	215	0	24	16	**255**
	Minus 1.0 %	-179	0	-20	-10	**-209**
						2013
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 %	24	n.a. [1]	n.a. [1]	16	**40**
	Minus 1.0 %	-28	n.a. [1]	n.a. [1]	-10	**-38**
Future pension increases	Plus 1.0 %	149	0	19	12	**180**
	Minus 1.0 %	-133	0	-16	-7	**-156**

[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 94 m (prior year: EUR 65 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 Schaeffler Group to actuarial risk such as longevity risk, currency risk, interest rate risk and investment risk.

Defined contribution pension plans

In 2014, Schaeffler 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.

4.11 Provisions

No. 069

in € millions	Employee benefits	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 01, 2014	**130**	**80**	**34**	**11**	**429**	**684**
Additions	34	27	4	2	77	144
Utilization	-41	-39	-8	-5	-390	-483
Reversals	-32	-5	0	-2	-13	-52
Interest expense	5	0	0	0	1	6
Foreign currency translation	0	1	0	0	2	3
Balance as at December 31, 2014	**96**	**64**	**30**	**6**	**106**	**302**

Provisions consist of the following current and non-current portions:

No. 070

	12/31/2014			**12/31/2013**		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	55	41	96	81	49	130
Warranties	0	64	64	0	80	80
Other taxes	0	30	30	0	34	34
Liability and litigation risks	0	6	6	0	11	11
Other	15	91	106	14	415	429
Total	**70**	**232**	**302**	**95**	**589**	**684**

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 Schaeffler 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.

4.12 Other financial liabilities and other liabilities

No. 071

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial liabilities						
Amounts payable to staff	0	240	240	0	180	180
Derivative financial liabilities	10	77	87	152	15	167
Miscellaneous financial liabilities	11	241	252	10	210	220
Total	**21**	**558**	**579**	**162**	**405**	**567**

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 Schaeffler Group's business in 2014 and targeted staff increases.

Derivative financial liabilities included forward exchange contracts and cross-currency swaps used to hedge the Schaeffler 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 Schaeffler Group's exposure to currency and liquidity risk related to other financial liabilities is disclosed in Note 4.13.

No. 072

	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	78	78
Miscellaneous liabilities	5	158	163	3	135	138
Total	**8**	**313**	**321**	**6**	**282**	**288**

Social security contributions payable consist mainly of unpaid contributions to social security schemes.

Miscellaneous liabilities primarily contained accrued vacation and overtime accounts.

4.13 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.

No. 073

		12/31/2014		12/31/2013	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	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	2,022	2,036	177	177
Cash and cash equivalents	LaR	636	636	300	300
Financial liabilities, by class					
Financial debt	FLAC	6,414	6,846	5,753	6,325
Trade payables	FLAC	1,261	1,261	1,022	1,022
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	492	492	400	400
Summary by category					
Available-for-sale financial assets (AfS)		26	-	23	-
Financial assets held for trading (HfT)		245	-	207	-
Loans and receivables (LaR)		4,558	-	2,153	-
Financial liabilities at amortized cost (FLAC)		8,167	-	7,175	-
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 loans receivable of EUR 1,700 m included in other financial assets represent an exception to this approach, as they have a maturity of ten years (see Notes 4.6, 4.8, and 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 Schaeffler 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 Schaeffler Group have been pledged on the basis of the Facilities Agreement and the bond agreements (see Note 4.9). 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 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 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 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.

No. 074

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		1,714	1,714
Total financial assets	**12**	**1,983**	**1,995**
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
Other financial assets		0	0
Total financial assets	**9**	**249**	**258**
Financial debt		6,325	6,325
Derivatives designated as hedging instruments		104	104
Derivatives not designated as hedging instruments		63	63
Total financial liabilities	**0**	**6,492**	**6,492**

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:

No. 075

in € millions	Subsequent measurement				Net income (loss)	
	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	9		-1	26	34	-6
Financial liabilities at amortized cost	-489			-260	-749	-346
Total	**-482**	**175**	**-1**	**-234**	**-542**	**-260**

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 Schaeffler group to various risks.

Schaeffler's Board of Managing Directors 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.

The Schaeffler 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 Schaeffler Group distinguishes between liquidity risk, counterparty risk, and market risk (interest rate, currency, and other price risk).

Liquidity risk

The risk that the Schaeffler Group will not be able to meet its payment obligations as they come 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 without incurring unacceptable losses or risking damage to Schaeffler'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 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. Schaeffler has access to a line of credit of EUR 1,000 m which bears interest at Euribor plus 287.5 basis points.

The Schaeffler Group's contractual payments of interest and principal on financial liabilities and derivative liabilities are summarized as follows:

No. 076

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	**8,167**	**9,703**	**2,066**	**3,879**	**3,758**
• Financial debt	6,414	7,949	320	3,871	3,758
• Trade payables	1,261	1,261	1,261	0	0
• Other non-derivative financial liabilities	492	493	485	8	0
Derivative financial liabilities	**87**	**17**	**74**	**-11**	**-46**
Total	**8,254**	**9,720**	**2,140**	**3,868**	**3,712**
December 31, 2013					
Non-derivative financial liabilities	**7,175**	**8,690**	**1,711**	**5,450**	**1,529**
• Financial debt	5,753	7,268	297	5,442	1,529
• Trade payables	1,022	1,022	1,022	0	0
• Other non-derivative financial liabilities	400	400	392	8	0
Derivative financial liabilities	**167**	**149**	**25**	**95**	**29**
Total	**7,342**	**8,839**	**1,736**	**5,545**	**1,558**

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 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 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 Schaeffler 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 Schaefflers's long-term loans receivable from related companies of EUR 1,700 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 Schaeffler Group's Board of Managing Directors 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 Schaeffler Group's interest-bearing net financial debt.

Schaeffler's financial debt can be summarized by type of interest as follows:

No. 077

	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**	**3,527**
• Financial debt	4,639	3,527

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:

No. 078

	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 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.

Currency risk from operations

The international nature of the Schaeffler 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 Schaeffler 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:

No. 079

in € millions	USD	CNY	RON	HUF
December 31, 2014				
Estimated currency risk from operations	1,197	181	-194	-114
Forward exchange contracts	-476	0	76	68
Remaining currency risk from operations	**721**	**181**	**-118**	**-46**
December 31, 2013				
Estimated currency risk from operations	1,026	0	-167	-115
Forward exchange contracts	-608	0	177	86
Remaining currency risk from operations	**418**	**0**	**10**	**-29**

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 4.7) 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 -321 m (prior year: EUR -225 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.

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 Schaeffler 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:

No. 080

	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 Schaeffler 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 Schaeffler 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.

No. 081

	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 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.

Derivative financial instruments and hedging relationships

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:

No. 082

	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 Schaeffler 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 Schaeffler'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:

No. 083

in € millions	2014	2013
Balance as at January 01	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 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 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:

No. 084

in € millions	2014	2013
Balance as at January 01	-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:

No. 085

in € millions	2014	2013
Balance as at January 01	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 Schaeffler 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 Schaeffler 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 Schaeffler 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 Schaeffler Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements are as follows:

No. 086

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

4.14 Capital management

The Schaeffler Group has a long-term strategy of pursuing profitable growth. Actively managing its capital provides the financial resources that strategy requires, ensures the Schaeffler 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 Schaeffler Group has made preparations to obtain external financing via the capital markets. The Schaeffler 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 Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.9). 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 Schaeffler Group 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 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:

No. 087

in € millions	12/31/2014	12/31/2013
Current financial debt	1	33
Non-current financial debt	6,413	5,720
Total financial debt	**6,414**	**5,753**
Cash and cash equivalents	636	300
Total net financial debt	**5,778**	**5,453**
Shareholder loans	0	6
Net financial debt excluding shareholder loans	**5,778**	**5,447**
Earnings before financial result, income from equity-accounted investees, income taxes, depreciation and amortization (EBITDA)	**2,172**	**1,660**
Net financial debt excluding shareholder loans to EBITDA ratio	**2.7**	**3.3**

5. Other disclosures

5.1 Leases

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

No. 088

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 75 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 Schaeffler 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. Schaeffler AG and certain Schaeffler 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 Schaeffler Group to recognize a provision as at December 31, 2014. The investigations of the Brazilian antitrust authorities relate to various Schaeffler Group products. As at the end of the reporting period, the Schaeffler 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 4.9 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 a loan of EUR 168 m from the company's shareholder Schaeffler Verwaltung Zwei GmbH (see Note 5.5).

The capital increase Schaeffler AG completed in December 2014 represented another non-cash transaction (see Notes 4.8 and 5.5).

The financial allocation account was cleared in full in 2013 (see Note 1.3)

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 Schaeffler Group Board of Managing Directors. 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's Board of Managing Directors 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 reports provided to the Schaeffler Group's Board of Managing Directors. 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, 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 Board of Managing Directors 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.

No. 089

Reconciliation to earnings before income taxes in € millions	2014	2013
EBIT Automotive [1]	1,234	683
EBIT Industrial [1]	289	325
EBIT	**1,523**	**1,008**
Financial result	-620	-424
Income from equity-accounted investees	1	2
Earnings before income taxes	**904**	**586**

[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 Schaeffler 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 Schaeffler 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

No. 090

	Revenue [1]		Non-current assets [2]	
in € millions	2014	2013	12/31/2014	12/31/2013
Europe	6,906	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	**12,124**	**11,205**	**4,303**	**3,907**

[1] Revenue by market (customer location). Prior year information presented based on 2014 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

EUR 2,905 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

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler and the close members of their family are related parties of the Schaeffler Group.

The Schaeffler 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 Schaeffler Group, directly or indirectly. For the Schaeffler Group, the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG represent key management personnel, making them and the close members of their families related parties of Schaeffler AG. In addition, the managing directors of the legal predecessor of Schaeffler AG, IBH, and the close members of their families are also related parties of Schaeffler AG.

Total remuneration of the Board of Managing Directors of Schaeffler AG appointed since October 24, 2014 and of the managing directors of its legal predecessor IBH for the year was EUR 2 m (prior year: EUR 6 m), including EUR 1 m (prior year: EUR 5 m) in short-term benefits. Expenses of EUR 1 m (prior year: EUR 1 m) were recognized for post-employment benefits.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 0.2 m (prior year: EUR 0 m).

The company did not pay any other benefits to its key management personnel.

Former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 1 m in 2014 (prior year: EUR 0 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 1 m at December 31, 2014 (prior year: EUR 0 m).

Members of the Board of Managing Directors of Schaeffler AG, the managing directors of its legal predecessor IBH, and members of the Schaeffler AG Supervisory Board as well as 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, members of the Board of Managing Directors of Schaeffler AG, managing directors of its legal predecessor IBH and members of the Schaeffler AG Supervisory Board 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 members of the Schaeffler Group's Board of Managing Directors or Schaeffler AG's Supervisory Board or to managing directors of IBH.

Related entities

Pursuant to IAS 24, the Schaeffler Group's related entities consist of the entities controlled or jointly controlled by Schaeffler AG's ultimate parent company, INA-Holding Schaeffler GmbH & Co. KG, or over which INA-Holding Schaeffler GmbH & Co. KG has significant influence.

As transactions with significant subsidiaries have been eliminated upon consolidation, they need not be discussed any further. Transactions with associated companies and joint ventures were insignificant in 2014.

In 2014 and 2013, Schaeffler Group companies had various business relationships its related entities.

As part of the realignment of the group structure (see Note 1.2), all operating assets, liabilities and contractual relationships were transferred from Schaeffler Verwaltung Zwei GmbH to Schaeffler AG. This applies, in particular, to existing employment contracts and the related personnel provisions. Schaeffler Verwaltung Zwei GmbH committed to paying EUR 35 m in consideration for the transfer of the operating assets and liabilities. The related receivable is reported within other financial assets.

In May 2014, Schaeffler Beteiligungsholding GmbH & Co. KG passed a dividend of EUR 168 m paid by Continental AG to Schaeffler AG by via Schaeffler Verwaltung Zwei GmbH as a loan. On November 03, 2014, Schaeffler Verwaltung Zwei GmbH waived EUR 101 m of this loan receivable (see Note 4.8). The remainder of the loan due to Schaeffler Verwaltung Zwei GmbH was paid off in full in 2014.

The loan receivable from higher-level holding companies with a balance of EUR 6 m outstanding at December 31, 2013 was paid off in full in 2014.

Schaeffler AG has been managing the Schaeffler Group's cash pool since October 01, 2014. The assumption of the cash pooling function by Schaeffler AG before the group structure was realigned led to various amounts due to and from Schaeffler Verwaltung Zwei GmbH in the form of clearing accounts and loan accounts. Interest on clearing accounts is calculated based on rolling average balances using Eonia (Euro OverNight Index Average). Loan accounts bear interest at market rates. On December 31, 2014, the clearing account with Schaeffler Verwaltung Zwei GmbH amounted to EUR 236 m.

As part of the realignment of the group structure, the company comleted a capital increase by way of a contribution in kind in the form of loans receivable. As a result, Schaeffler AG has a loan receivable from Schaeffler Verwaltung Zwei GmbH with a principal of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG with a principal of EUR 629 m (see Note 4.8). Both loans mature in December 2024 and bore interest at 4.0 % p.a. in 2014.

The terms of these loans relating to the payment of interest stipulate that Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG have the option of capitalizing the interest accrued during any one interest period rather than paying such interest to Schaeffler AG. 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 these loans in 2014 amounted to EUR 4 m.

For both loans, 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 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.

In the prior year, Schaeffler Verwaltung Zwei GmbH made a contribution to IBH by assigning a receivable of EUR 638 m due from IBH to that company. The contribution had the effect of increasing reserves.

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 related 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.

No. 091

	Receivables		Payables	
in € millions	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Related Parties	1,985	127	21	32

No. 092

	Expenses		Income	
in € millions	2014	2013	2014	2013
Related Parties	136	115	107	129

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 3.6 m (prior year: EUR 2.4 m) and consist of EUR 2.2 m (prior year: EUR 1.3 m) for financial statement audit services, EUR 0.3 m (prior year: EUR 0.4 m) for other attestation services, EUR 0.8 m (prior year: EUR 0.6 m) for tax advisory services, and EUR 0.3 m (prior year: EUR 0.1 m) 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 Exemptions under section 264 (3) HGB and section 264b HGB

The following domestic subsidiaries meet the requirements set out in section 264 (3) HGB or section 264b HGB to be eligible for these exemptions for 2014 and are availing themselves of these exemptions:

- AS Auslandsholding GmbH, Bühl
- Dürkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft für Arbeitsmedizin und Umweltschutz mbH – AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach
- IAB Verwaltungs GmbH, Herzogenaurach
- IFT Ingenieurgesellschaft für Triebwerks-Technik mbH, Clausthal-Zellerfeld
- INA Automotive GmbH, Herzogenauarch
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Bühl mbH, Bühl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach
- LuK Auslandsholding GmbH, Bühl
- LuK Beteiligungsgesellschaft mbH, Bühl
- LuK Vermögensverwaltungsgesellschaft mbH, Bühl
- PD Qualifizierung und Beschäftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Engineering GmbH, Werdohl
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Eins GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Zwei GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Drei GmbH, Herzogenaurach
- CVT Verwaltungs GmbH & Co. Patentverwertungs KG, Bühl

- FAG Aerospace GmbH & Co. KG, Schweinfurt
- GURAS Beteiligungs GmbH & Co. Vermietungs-KG, Pullach
- INA – Drives & Mechatronics GmbH & Co. KG, Suhl
  (since January 01, 2015: INA – Drives & Mechatronics AG & Co. KG, Suhl)
- LuK GmbH & Co. KG, Bühl
- LuK Truckparts GmbH & Co. KG, Kaltennordheim
- LuK Unna GmbH & Co. KG, Unna
- Schaeffler Automotive Aftermarket GmbH & Co. KG, Langen

- Schaeffler Elfershausen GmbH & Co. KG, Herzogenaurach
  (since January 01, 2015: Schaeffler Elfershausen AG & Co. KG, Herzogenaurach)
- Schaeffler Immobilien GmbH & Co. KG, Herzogenaurach
  (since January 01, 2015: Schaeffler Immobilien AG & Co. KG, Herzogenaurach)
- Schaeffler Motorenelemente GmbH & Co. KG, Herzogenaurach
  (since January 01, 2015: Schaeffler Motorenelemente AG & Co. KG, Herzogenaurach)
- Schaeffler Technologies GmbH & Co. KG, Herzogenaurach,
  (since January 01, 2015: Schaeffler Technologies AG & Co. KG, Herzogenaurach)
- WPB Water Pump Bearing GmbH & Co. KG, Herzogenaurach

5.8 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, 2014.

5.9 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG, which is based in Herzogenaurach.

No. 093

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated **I. Germany (53)**			
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
Dürkopp 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 für Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstücksverwaltungsgesellschaft 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 für 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 Bühl 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 Vermögensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschäftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen GmbH & Co. KG (since January 01, 2015: 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 January 01, 2015: 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
Unterstützungskasse 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
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
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 (3)

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

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 Schaeffler Group’s earnings, financial position, and net assets.
[2] Joint ventures accounted for using the equity method.

5.10 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on March 09, 2015 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 09, 2015

The Board of Managing Directors

Members of the Supervisory Board

Georg F. W. Schaeffler [1)]
Chairman

Maria-Elisabeth Schaeffler-Thumann [1)]
Deputy Chairperson

Jürgen Wechsler* [3)]
Deputy Chairman

Jürgen Bänsch* [3)]
Prof. Dr. Hans-Jörg Bullinger [2)]
Dr. Holger Engelmann [2)]
Prof. Dr. Bernd Gottschalk [2)]
Norbert Lenhard* [3)]
Dr. Siegfried Luther [2)]
Dr. Reinold Mittag* [3)]
Thomas Mölkner* [3)]
Stefanie Schmidt* [3)]
Dirk Spindler* [3)]
Robin Stalker [2)]
Jürgen Stolz* [3)]
Salvatore Vicari* [3)]
Dr. Otto Wiesheu [2)]
Prof. KR Ing. Siegfried Wolf [1)]
Jürgen Worrich* [3)]
Prof. Dr.-Ing. Tong Zhang [2)]

* Employee representative.
[1)] Member of the Supervisory Board since October 02, 2014; appointed on December 01, 2014.
[2)] Appointed by the general shareholders' meeting on December 01, 2014.
[3)] Appointed by the court on December 02, 2014.

Members of the Board of Managing Directors

Klaus Rosenfeld [1]

Chief Executive Officer and Chief Financial Officer

Prof. Dr.-Ing. Peter Gutzmer [1]

Deputy Chief Executive Officer and Chief Technology Officer

Norbert Indlekofer [1]

CEO Automotive

Oliver Jung [1]

Chief Operating Officer

Kurt Mirlach [1]

Human Resources

Prof. Dr. Peter Pleus [1]

CEO Automotive

Robert Schullan [1]

CEO Industrial

[1] Appointed to the Schaeffler AG Board of Managing Directors on October 02, 2014; previously managing director of IBH.

Independent Auditors' Report*

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by the Schaeffler AG (until October 23, 2014: INA Beteiligungsgesellschaft mit beschränkter Haftung), 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 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 01, 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 10, 2015

KPMG AG

Wirtschaftsprüfungsgesellschaft

Sailer	Pritzer
Wirtschaftsprüfer	Wirtschaftsprüfer

* This auditors' report, prepared in accordance with § 322 HGB ["Handelsgesetzbuch": "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 its report on the position of Schaeffler AG and the Schaeffler Group for the financial year from January 1, 2014 to December 31, 2014. The report on the position 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 unconsolidated financial statements
of Schaeffler Verwaltung Zwei GmbH
as of and for the fiscal year ended December 31, 2015

Schaeffler Verwaltung Zwei GmbH, Herzogenaurach

Statement of financial position as at December 31, 2015

Assets

	12/31/2015		12/31/2014	
	EUR	EUR	EUR	EUR
A. Assets				
I. Long-term financial assets				
1. Shares in affiliated companies	4.706.379.127,39		4.706.379.127,39	
2. Equity investments	5.420.972.576,31		4.589.959.970,29	
3. Other loans receivable	4.800.192,77		4.715.107,00	
		10.132.151.896,47		9.301.054.204,68
		10.132.151.896,47		9.301.054.204,68
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	610.949,18		15.368.631,78	
2. Other assets	273.872,12	884.821,30	7.085.322,25	22.453.954,03
II. Cash at banks		9.385.706,79		75.085.457,71
		10.270.528,09		97.539.411,74
D. Excess of plan assets over post-employment benefit liability		3.135.872,00		10.006.905,27
		10.145.558.296,56		**9.408.600.521,69**

Shareholders' equity and liabilities

		12/31/2015 EUR	12/31/2014 EUR
A.	**Total shareholders' equity**		
I.	**Share capital**	500.025.000,00	500.025.000,00
II.	**Capital reserves**	66.939.484,22	66.939.484,22
III.	**Revenue reserves**	6.447.226.845,61	6.847.226.845,61
IV.	**Retained earnings brought forward**	165.594.692,60	
V.	**Net income for the year**	676.672.104,65	165.594.692,60
		7.856.458.127,08	7.579.786.022,43
B.	**Provisions**		
1.	Provisions for pensions and similar obligations	1.534.994,90	4.099.176,48
2.	Tax provisions	101.521.498,00	100.992.364,00
3.	Other provisions	3.152.880,00	4.260.798,25
		106.209.372,90	109.352.338,73
C	**Liabilities**		
1.	Bank debt	0,00	2,56
2.	Trade payables	21.171,99	418.218,77
3.	Amounts payable to affiliated companies	1.881.836.648,23	1.344.908.040,24
4.	Other liabilities --including taxes EUR 81,097.74 (prior year: EUR 82,138.37)--	2.831.278,39	4.551.994,10
		1.884.689.098,61	1.349.878.255,67
D.	**Deferred tax liabilities**	298.201.697,97	369.583.904,86
		10.145.558.296,56	**9.408.600.521,69**

Schaeffler Verwaltung Zwei GmbH, Herzogenaurach
Herzogenaurach

Income statement for the period
from January 1, 2015 to December 31, 2015

		2015	2014
		EUR	EUR
1.	Income from equity investments – including EUR 250 000 000 (prior year: EUR 168,000,000) from affiliated companies –	250.000.000,00	168.000.000,00
2.	Other interest and similar income – including EUR 0 (prior year: EUR 655,536.07) from affiliated companies –	100.793,77	2.209.735,62
3.	Interest and similar expenses – including EUR 55,749,382.10 (prior year: EUR 44,064,097.96) to affiliated companies –	-64.634.221,19	-63.172.190,21
4.	General and administrative expenses	-9.602.783,11	-26.949.543,55
5.	Other operating income	13.009.318,42	91.374.089,27
6.	Other operating expenses	-470.169,70	-62.485.168,67
7.	Result from ordinary activities	188.402.938,19	108.976.922,46
8.	Extraordinary income	420.668.646,38	101.000.000,00
9.	Extraordinary expenses	0,00	-101.000.000,00
10.	Extraordinary result	420.668.646,38	0,00
11.	Income taxes – including deferred tax benefit of EUR 68,583,568.77 (prior year: Income EUR 53,684,479.76) –	67.348.130,08	56.640.943,14
12.	Other taxes	252.390,00	-23.173,00
13.	**Net income for the year**	**676.672.104,65**	**165.594.692,60**

Notes to the financial statements

Schaeffler Verwaltung Zwei GmbH

Herzogenaurach

NOTES TO THE FINANCIAL STATEMENTS
for the year from January 1, 2015 to December 31, 2015

A. GENERAL INFORMATION ON THE FINANCIAL STATEMENTS

Schaeffler Verwaltung Zwei GmbH, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach.

These financial statements were prepared pursuant to section 242 et seq. and section 264 et seq. of the German Commercial Code (HGB, supplementary regulations for corporations) and the supplementary provisions of the German Limited Liability Companies Act (GmbH-Gesetz).

The regulations for large corporations apply to the company as defined in section 267 (3) HGB.

Comparability with prior year financial statements:

Schaeffler AG was converted into a limited liability company (Gesellschaft mit beschränkter Haftung) on October 23, 2014 (date of entry in the commercial register) and renamed Schaeffler Verwaltung Zwei GmbH. Also on that date, all of Schaeffler Verwaltung Zwei GmbH's functions (CEO functions, Technology, Operations, Finance and Human Resources) were transferred from that company to Schaeffler AG (INA Beteiligungsgesellschaft mit beschränkter Haftung until October 23, 2014).

Furthermore, interest accrued on long-term loans payable to Schaeffler AG is now reported as amounts payable to affiliated companies rather than asother liabilities. The prior year amounts have been adjusted accordingly.

B. ACCOUNTING POLICIES

Details of the company's accounting policies are as follows:

Long-term financial assets are recorded at amortized cost or, in the event of lasting impairment, at their lower fair value.

Write-downs to the lower fair value are recognized when the impairment is expected to be permanent. Write-downs are reversed to the extent the cause of the write-down no longer exists.

Receivables are recorded at face value.

Other assets are recorded at face or fair value, settlement amount, or present value.

Cash at banks is measured at face value.

Pensions and similar obligations are determined by actuarial calculations using the projected unit credit method (PUC) based on the "Heubeck-Richttafeln 2005 G" mortality tables. The valuation of pension provisions reflects future annual salary increases of 3.25 %, pension increases of 1.0 - 1.75 %, and an employee turnover rate of 2.1 %. The interest rate used to discount pension obligations was 3.89 % as at December 31, 2015; this is the average market interest rate for an assumed residual term of 15 years, determined and published by Deutsche Bundesbank.

Tax provisions reflect all identifiable risks and uncertain liabilities and are recognized at the expected settlement amount, based on reasonable business judgment. Provisions due in more than one year are discounted at the average market interest rate over the past seven business years appropriate to their term to maturity. Provisions due in less than one year are not discounted.

Other provisions reflect all identifiable risks and uncertain liabilities. They are recognized at the amount required to settle the expected expenditures related to uncertain liabilities as determined using reasonable business judgment. Future price and cost increases are reflected in the calculation to the extent there is sufficient objective evidence of their occurrence. Provisions due in more than one year are discounted using the average market interest rate over the past seven business years appropriate to their term to maturity. Provisions due in less than one year are not discounted.

Bank debt, trade payables, amounts payable to affiliated companies, and other liabilities are recognized at their settlement amount.

Deferred taxes are recognized on temporary differences between the amounts recognized for financial reporting and for tax purposes for assets, liabilities, prepaid assets and deferred charges, as well as deferred income. Any resulting net future tax charged is recognized in the statement of financial position as a deferred tax liability.

Principles of foreign currency translation

Receivables and liabilities in foreign currency are recognized at the exchange rate applicable at the time of the transaction, and re-translated at the mean spot exchange rate on the balance sheet date Gains are only recognized to the extent they relate to receivables and liabilities due in up to one year.

Bank balances in foreign currency are translated at the mean spot exchange rate on the reporting date.

C. NOTES TO THE STATEMENT OF FINANCIAL POSITION

1. Fixed assets

Notes on shareholdings

Please see the separate appendix to these notes for details on the company's shareholdings.

2. Receivables and other assets

As in the prior year, receivables and other assets are due in less than one year.

Receivables from affiliated companies include trade receivables of EUR 567 thousand (prior year: EUR 11,881 thousand) as well as receivables from shareholders of EUR 218 thousand (prior year: EUR 82 thousand).

3. Excess of plan assets over post-employment benefit liability

The company holds assets to partially fund its obligations under pension commitments and similar long-term obligations. The exclusive purpose of these assets is settling pension obligations and similar long-term obligations and cannot be accessed by other creditors. The assets were offset against the related obligations during the year in accordance with section 246 (2) sentence 2 HGB and consist mainly of reimbursement insurance policies, as well as units of equity, fixed income, and money market funds. The fair value shown in the table below for assets that are interests in funds was derived from market prices of the funds' assets as at the reporting date.

	12/31/2015 EUR thousand	12/31/2014 EUR thousand
Settlement amount of pensions and similar obligations	31,338	24,642
Fair value of plan assets offset	34,474	34,649
Net amount of pensions and similar obligations	-3,136	-10,007
Acquisition cost of plan assets offset	34,258	34,463
Interest income on plan assets offset	1,118	1,497
Interest expenses on pensions and similar obligations	4,510	16,579
Net interest expenses	3,392	15,082

4. Shareholders' equity

Share capital

Schaeffler Verwaltung Zwei GmbH' share capital remains unchanged at EUR 500,025 thousand.

Revenue reserves and retained earnings

On April 14, 2015, a decision was made to carry forward the net income of EUR 165,595 thousand for the year ended December 31, 2014.

Based on a resolution passed on October 08, 2015, EUR 400,000 thousand of the company's revenue reserves were used to pay a dividend to its sole shareholder.

5. Provisions

Other provisions consist of:

	12/31/2015 EUR thousand	12/31/2014 EUR thousand
Provision for preparation and audit of financial statements	679	844
Provision for invoices not yet received	0	1,046
Other provisions	2,474	2,371
Total	3,153	4,261

Other provisions consist primarily of provisions for expenses related to future tax audits for prior years.

6. Liabilities

12/31/2015	Due in up to one year EUR thousand	Due in between one and five years EUR thousand	Due in more than five years EUR thousand	Total EUR thousand
1. Trade payables	21	0	0	21
2. Amounts payable to affiliated companies	109,030	1,772,807	0	1,881,837
including trade payables of	*352*	*0*	*0*	*352*
including amounts due to shareholder of	*70,104*	*0*	*0*	*70,104*
3. Other liabilities	2,831	0	0	2,831
including taxes of	*81*	*0*	*0*	*81*

12/31/2014	Due in up to one year EUR thousand	Due in between one and five years EUR thousand	Due in more than five years EUR thousand	Total EUR thousand
1. Trade payables	418	0	0	418
2. Amounts payable to affiliated companies	271,593	1,071,054	0	1,342,647
including trade payables of	*781*	*0*	*0*	*781*
including amounts due to shareholder of	*0*	*0*	*0*	*0*
3. Other liabilities	6,813	0	0	6,813
including taxes of	*82*	*0*	*0*	*82*

The increase in amounts payable to affiliated companies is primarily the result of the assumption of a loan payable to Schaeffler AG of EUR 634,257 thousand from Schaeffler Beteiligungsholding GmbH & Co. KG.

7. Deferred taxes

Deferred tax liabilities declined to EUR 298,202 thousand (prior year: EUR 369,584 thousand) as a result of the reduction in the deferred taxes recognized with respect to a change to the internal corporate structure in 2012. Deferred taxes primarily relate to differences in recognized amounts of equity investments. As a result of the Schaeffler Beteiligungsholding GmbH & Co. KG merger on December 31, 2015, Schaeffler Verwaltung Zwei GmbH acquired deferred tax assets amounting to EUR 2,799 thousand. The underlying tax rate is 27 %.

D. NOTES TO THE INCOME STATEMENT

1. Disclosures required for the cost of sales format

	2015 EUR thousand	2014 EUR thousand
Personnel expense:		
a) Wages and salaries	2,940	41,334
b) Social security contributions and expenses for post-employment benefits and support *including post-employment benefit costs of EUR 50 thousand (prior year: EUR 5,502 thousand)*	50	8,708
	2,990	50,042

2. Income and expense from discounting/compounding and from foreign currency translation

Other operating income includes foreign exchange gains of EUR 125 thousand (prior year: EUR 96 thousand). Other operating expenses include foreign exchange losses of EUR 33 thousand (prior year: EUR 31 thousand).

Other interest and similar expenses include EUR 9,606 thousand (prior year: EUR 16,589 thousand) in expenses from compounding.

3. Extraordinary result

in € thousand	2015	2014
Gain on merger	420,669	0
Waiver of receivable by the shareholder	0	101,000
Waiver of loan receivable from Schaeffler AG	0	-101,000
Total	420,669	0

The extraordinary result arose from the Schaeffler Beteiligungsholding GmbH & Co. KG merger with Schaeffler Verwaltung Zwei GmbH on December 31, 2015. The difference between the carrying amount of the absorbed shares in Schaeffler Beteiligungsholding GmbH & Co. KG and the carrying amount of the net assets assumed from Schaeffler Beteiligungsholding GmbH & Co. KG was recognized in profit or loss as an extraordinary gain.

4. Expenses and income for prior years

Expenses and income for prior years, amounting to EUR 3,571 thousand, are primarily the result of recharges of project costs from prior years.

5. Income taxes

Income taxes consist of expenses of EUR 1,235 thousand (prior year: tax benefit of EUR 2,956 thousand) primarily relating to 2015. In addition, the balance sheet impact of the change to the internal corporate structure completed in 2012 has resulted in a deferred tax benefit of EUR 68,583 thousand (prior year: EUR 53,684 thousand) which is expected to reverse over a period of four years provided the group structure remains unchanged. Income taxes relate solely to the result from ordinary activities.

E. OTHER DISCLOSURES

1. Contingent liabilities

Contingent liabilities are as follows:

in € thousand	12/31/2015	12/31/2014
From granting security for third-party liabilities	0	6,051,392
including amounts secured by liens of	*0*	*6,051,392*
including security granted for liabilities of affiliated companies of	*0*	*6,051,392*

The guarantees in favor of the creditor banks of the Schaeffler Group were released in connection with the listing on October 9, 2015.

The change to the corporate structure completed in 2012 has resulted in a contingent liability of EUR 8,939,359 thousand in accordance with section 133 of the German Reorganization of Companies Act ("Umwandlungsgesetz" – UmwG). Under the contractual agreement, the company is contingently liable for the significant liabilities transferred, and these liabilities are included in total contingent liabilities above.

As at December 31, 2015, guarantees amounted to EUR 1,948 thousand (prior year: EUR 13,134 thousand).

Given the positive development experienced by the Schaeffler Group, the company considers the risk of claims under its guarantees for third-party liabilities to be low.

2. Average number of employees during the year

	2015	2014
Employees	0	232
Temporary staff	0	5
Total	0	237

3. Governing bodies of the company

Executive Management Board

The members of the Executive Management Board of Schaeffler Verwaltung Zwei GmbH, Herzogenaurach, are:

- Maria-Elisabeth Schaeffler-Thumann, Herzogenaurach, Deputy Chairperson of the Supervisory Board of Schaeffler AG, partner in INA-Holding Schaeffler GmbH & Co. KG
- Georg F. W. Schaeffler, Herzogenaurach, Chairman of the Supervisory Board of Schaeffler AG, partner in INA-Holding Schaeffler GmbH & Co. KG,
- Klaus Rosenfeld, Frankfurt am Main, Chief Executive Officer of Schaeffler AG
- Klaus Deißenberger, Nuremberg, General Counsel of Schaeffler AG

The Board of Managing Directors was the managing body of Schaeffler AG until its conversion to Schaeffler Verwaltung Zwei GmbH on October 23, 2014.

Total remuneration paid to the members of the Executive Management Board (prior year: the Schaeffler AG managing body) in return for the performance of their duties during the year amounted to EUR 0 thousand (prior year: EUR 10,377 thousand).

Former members of the Board of Managing Directors (and their surviving dependents) of the company and/or its legal predecessor companies received remuneration of EUR 2,942 thousand in 2015 (prior year: EUR 2,000 thousand).

Provisions for pension obligations, before netting of related plan assets, for former members of the Board of Managing Directors (and their surviving dependents) of the company and its legal predecessor companies amounted to EUR 30,429 thousand as at December 31, 2015 (prior year: EUR 26,328 thousand).

4. Notes on amounts not available for distribution under section 268 (8) HGB

EUR 216 thousand (prior year EUR 186 thousand) are not available for distribution as they relate to assets recognized at fair value.

5. Auditors' fees

Disclosures regarding the auditors' fees required by section 285 (17) HGB are provided in the consolidated financial statements of INA-Holding GmbH & Co. KG, Herzogenaurach.

6. Group affiliation

The company is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, which are filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlagsgesellschaft mbH, Cologne) and published in the Electronic Federal Gazette.

Herzogenaurach, 03/31/2016

Schaeffler Verwaltung Zwei GmbH

Maria-Elisabeth Schaeffler-Thumann	Georg F.W. Schaeffler
Klaus Rosenfeld	Klaus Deißenberger

Appendices

Schaeffler Verwaltung Zwei GmbH
Herzogenaurach

Movements in fixed assets in 2015

in € thousand	01/01/2015	Additions	Cost Disposals	Transfers	12/31/2015
1. Shares in affiliated companies	4.706.379	0	0	0	4.706.379
2. Equity investments	4.589.960	6.055.230	5.224.217	0	5.420.973
3. Other loans receivable	4.715	85	0	0	4.800
Long-term financial assets	**9.301.054**	**6.055.315**	**5.224.217**	**0**	**10.132.152**
	9.301.054	**6.055.315**	**5.224.217**	**0**	**10.132.152**

	Amortization and write-downs			Carrying amounts	
01/01/2015	Additions	Disposals	12/31/2015	12/31/2015	12/31/2014
0	0	0	0	4.706.379	4.706.379
0	0	0	0	5.420.973	4.589.960
0	0	0	0	4.800	4.715
0	**0**	**0**	**0**	**10.132.152**	**9.301.054**
0	**0**	**0**	**0**	**10.132.152**	**9.301.054**

List of shareholdings of Schaeffler Verwaltung Zwei GmbH as at 12/31/2015

Entity	Registered office	Country code	Equity interest in %	Equity in EUR thousand	Net income/ (loss) for the year in EUR thousand
A. Associated companies					
I. Germany					
AS Auslandsholding GmbH (2)	Bühl	DE	100,00	20.369	0
CBF Europe GmbH	Wuppertal	DE	100,00	-4.864	0
CVT Beteiligungsverwaltungs GmbH	Bühl	DE	100,00	44	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Bühl	DE	100,00	1.636	2.018
Dürkopp Maschinenbau GmbH (2)	Schweinfurt	DE	100,00	4.289	0
Egon von Ruville GmbH (2)	Hamburg	DE	100,00	59.835	0
FAG Aerospace GmbH	Schweinfurt	DE	100,00	41	2
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100,00	51.109	7.768
FAG Industrial Services GmbH (2)	Herzogenrath	DE	100,00	760	0
FAG Kugelfischer GmbH (2)	Schweinfurt	DE	100,00	726.565	0
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH - AMUS (2)	Homburg	DE	100,00	792	0
IAB Grundstücksverwaltungsgesellschaft mbH	Bühl	DE	100,00	270	-8
IAB Holding GmbH (2)	Herzogenaurach	DE	100,00	4.567.977	0
IAB Verwaltungs GmbH (2)	Herzogenaurach	DE	100,00	1.322.860	0
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100,00	28	0
INA - Drives & Mechatronics GmbH & Co. KG (as of 01 / 19 / 2015 INA - Drives & Mechatronics AG & Co. KG)	Suhl	DE	100,00	1.561	-306
INA Automotive GmbH (2)	Herzogenaurach	DE	100,00	25	0
INA Beteiligungsverwaltungs GmbH (2)	Herzogenaurach	DE	100,00	1.248.248	0
Industrieaufbaugesellschaft Bühl mbH (2)	Bühl	DE	100,00	56.928	0
Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (2)	Herzogenaurach	DE	100,00	558.435	0
KWK Verwaltungs GmbH	Langen	DE	100,00	31	0
LuK ASG GmbH	Bühl	DE	100,00	136	0
LuK Auslandsholding GmbH (2)	Bühl	DE	100,00	59.029	0
LuK Beteiligungsgesellschaft mbH (2)	Bühl	DE	100,00	34.342	0
LuK GmbH & Co. KG	Bühl	DE	100,00	456.549	375.264
LuK Management GmbH	Bühl	DE	100,00	96	0
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100,00	35.559	3.209
LuK Unna GmbH & Co. KG	Unna	DE	100,00	18.973	2.830
LuK Vermögensverwaltungsgesellschaft mbH (2)	Bühl	DE	100,00	1.809.970	0
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Bühl	DE	100,00	63.579	11.545
PD Qualifizierung und Beschäftigung GmbH (2)	Schweinfurt	DE	100,00	122	0
Raytech Composites Europe GmbH (2)	Morbach	DE	100,00	15.781	0
Schaeffler AG	Herzogenaurach	DE	75,10	6.695.775	575.259
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100,00	243.660	181.090
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100,00	444	-6
Schaeffler Beteiligungsverwaltungs GmbH (2)	Herzogenaurach	DE	100,00	40.841	0
Schaeffler Elfershausen GmbH & Co. KG (as of 01 / 22 / 2015 Schaeffler Elfershausen AG & Co. KG)	Herzogenaurach	DE	100,00	42	-950
Schaeffler Engineering GmbH (2)	Werdohl	DE	100,00	5.347	0
Schaeffler Europa Logistik GmbH (2)	Herzogenaurach	DE	100,00	25	0
Schaeffler Friction Products GmbH (2)	Morbach	DE	100,00	5.131	0
Schaeffler Friction Products Hamm GmbH	Hamm / Sieg	DE	100,00	3.521	726
Schaeffler Immobilien GmbH & Co. KG (as of 01 / 01 / 2015 Schaeffler Immobilien AG & Co. KG)	Herzogenaurach	DE	100,00	105.208	3.381

Schaeffler Motorenelemente GmbH & Co. KG (as of 01 / 15 / 2015 Schaeffler Motorenelemente AG & Co. KG)	Herzogenaurach	DE	100,00	7.974	-3.528
Schaeffler Technologies GmbH & Co. KG (as of 01 / 01 / 2015 Schaeffler Technologies AG & Co. KG)	Herzogenaurach	DE	100,00	11.048.320	1.118.830
Schaeffler Versicherungs-Vermittlungs GmbH (2)	Herzogenaurach	DE	100,00	8.282	0
Schaeffler Verwaltungsholding Drei GmbH (2)	Herzogenaurach	DE	100,00	1.893.562	0
Schaeffler Verwaltungsholding Eins GmbH (2)	Herzogenaurach	DE	100,00	5.910.725	0
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100,00	24	0
Schaeffler Verwaltungsholding Zwei GmbH (2)	Herzogenaurach	DE	100,00	1.748.118	0
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100,00	10.410	-1.534
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100,00	61	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100,00	57.754	4.775

Entity	Registered office	Country code	Equity interest in %	Equity in EUR thousand	Net income/ (loss) for the year in EUR thousand
II. Foreign					
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100,00	-381	-439
FAG Aerospace Inc.	Stratford	CA	100,00	125.514	12.255
FAG Bearings India Ltd.	Mumbai	IN	51,33	181.525	27.739
FAG Bearings LLC	Danbury	US	100,00	15.188	-1.410
FAG Holding LLC	Danbury	US	100,00	0	0
FAG Interamericana A.G.	Miami	US	100,00	23.830	285
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100,00	26.451	2.038
FAG Railway Products G.e.i.e.	Milan	IT	75,00	0	0
Grico Invest GmbH	Chur	CH	100,00	4.043	-19
HYDREL GmbH	Romanshorn	CH	100,00	145.720	2.566
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100,00	62.009	3.392
INA Bearings India Private Limited	Pune	IN	100,00	17.963	3.172
INA Invest GmbH	Horn	CH	100,00	7.298	-101
INA Kysuce, spol. s.r.o.	Kysucke Nove Mesto	SK	100,00	166.369	11.885
INA Lanskroun, s.r.o.	Lanskroun	CZ	100,00	9.158	1.170
INA Skalica spol. s.r.o.	Skalica	SK	100,00	107.608	10.850
LMC Bridgeport, Inc.	Danbury	US	100,00	10.773	-817
LuK (UK) Limited	Sheffield	GB	100,00	40.385	2.907
LuK Clutch Systems, LLC	Wooster	US	100,00	127.549	2.077
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100,00	429	32
LuK India Private Limited	Hosur	IN	100,00	30.234	4.144
LuK Leamington Limited	Leamington Spa.	GB	100,00	22.642	-1.373
LuK Norge AS	Kongsberg	NO	100,00	15.539	16
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100,00	34.451	7.795
LUK Savaria Kft.	Szombathely	HU	100,00	101.402	45.958
LuK Transmission Systems LLC	Wooster	US	100,00	188.005	22.740
LuK USA LLC	Wooster	US	100,00	125.850	1.168
LuK-Aftermarket Services, LLC	Valley City	US	100,00	-3.462	0
Naco Technologies SIA (1)	Riga	LV	100,00	356	-287
Octon G.m.b.H.	Horn	CH	100,00	30.288	58
Radine B.V.	Barneveld	NL	100,00	1.480	761
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100,00	914	-184
Roland Corporate Housing LLC	Cheraw	US	100,00	980	65
Schaeffler Romania S.R.L.	Brasov	RO	100,00	162.734	8.175
Schaeffler (China) Co., Ltd.	Taicang	CN	100,00	483.419	102.931
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100,00	85.579	6.140
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100,00	42.330	-1.937
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100,00	29.530	2.649
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49,00	2.051	851
Schaeffler (UK) Limited	Sutton Coldfield	GB	100,00	63.042	9.847
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100,00	1.233	-22

Schaeffler Ansan Corporation	Ansan-shi	KR	100,00	59.459	12.765
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100,00	4.596	1.189
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100,00	14.540	245
Schaeffler Austria GmbH	Berndorf - St. Veit	AT	100,00	40.422	6.361
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100,00	90.021	9.254
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100.00	15.545	6.076
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100,00	8.694	2.230
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100,00	2.695	425
Schaeffler Belgium SPRL	Braine L`Alleud	BE	100,00	43.906	850
Schaeffler Belrus OOO	Minsk	BY	100,00	66	14
Schaeffler Brasil Ltda.	Sorocaba	BR	100,00	150.941	15.361
Schaeffler Bulgaria OOD	Sofia	BG	100,00	2.045	272
Schaeffler Canada Inc.	Oakville	CA	100,00	29.671	16.819
Schaeffler Chain Drive Systems SAS	Calais	FR	100,00	5.124	1.312
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100,00	2.299	310
Schaeffler Colombia Ltda.	Bogota	CO	100,00	238	34
Schaeffler CZ s.r.o.	Prague	CZ	100,00	6.984	1.039
Schaeffler Danmark ApS	Aarhus	DK	100,00	6.885	295
Schaeffler Finance B.V.	Barneveld	NL	100.00	31.094	16.213
Schaeffler Finland Oy	Espoo	FI	100,00	8.270	431
Schaeffler France SAS	Haguenau	FR	100,00	75.682	9.472
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100,00	72.903	9.080
Schaeffler Greece Automotive and Industrial Products and Services	Halandri	GR	100,00	37	7
Schaeffler Group USA, Inc.	Fort Mill	US	100,00	667.454	16.817
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100,00	332.083	56.674
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49,00	-196	-28
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100,00	60.370	3.519
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100,00	371	153
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100,00	75.675	7.947
Schaeffler Israel Ltd.	Yokneam Illit	IL	100,00	102	-70
Schaeffler Italia S.r.l.	Momo	IT	100,00	197.110	10.462
Schaeffler Japan Co., Ltd.	Yokohama	JP	100,00	38.051	5.269
Schaeffler Korea Corporation	Seoul	KR	100,00	371.259	80.348
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100,00	3.511	424
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00	-796	198
Schaeffler Manufacturing Rus ooo	Ulyanowsk	RU	100.00	8.543	-6.760
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100,00	64.324	-15
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100,00	2.713	1.066
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100,00	56.776	-1.128
Schaeffler Middle East FZE	Jebel Ali	AE	100,00	13.430	776
Schaeffler Nederland B.V.	Barneveld	NL	100,00	9.505	1.619
Schaeffler Nederland Holding B.V.	Barneveld	NL	100,00	5.110	2.433
Schaeffler Norge AS	Oslo	NO	100,00	4.625	-25
Schaeffler Peru S.A.C.	Lima	PE	100,00	423	25
Schaeffler Philippines Inc.	Makati City	PH	100,00	3.714	136
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100,00	10.760	5.413
Schaeffler Portugal, Unipessoal, Lda.	Caldas da Rainha	PT	100,00	22.746	2.239
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100,00	7.009	450
Schaeffler Russland GmbH	Moscow	RU	100,00	3.339	1.367
Schaeffler Slovenija d.o.o.	Maribor	SI	100,00	357	110
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100,00	2.043	365
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100,00	20.187	10.787
Schaeffler Sverige AB	Arlandastad	SE	100,00	7.551	820
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100,00	2.655	485
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100,00	119.747	39.407
Schaeffler Trading (UK) Limited	Sutton Coldfield	GB	100,00	23	23
Schaeffler Ukraine GmbH	Kiev	UA	100.00	625	232
Schaeffler Venezuela, C.A.	Valencia	VE	100,00	224	16
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100,00	10.186	678
Stocklook Limited	Swansea	GB	100,00	866	-14
The Barden Corporation	Danbury	US	100,00	151.884	8.423
The Barden Corporation (UK) Ltd.	Plymouth	GB	100,00	73.472	6.319

Entity	Registered office	Country code	Equity interest in %	Equity in EUR thousand	Net income/ (loss) for the year in EUR thousand
B. Other equity investments					
I. Germany					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50,00	46	-3
Contitech-INA GmbH & Co. KG	Hanover	DE	50,00	220	-4
Continental AG	Hanover	DE	35,99	5.760	915
PStec Automation and Service GmbH (1)	Niederwerrn	DE	40,00	613	190
IAV GmbH (1)	Berlin	DE	10,00	137.661	16.283
II. Foreign					
Colinx, LLC (1)	Greenville	US	20,00	3.052	190
Eurings Rt. (1)	Debrecen	HU	37,00	4.620	494

(1) Amounts for 2014

(2) There is a profit and loss transfer agreement in place

Independent Auditors' Report*

The following auditor's report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the management report of Schaeffler Verwaltung Zwei GmbH, Herzogenaurach for the financial year from January 1, 2015 to December 31, 2015. The above mentioned Auditors' Report and annual financial statements are both translations of the respective German language documents.

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Schaeffler Verwaltung Zwei GmbH, Herzogenaurach for the business year from January 1, 2015 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB („Handelsgesetzbuch": „German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, May 10, 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Sailer
Wirtschaftsprüfer

Pritzer
Wirtschaftsprüfer

* This auditors' report, prepared in accordance with § 322 HGB ["Handelsgesetzbuch": "German Commercial Code"], refers to the complete financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the management report of Schaeffler Verwaltung Zwei GmbH, for the financial year from January 1, 2015 to December 31, 2015. The management report is not included in this Offering Memorandum. The above-mentioned auditors' report and financial statements are both translations of the respective German-language documents.

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OFFERING MEMORANDUM

IHO HOLDING

IHO Verwaltungs GmbH

€750,000,000 2.750% / 3.500% Senior Secured PIK Toggle Notes due 2021
€750,000,000 3.250% / 4.000% Senior Secured PIK Toggle Notes due 2023
€750,000,000 3.750% / 4.500% Senior Secured PIK Toggle Notes due 2026
$500,000,000 4.125% / 4.875% Senior Secured PIK Toggle Notes due 2021
$500,000,000 4.500% / 5.250% Senior Secured PIK Toggle Notes due 2023
$500,000,000 4.750% / 5.500% Senior Secured PIK Toggle Notes due 2026

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Joint Bookrunners

BofA Merrill Lynch **HSBC**