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IHO HOLDING

IHO Verwaltungs GmbH

Up to €972,008,261 3.625% / 4.375% Senior Secured PIK Toggle Notes due 2025
Up to €673,043,388 3.875% / 4.625% Senior Secured PIK Toggle Notes due 2027
Up to $692,810,254 6.000% / 6.750% Senior Secured PIK Toggle Notes due 2027
Up to $725,275,370 6.375% / 7.125% Senior Secured PIK Toggle Notes due 2029

IHO Verwaltungs GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of the Federal Republic of Germany (the "**Issuer**"), has offered (the "**Offering**") €800,000,000 in aggregate principal amount of its 3.625% / 4.375% Senior Secured PIK Toggle Notes due 2025 (the "**2025 Euro Notes**"), €500,000,000 in aggregate principal amount of its 3.875% / 4.625% Senior Secured PIK Toggle Notes due 2027 (the "**2027 Euro Notes**" and, together with the 2025 Euro Notes, the "**Euro Notes**"), $450,000,000 in aggregate principal amount of its 6.000% / 6.750% Senior Secured PIK Toggle Notes due 2027 (the "**2027 Dollar Notes**") and $400,000,000 in aggregate principal amount of its 6.375% / 7.125% Senior Secured PIK Toggle Notes due 2029 (the "**2029 Dollar Notes**" and, together with the 2027 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 November 15, 2019. 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 listing memorandum (the "**Listing 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 2025 Euro Notes will accrue at the rate of 3.625% per annum (the "**2025 Euro Cash Interest Rate**"), Cash Interest on the 2027 Euro Notes will accrue at the rate of 3.875% per annum (the "**2027 Euro Cash Interest Rate**"), Cash Interest on the 2027 Dollar Notes will accrue at the rate of 6.000% per annum (the "**2027 Dollar Cash Interest Rate**") and Cash Interest on the 2029 Dollar Notes will accrue at the rate of 6.375% per annum (the "**2029 Dollar Cash Interest Rate**" and each of the 2025 Euro Cash Interest Rate, the 2027 Euro Cash Interest Rate, the 2027 Dollar Cash Interest Rate and the 2029 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 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes or issue Additional PIK Notes in relation to the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes, as applicable, in a principal amount up to a maximum of €172 million, €173 million, $243 million and $325 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 2025 Euro Notes will mature on May 15, 2025, the 2027 Euro Notes will mature on May 15, 2027, the 2027 Dollar Notes will mature on May 15, 2027 and the 2029 Dollar Notes will mature on May 15, 2029. The Issuer may redeem the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes in whole or in part at any time on or after May 15, 2021, May 15, 2022, May 15, 2022 and May 15, 2024, respectively, at the redemption prices specified herein. Prior to May 15, 2021, May 15, 2022, May 15, 2022 and May 15, 2024, the Issuer will be entitled, at its option, to redeem all or a portion of the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes, respectively, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium. In addition, prior to May 15, 2021, May 15, 2022, May 15, 2022 and May 15, 2024, the Issuer may redeem at its option up to 40% of the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 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 applicable series of 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 and the Existing Issuer Notes (each as defined herein). Upon issuance, the Notes (together with the Issuer's obligations under Issuer Facilities Agreement, the Existing Issuer Notes and certain hedging liabilities) will be secured by pledges over (i) 333,000,001 common shares in Schaeffler AG (representing 66.7% of the voting shares (*Stammaktien*) and 50.0% *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 21.0% of the total share capital of Continental AG), in each case as described in this Listing 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.

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 44.

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 were 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") other than retail investors in the European Economic Area, each defined as a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive"). 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 Listing Memorandum*" and "*Transfer Restrictions*" for additional information about eligible offerees and transfer restrictions.

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The Listing Memorandum may be used only for the purposes for which it has been published. This Listing Memorandum constitutes a prospectus for securities for purposes of Part IV of the Luxembourg law on prospectuses for 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 MiFID II.

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 Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**") on or about June 6, 2019 (the "**Issue Date**").

Issue Price for the 2025 Euro Notes: 100.000% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2027 Euro Notes: 98.324% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2027 Dollar Notes: 100.000% plus accrued interest, if any, from the Issue Date.
Issue Price for the 2029 Dollar Notes: 100.000% plus accrued interest, if any, from the Issue Date.

Listing Memorandum dated June 6, 2019.

In making your investment decision, you should rely only on the information contained in this Listing Memorandum. We have not, and the Initial Purchasers (as defined herein) have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Listing Memorandum is accurate as of the date on the front cover of this Listing Memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this Listing Memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this Listing Memorandum.

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Important Information about this Listing Memorandum

We have prepared this Listing Memorandum based on information obtained from sources we believe to be reliable. Summaries of documents contained in this Listing Memorandum may not be complete. None of Deutsche Bank AG, London Branch, Deutsche Bank Securities Inc., Citigroup Global Markets Limited, Merrill Lynch International or HSBC Bank plc (collectively, the "**Initial Purchasers**") represent that the information herein is complete or accurate. The information in this Listing Memorandum is current only as of the date on the cover page hereof, and our business or financial condition and other information in this Listing Memorandum may change after that date. Information in this Listing 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 Listing Memorandum. Neither we nor the Initial Purchasers have authorized anyone to provide you with any different information.

We offered 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 Listing 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 MiFID II.

We accept responsibility for the information contained in this Listing Memorandum. We have made all reasonable inquiries and confirm to the best of our knowledge, information and belief that the information contained in this Listing 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 Listing Memorandum are honestly held and that we are not aware of any other facts the omission of which would make this Listing Memorandum or any statement contained herein misleading in any material respect.

No representation or warranty is made or implied by the Initial Purchasers or any of their respective affiliates, and neither the Initial Purchasers nor any of their respective affiliates make any representation or warranty or accept any responsibility or any liability, as to the accuracy or completeness of the information contained in this Listing 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 in this Listing

Memorandum or any other information provided by the Issuer in connection with the issuance of the Notes.

By receiving this Listing 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 Listing 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 Listing 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 Listing 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.

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 Listing 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 Listing 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.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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 THE OFFERING OF NOTES, DEUTSCHE BANK AG, LONDON BRANCH, WITH RESPECT TO THE EURO NOTES AND CITIGROUP GLOBAL MARKETS LIMITED 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 Listing 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 Listing Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Listing Memorandum, which will be ten business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) following the date of pricing of the Notes (this settlement cycle is being referred to as "T+10"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Listing Memorandum or the next seven successive business days will be required to specify an alternative settlement code at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisors. See "*Plan of Distribution.*"

Notice to Canadian Investors

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Listing Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105**"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offering.

Notice to Certain European Investors

European Economic Area. This Listing Memorandum has been prepared on the basis that any offering of Notes in any member state of the European Economic Area (the "**EEA**") will be made pursuant to an exemption under Directive 2003/71/EC (as amended, the "**Prospectus Directive**") from the requirement to publish a prospectus for offerings of notes. This Listing Memorandum is not a prospectus for the purposes of the Prospectus Directive. No prospectus is required in accordance with the Prospectus Directive for this issuance of Notes.

The Notes are not intended to be offered or sold to any retail investor in the EEA. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following (i) a "retail client" as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or (ii) a "customer" within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a "professional client" as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**").

PRIIPS Regulation. The Notes are not intended to be offered or sold to and should not be offered or sold to any retail investor in the EEA. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes to retail investors in the EEA has been prepared and therefore offering or selling the Notes to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. 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 not a retail investor. The Issuer, the Initial Purchasers and their affiliates and others will rely upon the trust and accuracy of the foregoing representation, acknowledgement and agreement.

MiFID II Product Governance / Professional investors and Eligible counterparties only target market. Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is "eligible counterparties" and "professional clients" only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Austria. The Notes may be offered and sold in the Republic of Austria only in compliance with the Austrian Capital Markets Act (*Kapitalmarktgesetz*) and other laws applicable in the Republic of Austria governing the offer and sale of the Notes in the Republic of Austria. The Notes are not registered or otherwise authorized for public offer in the Republic of Austria under the Austrian Capital Markets Act or any other securities laws in the Republic of Austria and this Listing Memorandum has not been and/or will not be published pursuant to the Austrian Capital Markets Act. The Notes may only be marketed to investors in the Republic of Austria on the basis of, and in accordance with, an exemption from the obligation to publish a prospectus pursuant to section 3 of the Austrian Capital Markets Act. Accordingly, the Notes may not be, and are not being, offered or advertised publicly and the Notes will only be available to, and this Listing Memorandum and any other offering material in relation to the Notes is directed only at, persons to whom such offer or disclosure may be lawfully made. Any resale of the Notes in Austria may only be made in accordance with the Austrian Capital Markets Act and other applicable laws and in any case only on the basis of, and in accordance with, an exemption from the obligation to publish a prospectus pursuant to section 3 of the Austrian Capital Markets Act.

Germany. The Offering is not a public offering in the Federal Republic of Germany ("**Germany**"). The Notes may only be offered, sold and acquired in accordance with the provisions of the German Securities Prospectus Act (the "**Securities Prospectus Act**", *Wertpapierprospektgesetz*, *WpPG*), as amended, the European Commission Regulation (EC) No. 809/2004 of April 29, 2004 as amended, Regulation (EU) No. 1286/2014 and any other laws applicable in Germany governing the issue, offering and sale of securities. No application has been made under German law to permit a public offer of the Notes in Germany. This Listing Memorandum has not been approved under the Securities Prospectus Act or the Prospectus Directive for purposes of a public offer of the Notes and accordingly the Notes may not be, and are not being, offered or advertised publicly or by public promotion in Germany. Therefore, this Listing Memorandum is strictly for private use and the offer is only being made to recipients to whom the document is personally addressed and does not constitute an offer or advertisement to the public. The Notes will only be available to, and this Listing Memorandum and any other offering material in relation to the Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2, No. 6 of the Securities Prospectus Act or in circumstances where another exemption in accordance with Section 3(2) of the Securities Prospectus Act applies. Any resale of the Notes in Germany may only be made in accordance with the Securities Prospectus Act and other applicable laws. The Company has not, and does not intend to, file a securities prospectus with the German Federal Financial Supervisory Authority ("**BaFin**", *Bundesanstalt für Finanzdienstleistungsaufsicht*) or obtain a notification to BaFin from another competent authority of a member state of the European Economic Area, with which a securities prospectus may have been filed, pursuant to Section 17(3) of the Securities Prospectus Act.

France. This Listing 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 Listing 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 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 Listing Memorandum nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information relating to the Company 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 nor to entities other than qualified investors (according to the definition provided for by the Prospectus Directive) either on the primary or on the secondary market.

Grand Duchy of Luxembourg. The terms and conditions relating to this Listing 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 Listing 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. The offering has not been registered with the Commission 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 Listing Memorandum does not constitute a prospectus within the meaning of Article 652a or 1156 of the Swiss Federal Code of Obligations.

United Kingdom. This Listing Memorandum is for distribution only to, and is only directed at, persons who (a) are investment professionals, being persons having professional experience in matters relating to investments and who fall within the definition set out in 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 Articles 49(2)(a) to (d) (high net worth companies, unincorporated associations, partnerships or high value trusts, etc.) of the Financial Promotion Order or (c) 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 as amended ("**FSMA**")) in connection with the issue or sale of any Notes may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This Listing 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 document relates is available only to relevant persons and will be engaged in only with relevant persons.

Any person who receives this Listing Memorandum but does not fall within one of the preceding categories of relevant person should return it immediately to the Company.

This Listing Memorandum does not constitute a prospectus for the Prospectus Rules and is therefore not an approved prospectus for the purposes of, and as defined by, section 85 of FSMA. This Listing Memorandum has not been approved by the Financial Conduct Authority or any other competent authority on the grounds that the Notes are being offered solely to "qualified investors" as defined in section 86(7) of FSMA and therefore the offer of Notes is not subject to the obligation to publish a prospectus under section 85 of FSMA.

THIS LISTING 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 Listing 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:

- market trends and technological developments, including trends toward electric mobility;
- the performance of the global economy, political uncertainty and the performance of the economy in the regions in which we operate;
- cyclicality in our industry;
- competition in our business environment;
- our dependence on a limited number of customers for the sale of a substantial portion of our products, the significant bargaining power of our major customers, and risks from any decline in the creditworthiness of our customers;
- risks arising from our efforts to expand in a number of growth markets;
- risks relating to our ability to successfully integrate recent or future acquisitions;
- our dependence on a limited number of key suppliers for certain critical components used in our production and manufacturing processes, and our exposure to fluctuations in prices of raw materials and energy;
- our ability to maintain the high quality of our products and the punctual delivery of ordered goods, and our ability to fight lower quality counterfeit products illegally sold under our brand names;
- our ability to obtain the adequate funding for our research, development and growth activities and adequate insurance coverage for our operations;
- our ability to retain qualified executives and key employees and to maintain positive relationships with our employees and employee representatives;
- changes in interest rates and changes in exchange rates;
- various legal, regulatory and tax risks; and
- other risks related to our financing, to our business operations and the markets 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 Listing 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 Listing 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 Listing 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 Listing 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 Listing Memorandum.

Presentation of Financial and Other Information

Presentation of Financial Information

The historical financial information of the Schaeffler Group presented in this Listing Memorandum as of and for the years ended December 31, 2018, December 31, 2017 and December 31, 2016 has been taken or derived from the English-language translation of the audited German-language consolidated financial statements of Schaeffler AG as of and for the years ended December 31, 2018 and December 31, 2017 (including comparative financial information as of and for the years ended December 31, 2017 and December 31, 2016, respectively) (the "**Audited Consolidated Financial Statements 2018**" and "**Audited Consolidated Financial Statements 2017**," respectively; together, the "**Audited Consolidated Financial Statements**") and from Schaeffler Group's internal accounting system. The historical financial information of the Schaeffler Group presented in this Listing Memorandum as of and for the three-month periods ended March 31, 2019 and March 31, 2018 has been taken or derived from the English-language translations of the German-language unaudited condensed consolidated interim financial statements of Schaeffler AG as of and for the three-month period ended March 31, 2019 (including comparative financial information as of and for the three-month period ended March 31, 2018) (the "**Unaudited Condensed Consolidated Interim Financial Statements**" and, together with the Audited Consolidated Financial Statements, the "**Consolidated Financial Statements**") and from Schaeffler Group's internal accounting system.

The Audited Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("**IFRS**"), and the additional requirements of German commercial law pursuant to section 315e(1) of the German Commercial Code (*Handelsgesetzbuch*; "**HGB**"). The Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**").

The Audited Consolidated Financial Statements, along with the English-language translations of the respective German-language independent auditor's reports of KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**") with respect thereto, and the Unaudited Condensed Consolidated Interim Financial Statements are included in this Listing Memorandum beginning on page F-1.

Effective January 1, 2018, Schaeffler Group began reporting financial information by business segment based on the following three segments: Automotive OEM, Automotive Aftermarket and Industrial. Until December 31, 2017, the Schaeffler Group reported based on two segments, Automotive (which included the activities of the Automotive OEM and Automotive Aftermarket businesses) and Industrial. In order to facilitate the comparison of Schaeffler Group's results of operations by segments, the Audited Consolidated Financial Statements 2018 include comparative financial information for the year ended December 31, 2017 based on the new segment reporting structure. The comparison of Schaeffler Group's results of operations on a segment basis for the year ended December 31, 2018 with the year ended December 31, 2017, and for the three-month period ended March 31, 2019 with the three month period ended March 31, 2018 in the "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Schaeffler Group*" section is presented under the new segment reporting structure as reported in the Audited Consolidated Financial Statements 2018, while the comparison of the results of operations for the year ended December 31, 2017 with the year ended December 31, 2016 is presented under the prior segment reporting structure as reported in the Audited Consolidated Financial Statements 2017.

In October 2018, Schaeffler Group commenced the integration of its Bearing & Components Technologies ("**BCT**") unit, which had previously acted as an internal supplier (the "**BCT Reorganization**"). Under the BCT Reorganization, the plants previously assigned to BCT and the related operations functions were integrated into the Automotive OEM and Industrial Divisions. In this context, the risk of fluctuations in production cost during the year has been borne exclusively by

the two producing divisions Automotive OEM and Industrial starting in 2019, a change designed to strengthen divisional management. The BCT Reorganization had a significant impact on the allocation of costs among segments as from January 1, 2019. In order to ensure comparability, comparative financial information as of and for the three-month period ended March 31, 2018 has been restated.

Schaeffler AG adopted IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments for the reporting periods beginning on and after January 1, 2018. IFRS 9 has replaced IAS 39: Financial Instruments: Recognition and Measurement and sets out new requirements for the accounting of financial instruments including: classification, measurement, impairment and hedge accounting. IFRS 15 has replaced IAS 18: Revenue, IAS 11: Construction Contracts and related interpretation and established a new set of principles applied to reporting information about the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts with customers. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the Audited Consolidated Financial Statements 2017 and the comparative financial information for the year ended December 31, 2017 included in the Audited Consolidated Financial Statements 2018 are not fully comparable to the financial information for the year ended December 31, 2018 included in the Audited Consolidated Financial Statements 2018 or to the Unaudited Condensed Consolidated Interim Financial Statements. See note 1.5 to the Audited Consolidated Financial Statements 2018.

Schaeffler AG adopted IFRS 16: Leases for the reporting periods beginning on and after January 1, 2019. IFRS 16 has replaced the requirements of IAS 17: Leases and requires lessees to capitalize leases in their statement of financial position. The initial application of IFRS 16 has resulted in the recognition of €212 million in lease liabilities and right-of-use assets in the consolidated statement of financial position as at January 1, 2019. In accordance with the transition provisions of the standard, Schaeffler AG has only applied IFRS 16 to the three month period ended March 31, 2019, and no comparative information is restated. As such, the Audited Consolidated Financial Statements and the Unaudited Condensed Consolidated Interim Financial Statements as of and for the three-month-period ended September 30, 2018 are not fully comparable to the Unaudited Condensed Consolidated Interim Financial Statements as of and for the three-month period ended March 31, 2019.

The historical financial information of the Issuer presented in this Listing Memorandum as of and for the years ended December 31, 2018, December 31, 2017 and December 31, 2016 has been taken or derived from the English-language translation of the audited German-language unconsolidated financial statements of the Issuer as of and for the years ended December 31, 2018 and December 31, 2017 (including comparative financial information as of and for the years ended December 31, 2017 and December 31, 2016, respectively) (the "**Issuer Audited Unconsolidated Financial Statements**"). The Issuer Audited Unconsolidated Financial Statements 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. Pursuant to the HGB, the Issuer is not required to prepare notes to the Issuer Audited Unconsolidated Financial Statements. Also, the Issuer is not required to prepare consolidated financial statements or any interim financial statements. KPMG has issued unqualified auditor's reports in accordance with the applicable provisions of the HGB, in particular section 322 HGB, with respect to the Issuer Audited Unconsolidated Financial Statements.

This Listing Memorandum includes certain historical financial information for the twelve-month period ended March 31, 2019, which has been calculated by adding amounts for the three-month period ended March 31, 2019 to the amounts for the full year ended December 31, 2018 and subtracting the amounts for the three-month period ended March 31, 2018. The financial information for the twelve-month period ended March 31, 2019 has not been audited or reviewed by any auditors, is not required by or presented in accordance with IFRS, German GAAP or any other

generally accepted accounting principles, 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 Listing 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 Listing Memorandum, references to "**2018**," "**2017**" and "**2016**" refer to the years ended December 31, 2018, 2017 and 2016, respectively. Individual figures (including percentages) appearing in this Listing 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 Listing 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 either the figure was zero or was 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 Condensed Consolidated Interim Financial Statements or the internal reporting system of the Schaeffler Group or the Issuer, as the case may be, or is based on calculations of figures of the abovementioned sources.

Pro Forma Financial Information

In addition to the financial information described above, this Listing Memorandum includes unaudited *pro forma* financial information for the Issuer as of and for the twelve-month period ended March 31, 2019, which has been adjusted to reflect certain effects of the Refinancing (as defined under "*Summary—The Refinancing*"), the "**Issuer Dividend**," (as defined under "*Summary—The Refinancing*"), the Schaeffler Group Refinancing (as defined under "*Summary—Schaeffler Group—Recent Developments*") and certain other adjustments on the financial information for the Issuer, as if the Refinancing, the Issuer Dividend and the Schaeffler Group Refinancing had occurred on (i) April 1, 2018, for the purposes of the calculation of income statement and cash flow statement items or (ii) March 31, 2019, 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 Refinancing, the Issuer Dividend 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 Listing Memorandum, including the related notes thereto, beginning on page F–1.

Non-GAAP Financial Measures

This Listing Memorandum contains non-GAAP measures and ratios, including adjusted EBIT, EBITDA, adjusted 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 Listing 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 adjusted EBIT, EBITDA, adjusted 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. Each of the EBITDA-based measures presented in this Listing Memorandum is defined and calculated differently from the definition of "Consolidated EBITDA" presented in the Indenture.

Currency Presentation

In this Listing Memorandum :

- "**$**," "**USD**," "**dollars**" or **"U.S. dollar**" refer to the lawful currency of the United States;
- "**€**," "**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;
- "**Japanese Yen**" refer to the lawful currency of Japan; and
- "**Chinese Renminbi**" refer to the lawful currency of the People's Republic of China.

Definitions

Unless otherwise stated or the context requires otherwise, in this Listing Memorandum all references to:

- "**2025 Euro Notes**" are to €800 million in aggregate principal amount of 3.625% / 4.375% senior secured PIK toggle notes due 2025 offered in the Offering.
- "**2027 Dollar Notes**" are to $450 million in aggregate principal amount of 6.000% / 6.750% senior secured PIK toggle notes due 2027 offered in the Offering.
- "**2027 Euro Notes**" are to €500 million in aggregate principal amount of 3.875% / 4.625% senior secured PIK toggle notes due 2027 offered in the Offering.
- "**2029 Dollar Notes**" are to $400 million in aggregate principal amount of 6.375% / 7.125% senior secured PIK toggle notes due 2029 offered in the Offering.
- "**2014/2022 Schaeffler Group Notes**" are to the €500 million in aggregate principal amount of 3.50% senior secured notes due 2022 issued by Schaeffler Finance B.V. on May 14, 2014.
- "**2015/2020 Schaeffler Group Notes**" are to the €400 million in aggregate principal amount of 2.50% senior secured notes due 2020 issued by Schaeffler Finance B.V. on April 13, 2015.
- "**2015/2023 Schaeffler Group Notes**" are to the $600 million in aggregate principal amount of 4.75% senior secured notes due 2023 issued by Schaeffler Finance B.V. on April 13, 2015.
- "**2015/2025 Schaeffler Group Notes**" are to the €600 million in aggregate principal amount of 3.25% senior secured notes due 2025 issued by Schaeffler Finance B.V. on April 13, 2015.
- "**Automotive Aftermarket Division**" are to the Automotive Aftermarket division or reporting segment of the Schaeffler Group, as the case may be.
- "**Automotive OEM Division**" are to the Automotive OEM division or reporting segment of the Schaeffler Group, as the case may be.
- "**CAGR**" are to the compound annual growth rate.
- "**Clearstream**" are to Clearstream Banking S.A.
- "**Collateral**" are to the collateral securing the Notes, initially consisting of pledges over (i) 333,000,001 common shares in Schaeffler AG held by the Issuer and (ii) 41,937,694 common shares in Continental AG held by the Issuer, as further described in "*Description of the Notes—Security.*"
- "**Continental AG**" are to Continental Aktiengesellschaft with its registered office in Hanover, Germany.
- "**Continental Group**" are to Continental AG and its subsidiaries, collectively.
- "**Dollar Notes**" are to the 2027 Dollar Notes and the 2029 Dollar Notes, collectively.
- "**EEA**" are to the European Economic Area.
- "**EU**" are to the European Union.
- "**Euroclear**" are to Euroclear Bank SA/NV.
- "**Euro Notes**" are to the 2025 Euro Notes and the 2027 Euro Notes, collectively.
- "**Existing 2021 Dollar Notes**" are to $500 million in aggregate principal amount of 4.125% / 4.875% senior secured PIK toggle notes due 2021 issued by the Issuer on September 22, 2016.

- “**Existing 2021 Euro Notes**” are to €750 million in aggregate principal amount of 2.750% / 3.500% senior secured PIK toggle notes due 2021 issued by the Issuer on September 22, 2016.
- “**Existing 2023 Dollar Notes**” are to $500 million in aggregate principal amount of 4.500% / 5.250% senior secured PIK toggle notes due 2023 issued by the Issuer on September 22, 2016.
- “**Existing 2023 Euro Notes**” are to €750 million in aggregate principal amount of 3.250% / 4.000% senior secured PIK toggle notes due 2023 issued by the Issuer on September 22, 2016.
- “**Existing 2026 Dollar Notes**” are to $500 million in aggregate principal amount of 4.750% / 5.500% senior secured PIK toggle notes due 2026 issued by the Issuer on September 22, 2016.
- “**Existing 2026 Euro Notes**” are to €750 million in aggregate principal amount of 3.750% / 4.500% senior secured PIK toggle notes due 2026 issued by the Issuer on September 22, 2016.
- “**Existing Dollar Notes**” are to the Existing 2021 Dollar Notes, the Existing 2023 Dollar Notes and the Existing 2026 Dollar Notes, collectively.
- “**Existing Euro Notes**” are to the Existing 2021 Euro Notes, the Existing 2023 Euro Notes and the Existing 2026 Euro Notes, collectively.
- “**Existing Issuer Notes**” are, following the Issuer Notes Redemption, to the Existing 2026 Dollar Notes and the Existing 2026 Euro Notes, collectively.
- “**Existing Schaeffler Group Notes**” are to the New Schaeffler Group Notes together with the 2015/2025 Schaeffler Group Notes, which remain outstanding.
- “**IFRS**” are to the International Financial Reporting Standards, as adopted by the EU.
- “**IHO Beteiligung**” are to IHO Beteiligungs GmbH (previously named Schaeffler Verwaltungs GmbH), the sole direct shareholder of the Issuer.
- “**Indenture**” are to the indenture governing the Notes.
- “**Industrial Division**” are to the Industrial division or reporting segment of the Schaeffler Group, as the case may be.
- “**Initial Purchasers**” are to Deutsche Bank AG, London Branch, Deutsche Bank Securities Inc., Citigroup Global Markets Limited, Merrill Lynch International and HSBC Bank plc, collectively.
- “**Issue Date**” are to the issue date of the Notes, which is expected to be on or around June 6, 2019.
- “**Issuer**” or “**IHO Verwaltung**” are to IHO Verwaltungs GmbH with its registered office in Herzogenaurach, Germany.
- “**Issuer Dividend**” are to the dividend in the aggregate amount of €250 million made by the Issuer to IHO Beteiligung on May 16, 2019.
- “**Issuer Facilities**” are to the Issuer Revolving Facility and the Issuer Term Facility, collectively.
- “**Issuer Facilities Agreement**” are to the originally €800 million credit facility agreement including a term loan facility and a revolving facility entered into on September 7, 2016 (as amended on September 8, 2016, as amended and restated (and increased to up to €1,000 million) on December 22, 2017 and as amended and restated by the Issuer Facilities Agreement Amendment), by and among the Issuer, Bank of America Merrill Lynch International Designated Activity Company (as successor in title to 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, among others, Deutsche Bank Luxembourg S.A. as

facility agent and Deutsche Bank AG, Filiale Luxemburg as security trustee. See "*Description of Other Indebtedness—Issuer Facilities Agreement.*"

- "**Issuer Facilities Agreement Amendment**" are to the amendment agreement to the Issuer Facilities Agreement dated May 20, 2019. See "*Description of Other Indebtedness—Issuer Facilities Agreement.*"
- **"Issuer Facilities Agreement Amendment Date"** means the date on which the amendments pursuant to the Issuer Facilities Agreement Amendment become effective.
- "**Issuer Notes Redemption**" are to the envisaged redemption in full of the Redeemed Issuer Notes, in each case including the payment of the applicable redemption premium and accrued and unpaid interest up until the redemption date for the Redeemed Issuer Notes, with the net proceeds from the Offering, together with cash on hand, as further described under "*Summary—The Refinancing*" and "*Use of Proceeds.*"
- "**Issuer Revolving Facility**" are to (i) the originally €250 million and (ii) following the Issuer Facilities Agreement Amendment Date, the €400 million revolving credit facility under the Issuer Facilities Agreement.
- "**Issuer Security Pooling and Intercreditor Agreement**" are to the security pooling and intercreditor agreement entered into on September 7, 2016 (as amended on September 9, 2016) between, among others, IHO Beteiligung as parent and the Issuer as obligor and security provider, certain intra-group creditors (if any) and debtors named therein, the syndicated facilities lenders named therein, the hedge counterparties under certain hedging agreements named therein, Deutsche Bank AG, Filiale Luxemburg as security trustee, Deutsche Bank Luxembourg S.A. as facility agent under the Issuer Facilities Agreement and the trustee(s) for any notes, including the Notes, that accede(s) to the Issuer Security Pooling and Intercreditor Agreement in the future. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Security Pooling and Intercreditor Agreement.*"
- "**Issuer Term Facility**" are to (i) the originally €750 million and (ii) following the Issuer Facilities Agreement Amendment Date, the €600 million term loan facility under the Issuer Facilities Agreement.
- "**Listing Memorandum**" are to this listing memorandum.
- "**Management**", "**Directors**" of "**Officers**" are to the management, directors and executive officers of Schaeffler AG or the Issuer, as the context requires.
- "**New Schaeffler Group Notes**" are to the €2,200 million in aggregate principal amount of senior notes (€750 million of 1.125% senior notes due 2022, €800 million of 1.875% senior notes due 2024 and €650 million of 2.875% senior notes due 2027), under Schaeffler AG's €5,000 million debt issuance program. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes—New Schaeffler Group Notes.*"
- "**Notes**" are to the Dollar Notes and the Euro Notes, collectively.
- "**Offering**" are to the offering of the Notes.
- "**Redeemed Issuer Notes**" are to the Existing 2021 Euro Notes, the Existing 2021 Dollar Notes, the Existing 2023 Euro Notes and the Existing 2023 Dollar Notes, collectively, which the Issuer intends to redeem with a portion of the proceeds of the Offering.
- "**Redeemed Schaeffler Group Notes**" are to the 2014/2022 Schaeffler Group Notes, the 2015/2020 Schaeffler Group Notes and the 2015/2023 Schaeffler Group Notes, which Schaeffler AG redeemed using a portion of the net proceeds from the issuance of the New Schaeffler Group Notes on May 15, 2019.

- "**Refinancing**" are to the transactions described under "*Summary—The Refinancing.*"
- "**Regulation S**" are to Regulation S under the U.S. Securities Act.
- "**Schaeffler AG**" are to Schaeffler AG with its registered office in Herzogenaurach, Germany.
- "**Schaeffler Group**" are to Schaeffler AG and its subsidiaries, collectively.
- "**Schaeffler Group April 2015 Notes**" are to the 2015/2020 Schaeffler Group Notes, the 2015/2023 Schaeffler Group Notes and the 2015/2025 Schaeffler Group Notes, collectively.
- "**Schaeffler Group Facilities**" are to the Schaeffler Group Investment Facility and the Schaeffler Group Syndicated Facilities, collectively.
- "**Schaeffler Group ABCP Program**" are to the asset-backed commercial paper program, as amended and restated from time to time, under which Schaeffler Group companies securitize certain trade receivables. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Asset-backed Commercial Paper Program.*"
- "**Schaeffler Group Facilities Agreements**" are to the Schaeffler Group Investment Facility Agreement and the Schaeffler Group Syndicated Facilities Agreement.
- "**Schaeffler Group Investment Facility**" are to the term loan facility under the Schaeffler Group Investment Facility Agreement.
- "**Schaeffler Group Investment Facility Agreement**" are to the €250 million term loan facility entered into December 15, 2017 by Schaeffler AG, as borrower, with, among others, ING Bank, a branch of ING-DiBa AG and MUFG Bank, Ltd., as coordinators, and certain banks as original lenders, to finance certain capital expenditure investments (as amended, including by an amendment agreement dated August 31, 2018). See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Investment Facility Agreement.*"
- "**Schaeffler Group Notes**" are to the Schaeffler Group April 2015 Notes and the 2014/2022 Schaeffler Group Notes, collectively.
- "**Schaeffler Group Notes Redemption**" are to the redemption in full of the Redeemed Schaeffler Group Notes on May 15, 2019.
- "**Schaeffler Group Revolving Facility**" are to the €1,500 million multi-currency revolving credit facility under the Schaeffler Group Syndicated Facilities Agreement.
- "**Schaeffler Group Syndicated Facilities**" are to the Schaeffler Group Term Facility and the Schaeffler Group Revolving Facility, collectively.
- "**Schaeffler Group Syndicated Facilities Agreement**" are to the €2,000 million credit facility agreement including the €500 million term loan facility and the €1,500 million multi-currency revolving credit agreement entered into on July 18, 2016, by and among Schaeffler AG, as borrower, 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 certain banks and financial institutions named therein as original lenders, as amended pursuant to a transaction agreement dated August 31, 2018 coordinated by Citigroup Global Markets Limited, HSBC Bank PLC, ING Bank, a branch of ING-DIBA AG and MUFG Bank, Ltd. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Syndicated Facilities Agreement.*"
- "**Schaeffler Group Refinancing**" are, collectively, to the issuance of the New Schaeffler Group Notes, the Schaeffler Group Notes Redemption and the Schaeffler Group Term Facility Repayment.

- “**Schaeffler Group Term Facility**” are to the €500 million term loan facility under the Schaeffler Group Syndicated Facilities Agreement.
- “**Schaeffler Group Term Facility Repayment**” refers to the partial repayment of the Schaeffler Group Term Facility on March 26, 2019, reducing the outstanding principal amount under the Schaeffler Group Term Facility from €1,000 million to €500 million.
- “**SEC**” are to the U.S. Securities and Exchange Commission.
- “**Security Documents**” are to the security documents pursuant to which the relevant Collateral, as described under “*Description of the Notes—Security*”, will be granted.
- “**Security Trustee**” are to Deutsche Bank AG, Filiale Luxemburg as security trustee with respect to the Collateral.
- “**Trustee**” are to Deutsche Trustee Company Limited, as trustee under the Indenture.
- “**UK**” are to the United Kingdom.
- “**U.S.**” or the “**United States**” are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia.
- “**U.S. Exchange Act**” are to the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.
- “**U.S. Securities Act**” are to the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.
- “**We**”, “**us**”, and “**our**” are to the Issuer and/or the Schaeffler Group, as the context requires.

Presentation of Industry and Market Data

In this Listing 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 Listing 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 as indicated ("**IHS Markit**"); and
- Oxford Economics, industrial database, dated as indicated ("**Oxford Economics**").

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

We cannot assure you that our estimates or any of the assumptions underlying our estimates are accurate or correctly reflect our position in the industry. None of our internal surveys or information has been verified by any independent sources. Neither we nor the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this information. All of the information set forth in this Listing 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 Listing Memorandum and summarizes selected information from it. Because of the more detailed information contained elsewhere in this Listing Memorandum, including the financial information section, investors are strongly recommended to carefully read the Listing Memorandum, and base their decision on whether to invest in the Notes on a review of the entire Listing 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 Listing 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. Schaeffler AG's non-voting common shares are listed on the Frankfurt and Luxembourg stock exchanges. Continental AG's shares are listed on the Frankfurt, Hanover/Hamburg and Stuttgart stock exchanges. As of April 30, 2019, Schaeffler AG had a market capitalization (including voting and non-voting shares) of €5,042 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 €28,687 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 addition, in January 2019 the Issuer acquired a 25.0% interest in P A R A V A N GmbH, a developer and manufacturer of solutions for customizing vehicles for the disabled. In 2018, the Issuer received aggregate dividends in the amount of €594 million, comprising €270 million from Schaeffler AG and €324 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 approximately 92,000 employees and a network of manufacturing locations, R&D facilities and distribution companies in approximately 170 locations in 50 countries (as of March 31, 2019). Our 73 manufacturing locations form the foundation of our operations.

In 2018, we had consolidated revenues of €14.2 billion (€3.6 billion in the three-month period ended March 31, 2019) and Adjusted EBITDA of €2.2 billion in 2018 (€509 million in the three-month period ended March 31, 2019). For an explanation of the components of Adjusted EBITDA and a reconciliation of net income to Adjusted EBITDA, see "*Summary Financial Information—Other Financial and Operating Data—Summary Financial Information of Schaeffler AG (IFRS)—Schaeffler AG.*" We believe that we are among the top three manufacturers in each of our core sectors worldwide and we have a large presence in a number of growth markets, such as China (the Greater China region accounted for 16.2% of our consolidated revenue during the three-month period ended March 31, 2019 and 13.8% of our employees as of March 31, 2019) 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, systems solutions and service offering position us well for future growth.

We operate through three divisions: Automotive OEM, Automotive Aftermarket and Industrial. Prior to January 1, 2018, the business constituting the Automotive OEM and Automotive Aftermarket Divisions formed part of a single Automotive Division. The new division was created to reflect the increased significance of the Automotive Aftermarket business to the Schaeffler Group.

- ***Automotive OEM Division:*** Our Automotive OEM Division generated approximately 63.2% of our consolidated revenue and approximately 50.2% of our Adjusted EBIT in 2018 (63.1% and 41.5%, respectively, in the three-month period ended March 31, 2019). We supply more than 19,000 products to all major automotive OEMs as well as approximately 1,200 automotive suppliers globally through our Automotive OEM Division. We develop and manufacture state-of-the-art products for engines, transmissions, electric mobility ("**E-Mobility**") 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 compliant 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.
- ***Automotive Aftermarket Division***: Our Automotive Aftermarket Division accounted for approximately 13.1% of our consolidated revenue and approximately 22.9% of our Adjusted EBIT in 2018 (12.2% and 23.5%, respectively, in the three-month period ended March 31, 2019). As a result of the significant growth of our automotive aftermarket business, effective January 1, 2018, we made the Automotive Aftermarket Division a third reporting segment. Our Automotive Aftermarket Division provides an extensive aftermarket offering which includes the distribution of spare parts and services to approximately 2,200 customers globally. Customers mainly include almost all major international and national trading companies. In addition to the traditional component business consisting of replacing parts, our Automotive Aftermarket Division develops and distributes repair sets and custom assembled kits to help make vehicle repairs simple, efficient and professional. The Automotive Aftermarket Division uses two distribution channels, the original equipment service ("**OES**"), which supplies original spare parts and services to automobile OEM or branded repair shops, and the open (independent) spare parts market or independent aftermarket ("**IAM**"), which supplies spare parts to independent repair shops that are not affiliated with any particular automobile OEM. The Automotive Aftermarket Division is largely supplied from the Automotive OEM Division's manufacturing locations. Our Automotive Aftermarket Division provides essential sales support functions and generate attractive margins as well as stable and recurring revenues.

- ***Industrial Division:*** Our Industrial Division accounted for approximately 23.8% of our consolidated revenue and approximately 26.9% of our Adjusted EBIT in 2018 (24.7% and 34.9%, respectively, in the three-month period ended March 31, 2019). We supply approximately 59,000 products to customers in a variety of different industrial sectors. The product portfolio of the Industrial Division includes a wide range of rolling and plain bearings, linear and direct drive technologies as well as services such as maintenance products and monitoring systems. The market focus is increasingly on smart products and connected components that increase machine and plant efficiency. We believe that customers require intelligent solutions and optimized lifecycle costs, which opens up new growth areas for the Industrial Division. Our strategic business field Industry 4.0 ("**Industry 4.0**") is aimed at developing these areas, which we consider to be significant growth opportunities for our business. Industry 4.0 combines the entire industry-specific business with mechatronic systems and digital services as well as the required related components. We complement our business with an extensive aftermarket offering, which includes the distribution of spare parts and services to customers worldwide.

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 (51.4% of our consolidated revenue in 2018 and 51.0% in the three-month period ended March 31, 2019) and the Americas (20.2% of our consolidated revenue in 2018 and 22.5% in the three-month period ended March 31, 2019), our business in the Greater China and Asia/Pacific regions, which accounted for 18.0% and 10.5%, respectively, of our consolidated revenue in 2018 and 16.2% and 10.3%, respectively, in the three-month period ended March 31, 2019, has contributed significantly to our overall growth in recent years. Following our integrated "as regional as possible" approach, we have built a global manufacturing footprint with each of our plants having a strong regional foothold. As of March 31, 2019, we operated 46 plants in Europe, 14 in the Americas, eight 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 OEM Division is a leader in the engine, transmission and chassis systems sectors, with top positions, in particular, in engine valve train components, dual mass flywheels and ball screw drives for electrical power steering. We believe our Automotive Aftermarket Division is very well positioned within the market, particularly in the Europe and Americas regions. 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 "Quality for Tomorrow" and "MOVE" ("*Mehr Ohne Verschwendung*" or "more without waste") and our comprehensive quality culture "Fit for Quality", 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 8,000 R&D staff at 20 R&D centers and additional R&D locations in a total of 24 countries, is illustrated by the continuous increase in the number of our patent applications in recent years. With 2,417 patent registrations in 2018, we ranked second among Germany's most innovative companies according to the German Patent and Trademark Office (*Deutsches Patent- und Markenamt, DPMA*). In total, as of March 31, 2019, we held around 26,700 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 OEMs such as Volvo, Ford, Nissan, Toyota and General Motors and a total of 65 quality awards in 2018.

Strong Long-Term Growth Track Record Driven by Global Expansion and Increased Product Content and Well Positioned for Growth Opportunities resulting from structural change in our key markets

Key megatrends in our core markets are the trends urbanization, globalization, digitalization and climate change. In particular, European legislation limiting CO_2 emissions cause 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 megatrends to date has contributed to strong long-term growth across our portfolio, with our Automotive OEM and Automotive Aftermarket Divisions' sales volumes having increased at significantly greater rates than underlying automotive production since 2015. In 2018, despite adverse market conditions, the Automotive OEM Division outperformed global production volumes for passenger cars and light commercial vehicles, which declined by 1.1% during the reporting period, and achieved revenue growth of 2.1% for 2018, excluding the impact of currency translation. In addition, our Automotive Aftermarket Division's revenue has grown at a CAGR of 2.8% since 2015 driven by our growth in our market share in Europe and the U.S.

Our track record of outperforming market growth 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 we supply. Given the leading market positions we hold, our technological leadership and our focus on and investment in innovation, we believe that we are well placed to benefit from the structural megatrends in the markets that we serve and to transform our portfolio over time from a components supplier to a complete systems supplier helping to shape mobility for tomorrow across the areas driving growth of eco-friendly drives, urban mobility, interurban mobility, and optimized energy chain. In the automotive sector, efficient internal combustion engines, automated transmissions, diversity in E-Mobility, autonomous driving, interconnectedness and new mobility solutions are expected to be the main drivers of future growth. In the industrial sectors, we believe that mechatronics, digitalization and industrial automation will drive future growth. See "*Industry—Automotive OEM—Historical and*

Forecast Market Development" and "*Industry—Industrial –Historical and Forecast Development.*" We believe that in many of these areas we are a frontrunner and we have recently made investments in these areas through joint ventures or selective acquisitions. For example, we gained access to a key technology for autonomous driving through the establishment of the joint venture Schaeffler Paravan Technologie GmbH & Co. KG ("**Schaeffler Paravan**") which acquired the drive-by-wire steering technology ("**SPACE DRIVE**"). SPACE DRIVE is the only autonomous driving system to be licensed for on-road use in multiple countries worldwide and also has the potential for technical and commercial viability in large-series automobile production. In May 2019, we agreed to acquire a company that helped to develop SPACE DRIVE, XTRONIC GmbH ("**XTRONIC**") in a transaction that is expected to close in June 2019. XTRONIC develops customer-specific software and electronics solutions for the automotive industry in a range of areas, including automated driving applications, electric mobility, functional safety, as well as methods, tools and test systems. In addition, we gained significant expertise in the field of electric motor construction and production in 2019 when we acquired Elmotec Statomat Holding GmbH ("**Elmotec Statomat**"), which possesses unique expertise in the field of winding technology and is one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors.

As a result, we believe that we are well-positioned to maintain strong market growth and profitability in the future and to benefit from the trends in our strategically important markets, see "*—Strategy—Strategic Objectives—Focus on Innovative Components and Systems to drive Global Industry Trends*" below.

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 expand, for example, our existing facilities in Bühl, Germany. As a result of our global presence, which has enabled us to locate plants and other facilities in close proximity to our customers and to benefit from relatively inexpensive just-in-time logistics, we believe we are very well positioned in our key growth markets, in particular in the Greater China region, where we have been present for decades, strong growth in the number of vehicle registrations is expected and the proportion of the worldwide vehicle population is expected to reach one-fifth by 2023.

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), divided by the respective number of light vehicles produced per year) with a CAGR of approximately 4.0% from 2010 to 2018. 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.

We believe that our manufacturing facilities and processes are among the most efficient in the industry. We focus on lean manufacturing and continuous improvement and are seen as a reliable partner with a high level of value added for our customers. 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 most 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 20 R&D 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 73 plants in 22 countries which are characterized by a high level of vertical integration. Moreover, our integrated "as regional as possible" 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.

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 8,000 R&D staff at 20 R&D centers and additional R&D locations in a total of 24 countries 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 8.8% of our consolidated revenue. These capital expenditures were primarily made for strategically aligning our logistics activities and expanding capacity and for equipment and machinery for product start-ups in order to ensure future growth and customer proximity. In addition to capital expenditures, we have also made selective acquisitions to further strengthen our production and product spectrum and to expand our technological expertise. For example, in 2019, we acquired Elmotec Statomat, one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors, which possesses unique expertise in the field of winding technology, and expanded the Automotive OEM Division's technological and industrialization expertise in the field of electric motor construction. Similarly, on average over 2016, 2017 and 2018, we spent approximately 5.8% 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 expenses increasing from €751 million in 2016 to €847 million in 2018.

Attractive and Resilient Business Portfolio Delivering 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 OEM and Automotive Aftermarket Divisions, we sell approximately 64,000 products and system solutions to OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in a variety of different sectors, selling approximately 59,000 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 sector as well as leading industrial OEMs. As of March 31, 2019, we sold our products to all major automotive manufacturers as well as approximately 1,200 automotive suppliers and 7,800 industrial customers in approximately 150 countries worldwide. In 2018, the Automotive OEM Division's top ten customers represented 62.0% of its revenues, the Automotive Aftermarket's top ten customers represented 31.6% of its revenues and the Industrial Division's top ten customers represented 16.7% of its revenues. We believe this diversification mitigates counterparty risk and is broader than that of most 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 2018, aftermarket revenue from products, repair solutions, replacement parts and custom repair sets and kits represented 13.0% 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 our regions and product segments, our broad and high-quality product offering, our technology and innovation leadership and our proximity to and entrenchment with our customers, we have been able to preserve cash in downturns while maintaining profitability through effective management of working capital and capital expenditures as well as cost reductions. In 2018, our Automotive Aftermarket Division achieved €316 million of Adjusted EBIT and an Adjusted EBIT margin of 17.0%. The Adjusted EBIT margin of the Schaeffler Group amounted to 9.7% in 2018. Additionally, over the last three years we have achieved an average Adjusted EBITDA margin of 16.9% at the Schaeffler Group level. As a result, we generated on average cash flow from operating activities of €1.8 billion per year during that same period.

Strong Management Combining Deep Industrial Expertise

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 economic downturn in connection with the global financial crisis, and of implementing efficiency and cost reduction measures, such as in our Industrial Division, which helped improve the Adjusted EBIT margin of the Industrial Division from 7.3% in 2016 to 11.0% in 2018. The successful "CORE" realignment program improved the efficiency and competitive position of our Industrial Division by realigning its structure towards stronger customer orientation and streamlining its leadership structure. 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 and Schaeffler AG's IPO and listing on the Frankfurt Stock Exchange in October 2015. As a result of the success of our management team, Schaeffler AG achieved investment grade credit ratings from each of Moody's (Baa3 on September 7, 2016), Fitch (BBB- on April 5, 2017) and S&P (BBB- on August 30, 2018).

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. We identify key trends early on, invest in researching and developing new forward-looking products and set new standards in technology.

"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 are operationalized in the "Agenda 4 plus One," which documents our 20 flagship initiatives through to 2020 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. The "Agenda 4 plus One" is proceeding on schedule, with 20 initiatives in the implementation phase. Selected initiatives, such as the efficiency program "CORE", have progressed sufficiently to be transferred to line functions and other initiatives are expected to similarly mature. As a result, the "Agenda 4 plus One" will be reduced to fewer initiatives.

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 drive systems with no or low levels of CO_2 emissions, making them environmentally friendly and able to meet increasingly stringent regulatory requirements. In the automotive sector, this means that we work simultaneously to further optimize conventional combustions engines and to develop drive system solutions for vehicles with hybrid drive trains and all-electric vehicles. In addition, innovative products for the field of E-Mobility, such as hybrid modules and transmissions, the electric axle drive or the wheel hub motor "E-Wheel Drive", play an increasingly important role in achieving lower CO_2 emission targets and opportunities for our future growth. The same logic can be applied to modern industrial drive systems, where we benefit from our wealth of knowledge in the automotive field that allows us to utilize synergies.

Urban Mobility

As a result of the noticeably 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. Cities like Moscow, Tokyo or Shanghai experience a daily traffic volume in which fast, efficient and flexible movement is almost impossible. This trend calls for new mobility solutions, whether in micro-mobility or by designing more efficient public transit systems.

In order to identify the needs and chances of urban mobility in the 21st century, we established an R&D center for urbanization in Singapore in 2018. The densely populated island state is regarded as a living lab for urban mobility. In addition, the acquisition of the SPACE DRIVE drive-by-wire steering technology by our joint venture Schaeffler Paravan is a major step towards the development of innovative mechatronic chassis systems through to the "rolling chassis," which merge the powertrain with the chassis. We are developing our urban concept vehicle, the "**Schaeffler Mover**," that is a technological demonstrator for future autonomous vehicles. The Schaeffler Mover's technological platform has an adaptable design that allows the flexible implementation of different vehicle bodies ranging from a robo-taxi to an autonomous delivery vehicle. The Schaeffler Mover is our innovative answer to the challenge of meeting the mobility requirements of people in rapidly growing metropolitan areas.

Interurban Mobility

The term interurban mobility refers to interconnecting global centers. As globalization progresses, traffic, particularly rail traffic, but also air traffic, will increase significantly worldwide over the years to come and will require a large degree of flexibility. Providing modern and efficient mobility solutions presents a key challenge to the railway and aerospace sectors. The same key challenge applies to companies in the off-highway sector, including agricultural technology. 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 and we are developing new product and service concepts and innovative business models for the use of rolling bearing solutions such as online condition monitoring solutions for the railway sector.

Energy Chain

The continuing need for the cleanest energy possible is common to each of our focus areas. 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. We work with partners in the energy sector to assist in the development of renewable energy production, focusing on wind power, hydropower and solar power. We also see opportunities for expanding our range of products and services for conventional energy generation. There is both potential and need for improvements in all segments of the energy chain, from production, transport and conversion through to energy consumption. To capitalize on these trends, we offer a comprehensive portfolio of products in the field of renewable energy, from bearing solutions for wind turbines and an all-digital service for predicting the service life of rolling bearings in wind power transmissions through to solutions for solar and water power, as well as technological and systems expertise for a variety of drive types, including fuel cells and synthetic fuels.

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 mainly comprises organic growth through investments based on our existing technological expertise and innovative edge and expanding our global production network while increasing our focus on the efficient allocation of our capital. Maintaining an adequate debt-to-Adjusted 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 and are generally focused on acquisitions related to the future-oriented trends of E-Mobility, Industry 4.0 and digitalization.

Leverage our Quality and Technology Leadership

Our objective is to offer our customers a comprehensive “best-in-class” product and system solutions 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 to performance ratios.

Digitalization provides significant opportunities for our global production system and we have developed a comprehensive approach to digitalizing our production. Our goal is to improve performance and efficiency by refining our production processes to be sensor driven, interconnected and data based, to utilize artificial intelligence, as applicable, and to reduce and simplify manual interfaces by providing individual and tailored information to our employees for special production steps. To achieve this, we are adding sensors, actuators and controllers, including the relevant software, to our components and we have developed a system that helps prepare for investment decisions by providing an overview of the spare capacity of all of our significant machines. This increases transparency for machine utilization and provides valuable information for determining appropriate improvement measures and increasing overall equipment effectiveness.

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.

To further enhance our E-Mobility BD products and services, we plan to focus our R&D efforts over the coming years particularly on electric motors, electrics, electronics, software and drive systems and to increase the proportion of our R&D spend in these strategic areas. We are also shifting R&D spending from hardware design to mechatronics and software driven solutions. In addition, we are developing solutions covering the entire energy chain, from energy generation to storage and consumption. We entered into a development and cooperation agreement to develop organic redox flow batteries. We believe that this new technology, that is largely based on renewable resources

and can be scaled to nearly any size, has the potential to play an essential role in shaping the charging infrastructure of E-mobility and in establishing a sustainable energy infrastructure.

Focus on Growth

We continue to expand our presence in growth markets, particularly in the Greater China region which has become a growth driver for all of our divisions. The especially dynamic trends in the Greater China region in recent years means it is important for us to further expand not only our E-Mobility BD in the Greater China region, but also our local presence, and to consistently raise the degree of localization. Approximately 24.8% of all additions to intangible assets and property, plant and equipment in 2018 were made in the Greater China region. We expect the share of our Automotive OEM Division's sales with local Chinese OEMs to continue 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 "as regional as possible" approach, we are opening or expanding local plants. For example, we established an additional E-Mobility competency center in China for developing systems and components for new drive technologies and the future products dedicated hybrid transmissions with two electric motors and integrated power electronics. We are also continually expanding our local production capacity in China. In 2018, we expanded our plant in Nanjing, China to meet increasing demand for rolling bearings for industrial applications and engine components.

Following the significant growth of our Automotive Aftermarket Division's business in the Europe and Americas regions, we are also aiming to grow our Automotive Aftermarket Division's business in the high-volume markets in the Greater China and Asia/Pacific regions, with the aim to create and expand our product portfolio of intelligently packaged repair solutions, products and services that are tailored to the specific needs of each of these markets.

Focus on Attractive Business Areas

As part of our global growth strategy, we are also expanding our existing systems and components expertise in the field of mechanical products and industrialization with essential competencies in the fields of electrical engineering, electronics and software development, enabling us to offer our customers an even greater range of products, system solutions and services. We believe it is vitally important that we continue to expand our existing systems expertise. For example, digital business models for predicting the operating life of rolling bearings and the ability to develop and manufacture complex electrical drive systems such as electric axles. In the field of E-Mobility, the electric axle combines mechanics with electrical engineering and information technology and represents an attractive system for tomorrow's urban mobility. Drive-by-wire technology provides us access to a key technology for developing our Chassis Systems BD into a chassis system integrator and allows us to gain a technological foothold in the autonomous car market. 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.

Increase Profitability by Implementing an Efficiency and Portfolio Optimization Program in our Automotive OEM Division and a Continuous Improvement Program in our Industrial Division

In 2019, we began implementing our efficiency and portfolio optimization program "Regroup Automotive for Higher Margin and Capital Efficiency" or "**RACE**" for our Automotive OEM Division. RACE is designed to structurally improve the Automotive OEM Division's competitiveness and to sustainably increase efficiency and optimize its product and service portfolio. RACE aims to address margin pressure in certain product areas and to improve the profitability of the Automotive OEM Division. RACE focuses on six earning levers affecting all four BDs of the Automotive OEM Division as well as internal and external corporate functions: (1) optimizing the European footprint, (2)

optimizing the business portfolio, (3) consistently reducing overhead costs, (4) R&D efficiency, (5) capital efficiency and (6) sustainably improving order intake. Our ambition is to sustainably increase the Automotive OEM Division's Adjusted EBIT margin to in the high single digits.

We are targeting completion of RACE in three to four years and plan to implement it in three stages. In the first stage, which we aim to complete over the next 18 to 24 months, we plan to further consolidate the Automotive OEM Division's European plant network, to limit R&D expenses to 8.0 to 8.5% of the Automotive OEM Division's revenue in 2019 and 2020 and to restrict capital expenditures to €900 million per year in 2019 and 2020. We also target an increase of order intake in the E-Mobility and Chassis Systems BDs to €1.5 to €2.0 billion over the next three years. We further intend to dispose of certain non-core activities of the Engine Systems and Transmission Systems BDs and to reinvest the proceeds into strategic growth areas. Overall, we currently expect these measures to affect five European production sites and result in a reduction of 900 positions, including approximately 700 positions in Germany. In addition, we have implemented a company wide hiring freeze for all overhead and indirect functions, except in certain high growth areas.

Following the successful completion of the realignment program "CORE" in the Industrial Division as at the end of 2018, we have initiated the continuous improvement program "Fast Industrial Transformation" or "**FIT.**" FIT is aimed at securing the positive results of the "CORE" program and leveraging efficiencies to more proactively secure the future profitability of the Industrial Division.

We believe that the RACE and FIT programs will help us to strengthen our Automotive OEM and Industrial Divisions and position them for lasting profitable growth.

Our History

In 1946, brothers Dr. Wilhelm Schaeffler and Dr. Georg Schaeffler founded Industrie GmbH in Herzogenaurach, Germany. LuK (*Lamellen- und Kupplungsbau*) GmbH was founded in 1965 in Bühl, Germany (in cooperation with Industrie-Nadellager ("**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. In 2014, the then existing Schaeffler group and its shareholders completed the final stage of a multi-year corporate reorganization that had been initiated in 2012 and was designed to establish a clean structure separating ownership of Schaeffler Group from ownership in Continental AG.

Following its capital markets 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 One," which documents our 20 flagship initiatives through to 2020, focusing on five key elements: customer focus, operational excellence, financial flexibility, leadership and talent management as well as long-term competitiveness and value creation.

Schaeffler AG's non-voting shares have been listed on the Frankfurt Stock Exchange since 2015 under the ticker symbol SHA. 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.

Recent Developments

On May 15, 2019, Schaeffler redeemed in full (the "**Schaeffler Group Notes Redemption**") €400 million in aggregate principal amount of 2.50% senior notes due 2020, €500 million in aggregate principal amount of 3.50% senior notes due 2022 and $600 million in aggregate principal amount of 4.75% senior notes due 2023 (together, the "**Redeemed Schaeffler Group Notes**"), each issued by Schaeffler Finance B.V. and guaranteed by Schaeffler AG, with a portion of the net proceeds from the issuance by Schaeffler AG on March 26, 2019 of €2,200 million in aggregate principal amount of senior notes (€750 million of 1.125% senior notes due 2022, €800 million of 1.875% senior notes due 2024 and €650 million of 2.875% senior notes due 2027) under its debt issuance program (the "**New Schaeffler Group Notes**"). We had used the remaining portion of the net proceeds from the issuance of the New Schaeffler Group Notes to reduce the outstanding principal amount under the term loan facility of our syndicated term loan and revolving credit facilities agreement by €500 million, from €1,000 million to €500 million on March 26, 2019 (the "**Schaeffler Group Term Facility Repayment**" and, together with the issuance of the New Schaeffler Group Notes and the Schaeffler Group Notes Redemption, the "**Schaeffler Group Refinancing**"). See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes*" and "*—Schaeffler Group Syndicated Facilities Agreement.*"

The Refinancing

The Issuer intends to use the gross proceeds from the Offering, together with cash on hand, to (i) redeem in full (the "**Issuer Notes Redemption**") the Existing 2021 Euro Notes, the Existing 2021 Dollar Notes, the Existing 2023 Euro Notes and the Existing 2023 Dollar Notes (together, the "**Redeemed Issuer Notes**"), in each case including the payment of the applicable redemption premium and accrued and unpaid interest up until the redemption date for the Redeemed Issuer Notes (which is expected to be the Issue Date), (ii) repay €150 million in principal amount under the Issuer Term Facility, reducing it from €750 million to €600 million, (iii) close out cross-currency hedging arrangements related to certain of the Redeemed Issuer Notes and (iv) pay related fees and expenses. See "*Use of Proceeds.*"

In connection with the Offering, on May 20, 2019, the Issuer entered into an amendment agreement pursuant to which its syndicated term loan and revolving credit facilities agreement (as amended, the "**Issuer Facilities Agreement**") will be amended, subject to a partial repayment of the Issuer Term Facility by €150 million (thereby reducing the Issuer Term Facility from €750 million to €600 million), primarily to increase the revolving credit facility thereunder from €250 million to €400 million and to extend the maturity thereof to May 20, 2024, (the "**Issuer Facilities Agreement Amendment**"). On May 16, 2019, the Issuer paid a dividend in the aggregate amount of €250 million to its shareholder, IHO Beteiligung (the "**Issuer Dividend**").

For purposes of this Listing Memorandum, the "**Refinancing**" refers to (i) the issuance of the Notes offered hereby and the application of proceeds therefrom to (a) effect the Issuer Notes Redemption, (b) repay €150 million in principal amount under the Issuer Term Facility, (c) close out cross-currency hedging arrangements related to certain of the Redeemed Issuer Notes and (d) pay related fees and expenses and (ii) the Issuer Facilities Agreement Amendment.

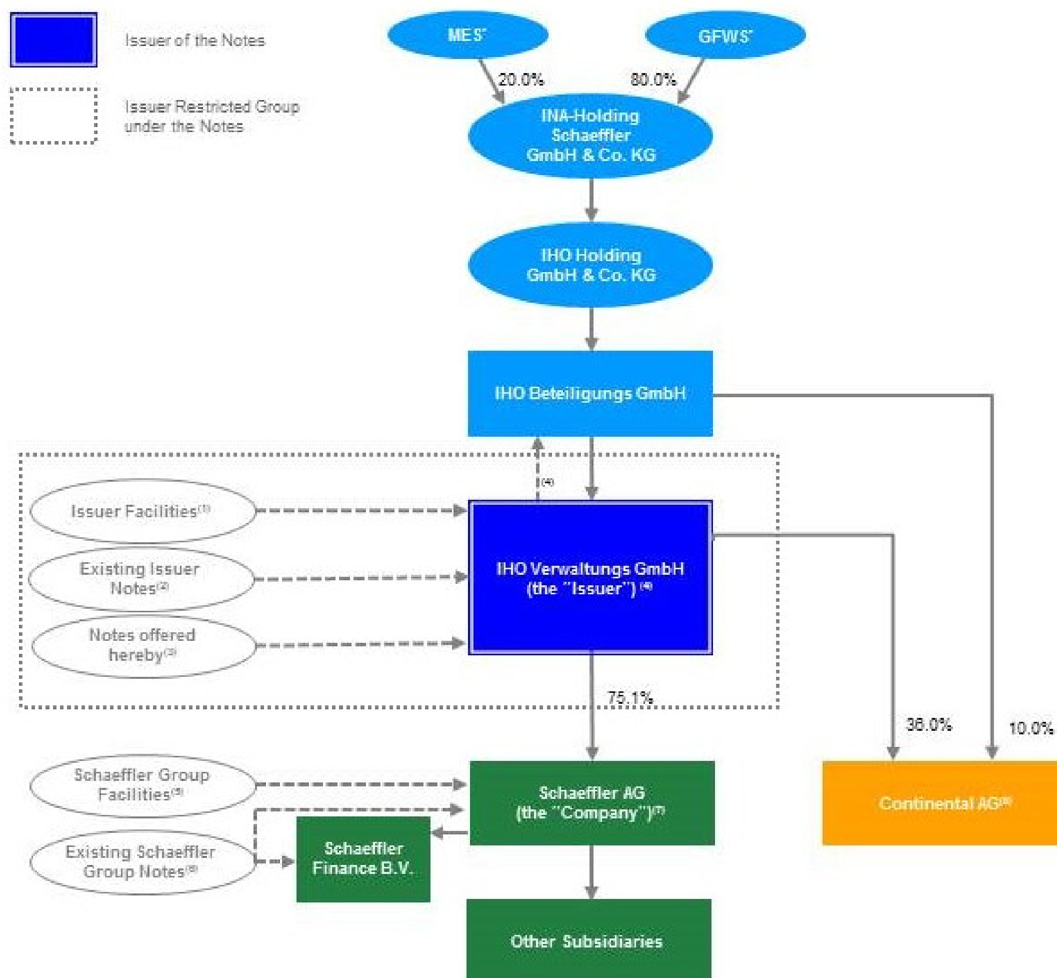
The Restricted Group

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 Refinancing and giving *pro forma* effect to the Schaeffler Group Refinancing. All entities shown below are 100% owned unless otherwise indicated.



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

(1) Refers to the €1,000 million syndicated term loan and revolving credit facilities agreement (as amended, the "**Issuer Facilities Agreement**"), with the Issuer as borrower. On May 20, 2019, we entered into the Issuer Facilities Agreement Amendment to amend the Issuer Facilities Agreement, primarily to increase the Issuer Revolving Facility thereunder and to extend the maturity thereof. Upon effectiveness of the Issuer Facilities Agreement Amendment (which is subject to a partial repayment of the Issuer Term Loan to reduce it from €750 million to €600 million), the Issuer Facilities Agreement will consist of:

- a €600 million term facility (the "**Issuer Term Facility**"), accrued interest on which will be payable in cash and which matures on May 20, 2024; and
- a €400 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 May 20, 2024.

The Issuer Facilities are secured by the same collateral that secures the Notes and the Existing Issuer Notes (as defined below) (the "**Collateral**") on a *pari passu* basis. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement.*" Up to €50 million of the Issuer Revolving Facility are available for drawing, in the form of ancillary facilities, on behalf and for the account of the Issuer, by Atesteo GmbH & Co. KG ("**Atesteo**"), a wholly-owned subsidiary of IHO Holding GmbH & Co. KG, an indirect shareholder of the Issuer. See "*Certain Relationships and Related Party Transactions—Transactions of the Issuer—Upstream Loans.*"

As of March 31, 2019, €750 million were drawn under the Issuer Term Facility. We intend to use a portion of the proceeds of the Offering to repay €150 million of the Issuer Term Facility, reducing it from €750 million to €600 million. Of the Issuer Revolving Facility, €6 million were drawn in the form of ancillary facilities as of March 31, 2019, all of which were drawn by Atesteo on behalf and for the account of the Issuer.

(2) The Issuer intends to use the net proceeds from the Offering, together with cash on hand, to redeem (the "**Issuer Notes Redemption**") the €750,000,000 in aggregate principal amount of 2.750% / 3.500% senior secured PIK toggle notes due 2021 (the "**Existing 2021 Euro Notes**"), the $500,000,000 in aggregate principal amount of 4.125% / 4.875% senior secured PIK toggle notes due 2021 (the "**Existing 2021 Dollar Notes**"), €750,000,000 in aggregate principal amount of 3.250% / 4.000% senior secured PIK toggle notes due 2023 (the "**Existing 2023 Euro Notes**") and $500,000,000 in aggregate principal amount of 4.500% / 5.250% senior secured PIK toggle notes due 2023 (the "**Existing 2023 Dollar Notes**") (together, the "**Redeemed Issuer Notes**"), in each case including the payment of the applicable redemption premium and accrued and unpaid interest up until the redemption date for the Redeemed Issuer Notes (which is expected to be the Issue Date). See "*Use of Proceeds.*" Following the Issuer Notes Redemption, in addition to the Notes, the following series of notes of the Issuer will remain outstanding (the "**Existing Issuer Notes**"): €750,000,000 in aggregate principal amount of 3.750% / 4.500% senior secured PIK toggle notes due 2026 (the "**Existing 2026 Euro Notes**") and $500,000,000 in aggregate principal amount of 4.750% / 5.500% senior secured PIK toggle notes due 2026 (the "**Existing 2026 Dollar Notes**"). See "*Description of Other Indebtedness—Indebtedness of the Issuer—Existing Issuer Notes.*"

(3) 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 50.0% *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 21.0% of the total share capital of Continental AG). As of April 30, 2019, 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**") was €143.43. Based on the Continental Share Value of €143.43, the shares in Continental AG forming part of the Collateral had a total market value of €6,015 million as of April 30, 2019. As of April 30, 2019, 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 €7.57 (the "**Schaeffler AG Share Value**"). Based on the Schaeffler AG Share Value of €7.57, the shares in Schaeffler AG forming part of the Collateral had a total market value of €2,521 million as of April 30, 2019. The Collateral securing the Notes also secures on a *pari passu* basis obligations under the Issuer Facilities Agreement, the Existing Issuer Notes, 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.

(4) The Issuer is a wholly owned subsidiary of IHO Beteiligung. 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. In addition, in January 2019, the Issuer acquired a 25.0% interest in P A R A V A N GmbH, a developer and manufacturer of solutions for customizing vehicles for the disabled. 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. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group.*"

(5) Refers to (i) the €2,000 million syndicated term loan and revolving credit facilities agreement, as amended from time to time (as amended, the "**Schaeffler Group Syndicated Facilities Agreement**") and the credit facilities made available thereunder (the **"Schaeffler Group Syndicated Facilities"**) and (ii) the €250 million investment facility agreement, as amended from time to time (the "**Schaeffler Group Investment Facility Agreement**" and, together with the Schaeffler Group Syndicated Facilities Agreement, the "**Schaeffler Group Facilities Agreements**") and the credit facility made available thereunder (the "**Schaeffler Group Investment Facility**" and, together with the Schaeffler Group Syndicated Facilities, the "**Schaeffler Group Facilities**"), each with Schaeffler AG as borrower.

Following the Schaeffler Group Term Facility Repayment in March 2019, the Schaeffler Group Syndicated Facilities consist of:

- a €500 million term loan facility (the "**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 September 30, 2023; and
- a €1,500 million revolving credit facility (the "**Schaeffler Group Revolving 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 up to two years) on September 30, 2023.

The Schaeffler Group Syndicated Facilities are unsecured and not guaranteed by any of Schaeffler AG's subsidiaries. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Syndicated Facilities Agreement.*" As of March 31, 2019, the Schaeffler Group Term Facility was fully drawn and €20 million were utilized under the Schaeffler Group Revolving Facility, primarily in the form of letters of credit.

The Schaeffler Group Investment Facility consists of a €250 million term loan facility, accrued interest on which is payable in cash and which matures (subject to an uncommitted option to extend the final maturity date by one year) on December 15, 2022. The Schaeffler Group Investment Facility is unsecured and not guaranteed by any of Schaeffler AG's subsidiaries. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Investment Facility Agreement.*" As of March 31, 2019, €184 million were drawn under the Schaeffler Group Investment Facility.

(6) As of March 31, 2019, the Schaeffler Group had the following notes outstanding (the "**Schaeffler Group Notes**"): €400 million in aggregate principal amount of 2.50% senior notes due 2020 (the "**2015/2020 Schaeffler Group Notes**"), €500 million in aggregate principal amount of 3.50% senior notes due 2022 (the "**2014/2022 Schaeffler Group Notes**"), $600 million in aggregate principal amount of 4.75% senior notes due 2023 (the "**2015/2023 Schaeffler Group Notes**") and €600 million in aggregate principal amount of 3.25% senior notes due 2025 (the "**2015/2025 Schaeffler Group Notes**"), issued by Schaeffler Finance B.V. in 2014 and 2015 and guaranteed by Schaeffler AG, and €750 million of 1.125% senior notes due 2022 (the "**2019/2022 Schaeffler Group Notes**"), €800 million of 1.875% senior notes due 2024 (the "**2019/2024 Schaeffler Group Notes**") and €650 million of 2.875% senior notes due 2027 (the "**2019/2027 Schaeffler Group Notes**" and, together with the 2019/2022 Schaeffler Group Notes and the 2019/2027 Schaeffler Group Notes, the "**New Schaeffler Group Notes**"), issued by Schaeffler AG under its debt issuance program on March 26, 2019. Schaeffler AG used a portion of the net proceeds from the issuance of the New Schaeffler Group Notes to redeem the 2015/2020 Schaeffler Group Notes, the 2014/2022 Schaeffler Group Notes and the 2015/2023 Schaeffler Group Notes (together, the "**Redeemed Schaeffler Group Notes**") on May 15, 2019. We refer to the New Schaeffler Group Notes together with the 2015/2025 Schaeffler

Group Notes, which remain outstanding, as the "**Existing Schaeffler Group Notes**." For a more detailed description of the Schaeffler Group Notes, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes."*

(7) 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. 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."*

(8) Continental AG is a publicly listed corporation (*Aktiengesellschaft*) listed on three German stock exchanges (Frankfurt, Hanover/Hamburg and Stuttgart). As of April 30, 2019, Continental AG had a market capitalization of €28,687 million (based on a Continental Share Value of €143.43).

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, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany, with its registered office in Herzogenaurach, Germany.

Notes Offered

2025 Euro Notes .... €800,000,000 in aggregate principal amount of 3.625% / 4.375% senior secured PIK toggle notes due 2025 (the "**2025 Euro Notes**").

2027 Euro Notes .... €500,000,000 in aggregate principal amount of 3.875% / 4.625% senior secured PIK toggle notes due 2027 (the "**2027 Euro Notes**" and, together with the 2025 Euro Notes, the "**Euro Notes**").

2027 Dollar Notes .... $450,000,000 in aggregate principal amount of 6.000% / 6.750% senior secured PIK toggle notes due 2027 (the "**2027 Dollar Notes**").

2029 Dollar Notes .... $400,000,000 in aggregate principal amount of 6.375% / 7.125% senior secured PIK toggle notes due 2029 (the "**2029 Dollar Notes**" and, together with the 2027 Dollar Notes, the "**Dollar Notes**;" the Dollar Notes and the Euro Notes together, the "**Notes**").

Issue Date.. June 6, 2019.

Issue Price

2025 Euro Notes .... 100.000%.

2027 Euro Notes .... 98.324%.

2027 Dollar Notes .... 100.000%.

2029 Dollar Notes .... 100.000%.

Maturity Date

2025 Euro Notes .... May 15, 2025.

2027 Euro Notes .... May 15, 2027.

2027 Dollar Notes .... May 15, 2027.

2029 Dollar Notes .... May 15, 2029.

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 November 15, 2019. 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 Listing 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 2025 Euro Notes will accrue at the rate of 3.625% per annum (the "**2025 Euro Cash Interest Rate**"), Cash Interest on the 2027 Euro Notes will accrue at the rate of 3.875% per annum (the "**2027 Euro Cash Interest Rate**"), Cash Interest on the 2027 Dollar Notes will accrue at the rate of 6.000% per annum (the "**2027 Dollar Cash Interest Rate**") and Cash Interest on the 2029 Dollar Notes will accrue at the rate of 6.375% per annum (the "**2029 Dollar Cash Interest Rate**" and each of the 2025 Euro Cash Interest Rate, the 2027 Euro Cash Interest Rate, the 2029 Dollar Cash Interest Rate and the 2029 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 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes or issue Additional PIK Notes in relation to the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes, as applicable, in a principal amount up to a maximum of €172 million, €173 million, $243 million and $325 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, the Existing Issuer Notes 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 and the Existing Issuer Notes; • will rank senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes; and • will be effectively senior to all of the Issuer's existing and future unsecured indebtedness, to the extent of the value of the property or assets securing the Notes.
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 50.0% *plus* one share of the total share capital of Schaeffler AG) held by the Issuer; and • 41,937,694 common shares in Continental AG held by the Issuer (representing 21.0% of the total share capital of Continental AG). The Collateral securing the Notes will rank effectively *pari passu* with the liens securing obligations

outstanding under the Issuer Facilities Agreement, the Existing Issuer Notes, certain hedging obligations and any future indebtedness that is permitted under the Indenture to share the Collateral. While the pledges on the Collateral securing the Notes will be created later in time and will thus be lower ranking in rem, the Issuer Security Pooling and Intercreditor Agreement provides that any proceeds received from enforcement of the security documents will be shared equally and ratably between the holders of the Notes and any other indebtedness that is or becomes subject to the Issuer Security Pooling and Intercreditor Agreement, including the, the Existing Issuer Notes and indebtedness under the Issuer Facilities Agreement and certain hedging obligations. 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.

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 Existing Issuer Notes) 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*," "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Security Pooling and Intercreditor Agreement—Decisions of the Instructing Group*" and "*Description of the Notes—Security—Enforcement of security.*"
Optional Redemption	The 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes will be redeemable at the Issuer's option, in whole or in part, at any time on or after May 15, 2021, May 15, 2022, May 15, 2022 and May 15, 2024, respectively, at the redemption prices set forth in this Listing Memorandum, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to May 15, 2021, May 15, 2022, May 15, 2022 and May 15, 2024, the Issuer may redeem some or all of the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes, respectively, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium. In addition, prior to May 15, 2021, May 15, 2022, May 15, 2022 and May 15, 2024, the Issuer may redeem at its option up to 40% of the original principal amount of the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 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 a series of 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 on such series of Notes. 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 Listing Memorandum*" and "*Transfer Restrictions."*

Use of Proceeds	The Issuer intends to use the gross proceeds from the Offering, together with cash on hand, to (i) effect the Issuer Notes Redemption, (ii) repay €150 million in principal amount under the Issuer Term Facility, reducing it from €750 million to €600 million, (iii) close out cross-currency hedging arrangements related to certain of the Redeemed Issuer Notes and (iv) 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.
Paying Agent for the Euro Notes	Deutsche Bank AG, London Branch.
Registrar and Transfer Agent for the Euro Notes	Deutsche Bank Luxembourg S.A.
Registrar, Transfer Agent and Paying Agent for the Dollar Notes	Deutsche Bank Trust Company Americas.
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 Listing Memorandum, and, in particular, you should evaluate the specific risk factors set forth in the "*Risk Factors*" section of this Listing Memorandum before making a decision regarding whether to invest in the Notes.

Summary Financial Information

The following tables set forth summary consolidated financial information and other data of Schaeffler AG as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month periods ended March 31, 2018 and 2019, as derived from the Consolidated Financial Statements, which have been prepared in accordance with IFRS and which are included elsewhere in this Listing Memorandum, and from Schaeffler Group's internal accounting system. The following tables also set forth certain summary unconsolidated financial information and other data of the Issuer as of and for the years ended December 31, 2016, 2017 and 2018, as derived from the Issuer Audited Unconsolidated Financial Statements, which were prepared in accordance with German GAAP and which are included elsewhere in this Listing Memorandum, and from the Issuer's accounting system, and as of and for the three-month periods ended March 31, 2019 and 2018, as derived from the accounting records of the Issuer. See "Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Presentation of Financial Information."

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 Condensed Consolidated Interim Financial Statements or the internal reporting system or accounting records of the Schaeffler Group or the Issuer, as the case may be, or is based on calculations of figures of the abovementioned sources.

The historical financial information presented for the twelve-month period ended March 31, 2019 has been calculated by adding amounts for the three-month period ended March 31, 2019 to the amounts for the full year ended December 31, 2018 and subtracting the amounts for the three-month period ended March 31, 2018. The financial information for the twelve-month period ended March 31, 2019 has not been audited or reviewed by any auditors, is not required by or presented in accordance with IFRS or any other generally accepted accounting principles, 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 Listing 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 Consolidated Financial Statements (including the respective notes thereto) of the Issuer and the Issuer Audited Unconsolidated Financial Statements. 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."

Summary Financial Information of Schaeffler AG (IFRS)

Consolidated Income Statement – Schaeffler AG

	For the year ended December 31,			For the three-month period ended March 31,		For the twelve-month period ended March,
	2016	**2017**	**2018***	**2018**	**2019****	**2019****
	(audited) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Revenue	**13,338**	**14,021**	**14,241**	**3,551**	**3,622**	**14,312**
Cost of sales	(9,552)	(10,175)	(10,558)	(2,591)	(2,708)	(10,675)
Gross profit	**3,786**	**3,846**	**3,683**	**960**	**913**	**3,636**
Research and development expenses	(751)	(846)	(847)	(224)	(229)	(852)
Selling expenses	(915)	(970)	(1,004)	(242)	(253)	(1,015)
Administrative expenses	(428)	(443)	(488)	(119)	(140)	(509)
Other income	41	82	87	26	28	89
Other expenses	(177)	(141)	(77)	(10)	(90)	(157)
Earnings before financial result and income taxes (EBIT)	**1,556**	**1,528**	**1,354**	**391**	**230**	**1,193**
Financial income	220	108	66	10	26	82
Financial expenses	(561)	(300)	(221)	(64)	(64)	(221)
Financial result	**(341)**	**(192)**	**(155)**	**(54)**	**(38)**	**(139)**
Income from equity-accounted investees	**0**	**0**	**(4)**	**0**	**(4)**	**(8)**
Earnings before income taxes	**1,215**	**1,336**	**1,195**	**337**	**188**	**1,046**
Income taxes	(343)	(339)	(300)	(95)	(47)	(252)
Net income	**872**	**997**	**895**	**242**	**140**	**793**
Attributable to shareholders of the parent company	859	980	881	238	137	780
Attributable to non-controlling interests	13	17	14	4	3	13

* The consolidated income statement information for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement information for 2016 and 2017 is not fully comparable to the consolidated income statement information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement information for 2016, 2017 and 2018 and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement information for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Consolidated Statement of Financial Position – Schaeffler AG

	As of December 31,			As of March 31,
	2016	**2017***	**2018****	**2019*****
		(audited) **(in € million)**		**(unaudited)** **(in € million)**
Assets				
Total non-current assets	**5,979**	**6,178**	**6,828**	**7,315**
of which intangible assets	632	636	627	718
of which property, plant and equipment	4,507	4,865	5,318	5,443
of which deferred tax assets	572	492	520	585
Total current assets	**5,585**	**5,359**	**5,534**	**7,246**
of which inventories	1,905	2,017	2,183	2,334
of which trade receivables	2,218	2,192	2,003	2,225
of which cash and cash equivalents	1,071	698	801	2,071
Total assets	**11,564**	**11,537**	**12,362**	**14,561**
Shareholders' equity and liabilities				
Total shareholders' equity	**1,997**	**2,581**	**3,060**	**3,169**
Total non-current liabilities	**6,361**	**5,644**	**5,780**	**6,404**
of which provisions for pensions and similar obligations	2,182	2,124	2,173	2,362
of which financial debt	3,704	3,066	3,188	3,442
Total current liabilities	**3,206**	**3,312**	**3,522**	**4,988**
of which financial debt	3	2	160	1,434
of which trade payables	1,625	1,867	1,967	1,980
of which other financial liabilities	696	682	481	501
Total shareholders' equity and liabilities	**11,564**	**11,537**	**12,362**	**14,561**

* In September 2018, the IFRS Technical Committee of the Accounting Standards Committee of Germany (*Deutsches Rechnungslegungs Standards Committee* – "**DRSC**") issued DRSC Interpretation 4 (IFRS) Accounting for Interest and Penalties Related to Income Taxes. The Interpretation addresses the accounting for interest and penalties pursuant to section 3 (4) Fiscal Code of Germany (*Abgabenordnung* – "**AO**") related to actual income taxes as defined in IAS 12.5 ("interest and penalties related to income taxes") in financial statements prepared in accordance with IFRS as adopted by the EU. The Interpretation clarifies that interest and penalties pursuant to section 3 (4) AO related to income taxes should be accounted for under IAS 37. This has resulted in changes in the recognition, measurement, and presentation of interest and penalties related to income taxes in our consolidated statement of financial position as of December 31, 2018. The change in accounting treatment represents a change in accounting policy in accordance with IAS 8. See note 1.4 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum. To ensure comparability between periods, figures for 2017 have been restated. Accordingly, certain figures for 2016 and 2017 differ from the corresponding figures in the Audited Consolidated Financial Statements 2017.

** The consolidated statement of financial position information as of December 31, 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated statement of financial position information as of December 31, 2016 and 2017 is not fully comparable to the consolidated statement of financial position information as of December 31, 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

*** The consolidated statement of financial position information as of March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated statement of financial position information as of December 31, 2016, 2017 and 2018 and March 31, 2018 is not fully comparable to the consolidated statement of financial position information as of March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Consolidated Statement of Cash Flows – Schaeffler AG

	As of and for the year ended December 31,			As of and for the three-month period ended March 31,		As of and for the twelve-month period ended March 31,
	2016	**2017**	**2018**	**2018**	**2019***	**2019***
	(audited) (in € million)			**(unaudited) (in € million)**		**(unaudited) (in € million)**
Cash flow from operating activities	1,876	1,778	1,606	237	154	1,523
Cash flow used in investing activities	(1,141)	(1,290)	(1,384)	(308)	(440)	(1,516)
Cash flow provided by (used in) financing activities	(466)	(830)	(111)	55	1,541	1,375
Net increase (decrease) in cash and cash equivalents	**269**	**(342)**	**111**	**(16)**	**1,255**	**1,382**
Cash and cash equivalents as at end of period	1,071	698	801	672	2,071	2,071

* The consolidated statement of cash flow information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standard, no comparative information is restated and as such the consolidated statement of cash flow information for the three-month period ended March 31, 2018 and for 2016, 2017 2018 is not fully comparable to the consolidated statement of cash flow information for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Other Financial and Operating Data–Schaeffler AG

	As of and for the year ended December 31,			As of and for the three-month period ended March 31,		As of and for the twelve-month period ended March 31,
	2016	**2017**	**2018***	**2018**	**2019****	**2019****
	(audited, unless otherwise stated) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	13,338	14,021	14,241	3,551	3,622	14,312
Revenue growth (in %)	-	*5.1*	*1.6*	-	*2.0*	-
EBIT[(1)]	1,556	1,528	1,354	391	230	1,193
EBIT margin (in %)[(2)]	*11.7*	*10.9*	*9.5*	*11.0*	*6.3*	*8.3*
Adjusted EBIT (unaudited)[(1)]	1,700	1,584	1,381	391	272	1,262
Adjusted EBIT margin (in %) (unaudited)[(2)]	*12.7*	*11.3*	*9.7*	*11.0*	*7.5*	*8.8*
EBITDA (unaudited)[(3)]	2,293	2,295	2,175	587	472	2,060
EBITDA margin (in %) (unaudited)[(2)]	*17.2*	*16.4*	*15.3*	*16.5*	*13.0*	*14.4*
Adjusted EBITDA (unaudited)[(3)]	2,437	2,351	2,202	587	509	2,124
Adjusted EBITDA margin (in %) (unaudited)[(2)]	*18.3*	*16.8*	*15.5*	*16.5*	*14.1*	*14.8*
Cash flow from operating activities	1,876	1,778	1,606	237	154	1,523
Cash flow from operating activities before net interest paid (unaudited)[(4)]	2,057	1,889	1,685	262	187	1,610
Capital expenditures according to cash flow statement (unaudited)[(5)]	1,146	1,273	1,232	306	373	1,299
Free cash flow (unaudited)[(6)]	735	488	222	(71)	(300)	(7)
Free cash flow before payments for M&A activities (unaudited)[(6)]	735	515	384	(69)	(235)	218
Working capital (at the end of the period)[(7)]	2,498	2,342	2,219	2,577	2,579	2,579
Net financial debt (at the end of the period)[(8)]	2,636	2,370	2,547	2,439	2,805	2,805
Net financial debt at the end of the period over Adjusted EBITDA for the period (x) (unaudited)[(9)]	1.1	1.0	1.2	1.1	1.3	1.3
Number of employees (in ones) (unaudited)	86,662	90,151	92,478	91,414	91,837	91,837

* Certain consolidated financial and operating data for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such certain consolidated financial and operating data as of and for the years ended December 31, 2016 and 2017 is not fully comparable to the consolidated financial and operating data for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** Certain consolidated financial and operating data as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such certain consolidated financial and operating data as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated financial and operating data as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

(1) We define “**EBIT**” as net income before financial expenses, financial income and income taxes. We define “**Adjusted EBIT**” as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See “*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*” The following is a reconciliation of net income to EBIT and Adjusted EBIT for the periods below:

	For the year ended December 31,			For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Net income	**872**	**997**	**895**	**242**	**140**	**793**
Income taxes	343	339	300	95	47	252
Financial expenses	561	300	221	64	64	221
Financial income	(220)	(108)	(66)	(10)	(26)	(82)
Income from equity-accounted investees	0	0	4	0	4	8
EBIT	**1,556**	**1,528**	**1,354**	**391**	**230**	**1,193**
Special items (unaudited)	144	56	27	0	42	69
of which legal cases (unaudited)	86	17	(21)	0	(13)	(34)
of which restructuring (unaudited)	45	39	48	0	55	103
of which other (unaudited)	13	0	0	0	0	0
Adjusted EBIT (unaudited)	**1,700**	**1,584**	**1,381**	**391**	**272**	**1,262**

(2) We define EBIT margin, Adjusted EBIT margin, EBITDA margin and Adjusted EBITDA margin as EBIT, Adjusted EBIT, EBITDA and Adjusted EBITDA, respectively, divided by revenue.

(3) We define “**EBITDA**” (earnings before financial result, income taxes, depreciation, amortization and impairments) as the aggregate of (i) EBIT and (ii) depreciation, amortization (excluding write-downs of investments) and impairments. We define “**Adjusted EBITDA**” as EBITDA before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. EBITDA and Adjusted EBITDA are not performance indicators recognized under IFRS. The EBITDA and Adjusted EBITDA figures presented are not necessarily comparable to the performance figures published by other companies as EBITDA or the like. EBITDA, Adjusted EBITDA and ratios and other measures based thereon presented in this Listing Memorandum are defined and calculated differently from the definition of “Consolidated EBITDA” presented in the Indenture. See “*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*” The following is a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods below:

	For the year ended December 31,			For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Net income	**872**	**997**	**895**	**242**	**140**	**793**
Income taxes	343	339	300	95	47	252
Financial expenses	561	300	221	64	64	221
Financial income	(220)	(108)	(66)	(10)	(26)	(82)
EBIT	**1,556**	**1,528**	**1,354**	**391**	**230**	**1,193**
Depreciation, amortization and impairments	737	767	821	196	242	867
EBITDA (unaudited)	**2,293**	**2,295**	**2,175**	**587**	**472**	**2,060**
Special items (unaudited)	144	56	27	0	37	64
of which legal cases (unaudited)	86	17	(21)	0	(13)	(34)
of which restructuring (unaudited)	45	39	48	0	50	98
of which other (unaudited)	13	0	0	0	0	0
Adjusted EBITDA (unaudited)	**2,437**	**2,351**	**2,202**	**587**	**509**	**2,124**

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

	For the year ended December 31,			For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Cash flow from operating activities	**1,876**	**1,778**	**1,606**	**237**	**154**	**1,523**
Interest paid	279	121	94	28	37	103
Interest received	(98)	(10)	(15)	(3)	(4)	(16)
Net interest paid (unaudited)	181	111	79	25	33	87
Cash flow from operating activities before net interest paid (unaudited)	**2,057**	**1,889**	**1,685**	**262**	**187**	**1,610**

(5) 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 three-month period ended March 31,		For the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Capital expenditures on intangible assets	29	32	14	3	2	13
Capital expenditures on property, plant and equipment	1,117	1,241	1,218	303	371	1,286
Capital expenditures according to cash flow statement (unaudited)	**1,146**	**1,273**	**1,232**	**306**	**373**	**1,299**

(6) We define free cash flow as cash flow from operating activities, cash flow used in investing activities and (for periods beginning on or after January 1, 2019, principal repayments on lease liabilities). We define free cash flow before payments for M&A activities as free cash flow, plus cash used for acquisition of subsidiaries, less proceeds from disposal of subsidiaries. The following table sets forth our free cash flow and our free cash flow before payments for M&A activities for the periods below:

	For the year ended December 31,			For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
Cash flow from operating activities	1,876	1,778	1,606	237	154	1,523
Cash flow used in investing activities	(1,141)	(1,290)	(1,384)	(308)	(440)	(1,516)
Principal repayments on lease liabilities	0	0	0	0	(14)	(14)
Free cash flow (unaudited)	**735**	**488**	**222**	**(71)**	**(300)**	**(7)**
Acquisition of subsidiaries	0	47	163	2	65	226
Proceeds from disposal of subsidiaries	0	(20)	(1)	0	0	(1)
Payments for M&A activities (unaudited)	**0**	**27**	**162**	**2**	**65**	**225**
Free cash flow before payments for M&A activities (unaudited)	**735**	**515**	**384**	**(69)**	**(235)**	**218**

(7) We define working capital as inventories, plus trade receivables, less trade payables. The following table sets forth our working capital for the dates below:

	As of December 31,			As of March 31,	
	2016	2017	2018	2018	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)	
Inventories	1,905	2,017	2,183	2,168	2,334
Trade receivables	2,218	2,192	2,003	2,275	2,225
Trade payables	(1,625)	(1,867)	(1,967)	(1,866)	(1,980)
Working capital	**2,498**	**2,342**	**2,219**	**2,577**	**2,579**

(8) We define net financial debt as financial debt (current and non-current), less cash and cash equivalents. The following table sets forth our net financial debt for the dates below:

	As of December 31,			As of March 31,	
	2016	2017	2018	2018	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)	
Financial debt – non-current	3,704	3,066	3,188	3,103	3,442
Financial debt – current	3	2	160	8	1,434
Financial debt	**3,707**	**3,068**	**3,348**	**3,111**	**4,876**
Cash and cash equivalents	(1,071)	(698)	(801)	(672)	(2,071)
Net financial debt	**2,636**	**2,370**	**2,547**	**2,439**	**2,805**

(9) The following table sets forth our net financial debt for dates below over Adjusted EBITDA for the periods below:

	As of and for the year ended December 31,			As of and for the three-month period ended March 31,		As of and for the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(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)	2,636	2,370	2,547	2,439	2,805	2,805
Adjusted EBITDA (for the period) (unaudited)	2,437	2,351	2,202	587	509	2,124
Net financial debt over Adjusted EBITDA (x) (unaudited)[(a)]	**1.1**	**1.0**	**1.2**	**1.1**	**1.3**	**1.3**

(a) As of the three-month periods ended March 31, 2018 and 2019, the calculation uses Adjusted EBITDA for the twelve-month periods ended March 31, 2018 and 2019, respectively.

Selected Segment Information – Schaeffler AG

Effective January 1, 2018, Schaeffler Group began reporting financial information by business segment based on the following three segments: Automotive OEM, Automotive Aftermarket and Industrial. Until December 31, 2017, the Schaeffler Group reported based on two segments, Automotive (which included the activities of the Automotive OEM and Automotive Aftermarket businesses) and Industrial. In order to facilitate the comparison of Schaeffler Group's results of operations by segments, the Audited Consolidated Financial Statements 2018 include comparative financial information for the year ended December 31, 2017 based on the new segment reporting structure. Accordingly, figures for the segments Automotive OEM and Automotive Aftermarket are presented for the years ended December 31, 2017 and 2018, as taken or derived from the Audited Consolidated Financial Statements 2018, and for the three-month periods ended March 31, 2018 and 2019, as taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements. Figures for the previous segment Automotive are presented for the years ended December 31, 2016 and 2017, as taken or derived from the Audited Consolidated Financial Statements 2017. Figures for the segment Industrial are presented for 2016, as taken or derived from the Audited Consolidated Financial Statement 2017, for 2017 and 2018, as taken or derived from the Audited Consolidated Financial Statements 2018, and for the three-month periods ended March 31, 2018 and 2019, as taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements.

*In October 2018, Schaeffler Group commenced the integration of its Bearing & Components Technologies ("**BCT**") unit, which had previously acted as an internal supplier (the "**BCT Reorganization**"). Under the BCT Reorganization, the plants previously assigned to BCT and the related operations functions were integrated into the Automotive OEM and Industrial Divisions. In this context, the risk of fluctuations in production cost during the year has been borne exclusively by the two producing divisions Automotive OEM and Industrial starting in 2019, a change designed to strengthen divisional management. The BCT Reorganization had a significant impact on the allocation of costs among segments as from January 1, 2019. In order to ensure comparability, comparative financial information as of and for the three-month period ended March 31, 2018 has been restated.*

In addition, the allocation of customers to segments is reviewed at least annually and adjusted where necessary. In 2017, 2018 and the three-month period ended March 31, 2019, such review resulted in the re-allocation of customers between divisions. To ensure that segment information is comparable, certain prior year figures are presented using the customer allocation structure from subsequent periods. Figures for the Automotive OEM, Automotive Aftermarket and Industrial segments for the three-month periods ended March 31, 2018 and 2019 reflect the customer allocation structure as currently in effect and are taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements, respectively. Figures for the Automotive OEM, Automotive Aftermarket and Industrial segments for 2017 and 2018 reflect the customer allocation structure as in effect in 2018. Therefore, the 2017 segment figures for the Industrial segment may differ from the corresponding figures in the Audited Consolidated Financial Statements 2017 and the segment figures for all three divisions for the three-month period ended March 31, 2018 may differ from the corresponding figures in the Unaudited Condensed Consolidated Interim Financial Statement, respectively.

Figures for the Automotive segment for 2016 and 2017 and for the Industrial segment for 2016 reflect the customer allocation structure as of December 31, 2017 and are taken or derived from the Audited Consolidated Financial Statement 2017. Therefore, the 2016 segment figures differ from the corresponding figures in the audited consolidated financial statements of Schaeffler AG as of and for 2016.

As such, the 2016 segment figures of the Industrial division and the segment figures for subsequent periods were based on different customer allocation structures and therefore are not directly comparable. Also, the segment figures for the Automotive OEM and Automotive Aftermarket

segments were based on different customer allocation structures than the segment figures for the Automotive segment and are not directly comparable.

Automotive OEM Division (new segmentation)

	As of and for the year ended December 31,		As of and for the three-month period ended March 31,		As of and for the twelve-month period ended March 31,
	2017	**2018***	**2018**	**2019****	**2019****
	(audited) (in € million, unless otherwise stated)		**(unaudited) (in € million, unless otherwise stated)**		**(unaudited) (in € million, unless otherwise stated)**
Revenue	**8,991**	**8,997**	**2,280**	**2,286**	**9,003**
EBIT	**951**	**682**	**218**	**59**	**523**
In % of revenue	*10.6*	*7.6*	*9.6*	*2.6*	*5.8*
Adjusted EBIT[(1)]	**973**	**693**	**218**	**113**	**588**
In % of revenue	*10.8*	*7.7*	*9.6*	*5.0*	*6.5*
Depreciation, amortization and impairments	(581)	(637)	(157)	(187)	(667)
Working capital[(2)]	1,127	945	1,239	1,166	1,166
Additions to intangible assets and property, plant and equipment	1,006	970	181	225	1,014

* The consolidated income statement and statement of financial position information as of and for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016 and 2017 is not fully comparable to the consolidated income statement and statement of financial position information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,		For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2017	**2018**	**2018**	**2019**	**2019**
	(audited, unless otherwise stated) (in € million)		**(unaudited) (in € million)**		**(unaudited) (in € million)**
EBIT	**951**	**682**	**218**	**59**	**523**
Special items (unaudited)	22	11	0	55	66
of which legal cases (unaudited)	(3)	(13)	0	0	(13)
of which restructuring (unaudited)	25	24	0	55	79
of which other (unaudited)	0	0	0	0	0
Adjusted EBIT	**973**	**693**	**218**	**113**	**588**

(2) As at the end of the respective period. We define working capital as inventories, plus trade receivables, less trade payables.

Automotive Aftermarket Division (new segmentation)

	As of and for the year ended December 31,		As of and for the three-month period ended March 31,		As of and for the twelve-month period ended March 31,
	2017	2018*	2018	2019**	2019**
	(audited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	**1,880**	**1,859**	**447**	**441**	**1,853**
EBIT	**333**	**319**	**81**	**64**	**302**
In % of revenue	*17.7*	*17.2*	*18.1*	*14.4*	*16.3*
Adjusted EBIT[(1)]	**358**	**316**	**81**	**64**	**299**
In % of revenue	*19.0*	*17.0*	*18.1*	*14.4*	*16.1*
Depreciation, amortization and impairments	(5)	(6)	(7)	(10)	(9)
Working capital[(2)]	416	398	418	386	386
Additions to intangible assets and property, plant and equipment	33	64	18	40	86

* The consolidated income statement and statement of financial position information as of and for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016 and 2017 is not fully comparable to the consolidated income statement and statement of financial position information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,		For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)		(unaudited) (in € million)		(unaudited) (in € million)
EBIT	**333**	**319**	**81**	**64**	**302**
Special items (unaudited)	25	(3)	0	0	(3)
of which legal cases (unaudited)	20	(3)	0	0	(3)
of which restructuring (unaudited)	5	0	0	0	0
of which other (unaudited)	0	0	0	0	0
Adjusted EBIT	**358**	**316**	**81**	**64**	**299**

(2) As at the end of the respective period. We define working capital as inventories, plus trade receivables, less trade payables.

Automotive Division (previous segmentation)

	As of and for the year ended December 31,	
	2016	**2017**
	(audited, unless otherwise stated) **(in € million, unless otherwise stated)**	
Revenue	**10,338**	**10,869**
EBIT	**1,373**	**1,283**
In % of revenue	*13.3*	*11.8*
Adjusted EBIT (unaudited)[(1)]	**1,481**	**1,330**
In % of revenue	*14.3*	*12.2*
Depreciation, amortization and impairments	(543)	(585)
Additions to intangible assets and property, plant and equipment	904	1,039

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,	
	2016	**2017**
	(audited, unless otherwise stated) **(in € million)**	
EBIT	**1,373**	**1,283**
Special items (2016 unaudited)	108	47
of which legal cases (2016 unaudited)	82	17
of which restructuring (2016 unaudited)	13	30
of which other (2016 unaudited)	13	0
Adjusted EBIT (2016 unaudited)	**1,481**	**1,330**

Industrial Division

	As of and for the year ended December 31,			As of and for three-month period ended March 31,		As of and for the twelve-month period ended March 31,
	2016	2017	2018*	2018	2019**	2019**
	(audited, unless otherwise stated) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)		(unaudited) (in € million, unless otherwise stated)
Revenue	**3,000**	**3,150**	**3,385**	**824**	**895**	**3,456**
EBIT	**183**	**244**	**353**	**92**	**108**	**369**
In % of revenue	*6.1*	*7.7*	*10.4*	*11.2*	*12.0*	*10.7*
Adjusted EBIT (2016 unaudited)[(1)]	**219**	**253**	**372**	**92**	**95**	**375**
In % of revenue	*7.3*	*8.0*	*11.0*	*11.2*	*10.6*	*10.9*
Depreciation, amortization and impairments	(194)	(181)	(178)	(32)	(46)	(192)
Working capital[(2)]	n/r***	799	876	920	1,028	1,028
Additions to intangible assets and property, plant and equipment	211	248	241	35	30	236

* The consolidated income statement and statement of financial position information as of and for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016 and 2017 is not fully comparable to the consolidated income statement and statement of financial position information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

*** Not reported.

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,			For the three-month period ended March 31,		For the twelve-month period ended March 31,
	2016	2017	2018	2018	2019	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)		(unaudited) (in € million)
EBIT	**183**	**244**	**353**	**92**	**108**	**369**
Special items (2016 unaudited)	36	9	19	0	(13)	6
of which legal cases (2016 unaudited)	4	0	(5)	0	(13)	(18)
of which restructuring (2016 unaudited)	32	9	24	0	0	24
of which other (2016 unaudited)	0	0	0	0	0	0
Adjusted EBIT (2016 unaudited)	**219**	**253**	**372**	**92**	**95**	**375**

(2) As at the end of the respective period. We define working capital as inventories, plus trade receivables, less trade payables.

Summary Financial Information of the Issuer (German GAAP)

Results of Operations – Issuer

	For the year ended December 31,			For the three-month period ended March 31,	
	2016	2017	2018	2018	2019
	(audited) (in € million)			(unaudited) (in € million)	
Income from equity investments	515	551	594	0	0
Interest and similar expenses (net)	(122)	(145)	(172)	(43)	(21)
General and administrative expenses	(8)	(1)	(3)	(1)	0
Other operating income (net)	5	21	15	0	0
Income from other securities and loans	5	18	18	4	4
Income tax income/(expense)	72	79	86	3	(3)
Net income/(loss)	**467**	**523**	**537**	**(37)**	**(19)**

Statement of Financial Position – Issuer

	As of December 31,			As of March 31,
	2016	2017	2018	2019
	(audited) (in € million)			(unaudited) (in € million)
Assets				
Long-term financial assets	**11,012**	**11,012**	**11,012**	**11,028**
of which shares in affiliated companies	4,706	4,706	4,706	4,706
of which loans receivable from affiliated companies	880	880	880	880
of which equity investments	5,421	5,421	5,421	5,436
of which other loans receivable	5	5	5	5
Current assets	**67**	**619**	**558**	**568**
of which receivables and other assets	41	42	46	62
of which cash at banks	26	577	512	505
Excess of plan assets over post-employment benefit liability	**7**	**8**	**3**	**2**
Total assets	**11,087**	**11,640**	**11,574**	**11,598**
Shareholders' equity and liabilities				
Total shareholders' equity	**6,666**	**7,189**	**7,066**	**7,047**
Provisions	**111**	**65**	**42**	**42**
Liabilities	**4,062**	**4,207**	**4,365**	**4,406**
Deferred income	**21**	**18**	**16**	**15**
Deferred tax liabilities	**227**	**160**	**86**	**88**
Total shareholders' equity and liabilities	**11,087**	**11,640**	**11,574**	**11,598**

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 March 31, 2019. The basis of preparation for this information is set forth in "Important Information about this Listing 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 March 31, 2019, which has been adjusted to reflect certain effects of the Refinancing, the Issuer Dividend and the Schaeffler Group Refinancing and certain other adjustments on the Issuer financial information, as if the Refinancing, the Issuer Dividend and the Schaeffler Group Refinancing had occurred on (i) April 1, 2018, for the purposes of the calculation of income statement and cash flow statement items or (ii) March 31, 2019, 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 Refinancing, the Issuer Dividend 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 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 Listing 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 Listing Memorandum beginning on page F–1.

	As of and for the twelve-month period ended March 31, 2019	
	Actual	*Pro forma* financial information
	(unaudited) (in € million, unless otherwise stated)	
Issuer (German GAAP)[1]		
Dividends received[2]	594	594
Financial debt (at end of period)[3]	4,341	3,857
Cash at banks (at end of period)[4]	505	240
Net financial debt (at end of period)[5]	3,836	3,617
Net interest paid[6]	150	159
Dividends received over net interest paid (x)	4.0	3.7
Schaeffler Group (IFRS)[7]		
Adjusted EBITDA[8]	2,124	2,124
Financial debt (at end of period) [9]	4,876	3,442
Cash and cash equivalents (at end of period) [10]	2,071	250
Net financial debt (at end of period)[11]	2,805	3,192
Net interest paid[12]	87	60
Net financial debt (at end of period) over Adjusted EBITDA (x)	1.3	1.5
Adjusted EBITDA over net interest paid (x)	24.5	36.0

	As of March 31, 2019 (unless otherwise stated)
	(unaudited) (in € million, unless otherwise stated)
Combined Ratios	
Pro forma Combined Net Leverage Ratio (x)[13]	3.1
Pro forma Combined Coverage Ratio (x)[14]	9.4
LTV Ratios	
Value of 75.1% of Schaeffler AG shares held by the Issuer[15]	3,785
Value of Schaeffler AG shares pledged as Collateral[16]	2,521
Value of 36.0% of Continental AG shares held by the Issuer[17]	10,326
Value of Continental AG shares pledged as Collateral[18]	6,015
Pro forma LTV Ratio (1.0:x)[19]	3.7
Pro forma Collateral LTV Ratio (1.0:x)[20]	2.2

(1) The historical Issuer financial information has been compiled based on the Issuer Audited Unconsolidated Financial Statements and the unaudited accounting records of the Issuer, 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 Listing Memorandum—Presentation of Financial and Other Information—Pro Forma Financial Information.*"

(2) Dividends received reflect dividends received by the Issuer from its investments in Schaeffler AG (€270 million) and Continental AG (€324 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.

(3) *Pro forma* financial debt is the financial debt as adjusted to give *pro forma* effect to the Refinancing as if the Refinancing had occurred on March 31, 2019. Actual financial debt of the Issuer consists of the Issuer Facility Agreement (€756 million, of which €750 million were drawn under the Issuer Term Facility and €6 million were drawn in the form of ancillary facilities under the Issuer Revolving Facility), the Existing Issuer Notes (€1,195 million-equivalent) and the Redeemed Issuer Notes (€2,390 million-equivalent). *Pro forma* financial debt of the Issuer consists of the Issuer Facilities Agreement (€606 million), the Existing Issuer Notes (€1,195 million-equivalent) and the Notes offered hereby (€2,057 million-equivalent). For presentational purposes, the U.S. dollar tranches of the Notes have been converted into euro at an exchange rate of $1.1235 to €1.00 as of March 31, 2019. All values are shown at principal amounts and do not reflect the amortization of transaction costs.

(4) *Pro forma* cash at banks represents cash at banks as adjusted to give *pro forma* effect to (i) the use of €600 million in connection with the Refinancing, as described under "*Use of Proceeds*," (ii) the payment of the Issuer Dividend of €250 million, (iii) the receipt of dividends in an aggregate amount of €612 million from Schaeffler AG in April 2019 (€270 million) and from Continental AG in May 2019 (€342 million) and (iv) the payment of accrued interest on the Redeemed Issuer Notes of €28 million on May 15, 2019, in each case as if they occurred on March 31, 2019.

(5) Actual net financial debt represents actual gross financial debt less actual cash at banks. *Pro forma* net financial debt represents *pro forma* gross financial debt less *pro forma* cash at banks.

(6) 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 March 31, 2019, as adjusted to give *pro forma* effect to the Refinancing, as if the Refinancing had occurred on April 1, 2018. *Pro forma* net interest paid is actual net interest paid for the twelve-month period ended March 31, 2019 (€150 million), adjusted by adding interest payments of €82 million-equivalent relating to the Notes, and by deducting interest payments (net of payments under related cross-currency hedges) of €70 million relating to Redeemed Issuer Notes and €2 million relating to €150 million to be repaid under the Issuer Term Facility (net of increased commitment fees relating to the increased Issuer Revolving Facility).

(7) The historical Schaeffler Group financial information has been compiled based on the Audited Consolidated Financial Statements 2018 and the Unaudited Condensed Consolidated Interim Financial Statements, in accordance with IFRS. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Pro Forma Financial Information.*"

(8) We define Adjusted EBITDA as EBITDA (earnings before financial result, income from equity-accounted investees, income taxes, depreciation, amortization and impairments) before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. We define EBITDA as the aggregate of (i) EBIT and (ii) depreciation, amortization (excluding write-downs of investments) and impairments. EBITDA and Adjusted EBITDA are not performance indicators recognized under IFRS. The EBITDA and Adjusted EBITDA figures presented are not necessarily comparable to the performance figures published by other companies as EBITDA, Adjusted EBITDA or the like. EBITDA, Adjusted EBITDA and ratios and other measures based thereon presented in this Listing Memorandum are defined and calculated differently from the definition of "Consolidated EBITDA" presented in the Indenture. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" For a reconciliation of net income to EBITDA and Adjusted EBITDA, see footnote (3) under "*—Other Financial and Operating Data—Schaeffler AG.*"

(9) *Pro forma* financial debt is financial debt as adjusted to give *pro forma* effect to the Schaeffler Group Notes Redemption as if it had occurred on March 31, 2019.

(10) *Pro forma* cash and cash equivalents represent cash and cash equivalents as adjusted to give *pro forma* effect to the Schaeffler Group Notes Redemption, as if it occurred on March 31, 2019, as well as the payment of €361 million of dividends by Schaeffler AG on its common and preferred shares on April 29, 2019. The actual cash and cash equivalents as of March 31, 2019 (€2,071 million), which includes the proceeds from the issuance of the New Schaeffler Group Notes, is adjusted by deducting €1,462 million to effect the Schaeffler Group Notes Redemption (reflecting €1,434 million in aggregate principal amount for the Redeemed Schaeffler Group Notes, €6 million in redemption premium, €2 million of unpaid transaction costs and €18 million in accrued interest) and €361 million in dividend payments made by Schaeffler AG on April 29, 2019. For presentational purposes, U.S. dollar amounts used for the Schaeffler Group Notes Redemption have been converted into euro at an exchange rate of $1.1235 to €1.00 as of March 31, 2019.

(11) 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.

(12) Schaeffler Group *pro forma* net interest paid is defined as the accumulated net interest paid for the twelve-month period ended March 31, 2019, as adjusted to give *pro forma* effect to the Schaeffler Group Refinancing as if it had occurred on April 1, 2018. The actual net interest paid for the twelve-month period ended March 31, 2019 (€87 million) is adjusted by (a) deducting (i) interest (net of related payments under cross-currency swaps) of €46 million relating to the Redeemed Schaeffler Group Notes, (ii) interest of €10 million relating to €500 million in term loans repaid in the Schaeffler Group Term Facility Repayment and of €1 million relating to the Schaeffler Group Revolving Facility during the twelve-month period and (iii) transaction costs of €12 million relating to the Schaeffler Group Refinancing and (b) adding interest of €42 million relating to the New Schaeffler Group Notes.

(13) *Pro forma* Combined Net Leverage Ratio is calculated on a combined and "look-through" basis as the Issuer's ownership percentage of the *pro forma* net financial debt of the Schaeffler Group *plus* the *pro forma* net financial debt of the Issuer, divided by the Issuer's ownership percentage of the Adjusted EBITDA of the Schaeffler Group *plus* dividends received by the Issuer from Continental AG during the twelve-month period ended March 31, 2019.

(14) *Pro forma* Combined Coverage Ratio is calculated on a combined and "look-through" basis as the Issuer's ownership percentage of the Adjusted EBITDA of the Schaeffler Group *plus* dividends received by the Issuer from Continental AG during the twelve-month period ended March 31, 2019, divided by the Issuer's ownership percentage of the *pro forma* net interest paid by the Schaeffler Group *plus* the *pro forma* net interest paid by the Issuer.

(15) 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 April 30, 2019 (€7.57), multiplied by the number of Schaeffler AG shares held by the Issuer (500,000,000).

(16) As of the Issue Date, the Notes, the Existing Issuer 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 50.0% *plus* one share of the total share capital of Schaeffler AG). Based on the Schaeffler AG Share Value of €7.57, the shares in Schaeffler AG forming part of the Collateral had a total market value of €2,521 million as of April 30, 2019.

(17) 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 April 30, 2019 (€143.43), multiplied by the number of Continental AG shares held by the Issuer (71,990,458).

(18) As of the Issue Date, the Notes, the Existing Issuer Notes and the Issuer Facilities will be secured by pledges over 41,937,694 common shares in Continental AG (representing 21.0% of the total share capital of Continental AG). Based on the Continental Share Value of €143.43, the shares in Continental AG forming part of the Collateral had a total market value of €6,015 million as of April 30, 2019.

(19) The *pro forma* LTV Ratio is calculated as the *pro forma* (gross) financial debt of the Issuer as of March 31, 2019, divided by an amount equal to (i) the Schaeffler AG Share Value on April 30, 2019 (€7.57) multiplied by the number of Schaeffler AG shares held by the Issuer (500,000,000) plus (ii) the Continental Share Value on April 30, 2019 (€143.43) multiplied by the number of Continental AG shares held by the Issuer (71,990,458).

(20) The *pro forma* Collateral LTV Ratio is calculated as the *pro forma* (gross) financial debt of the Issuer as of March 31, 2019, divided by an amount equal to (i) the Schaeffler AG Share Value on April 30, 2019 (€7.57) multiplied by the number of Schaeffler AG shares (333,000,001) forming part of the Collateral plus (ii) the Continental Share Value on April 30, 2019 (€143.43) multiplied by the number of Continental AG shares (41,937,694) forming part of the Collateral. As of March 31, 2019, €6 million were drawn under the Issuer Revolving Facility. If the Issuer Revolving Facility were fully drawn as of the Issue Date, the *pro forma* Collateral LTV Ratio would be 1.0 to 2.0.

Risk Factors

An investment in the Notes is subject to risks. In addition to the other information contained in this Listing 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 its 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

We are exposed to risks associated with market trends and technological developments, including trends toward electric mobility, 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 markets for the products offered by us are subject to significant technological change, continuously developing technological standards, changing customer preferences, and constantly emerging innovative products. The automotive market, in particular, is characterized by progressive development towards higher performance and simultaneously more fuel-efficient, less polluting and quieter engines, electronic control and assistance systems, as well as towards medium range cars and hybrid and electric vehicles. Existing technologies and products may be entirely replaced by newly developed and marketed technologies and newly introduced products.

As electrification of automobiles is progressing, the further development of conventional drive trains may come under pressure. Improvements to conventional drive trains may become less relevant and existing products and applications may be replaced. If alternative drive trains (*e.g.*, electric vehicles) were to gain market share sooner than currently expected, such new drive trains may not require our products or may make use of such products to a lesser extent than conventional drive trains, which could result in us losing market share.

Digitalization is progressing rapidly and has already completely transformed certain sectors. The pace of implementation and adaptation represents an important success factor in this regard and, therefore, also a risk.

Should we fail to develop appropriate strategies as a response to the market trends described above or similar market trends, growth opportunities could be lost or we could lose existing customers.

There can be no assurance that (i) we will be successful in developing new products or systems or in bringing them to market in a timely manner, or at all, (ii) products or technologies developed by others will not render our offerings obsolete or non-competitive, (iii) our customers will not substitute our products with competing products or alternate technology, (iv) the market will accept our innovations, (v) our competitors will not be able to produce our non-patented products more cheaply and (vi) we will be able to adjust our cost structure in the event of contraction of demand.

Should we fail to develop appropriate strategies as a response to these or other market trends and should we fail to enhance existing products, develop new products or keep pace with developing market trends or technology, growth opportunities could be lost or we could lose existing customers. Furthermore, if we devote resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these research and development ("**R&D**") expenses may be lost and our business may suffer.

In addition, we currently rely on a high degree of vertical integration and comprehensive production expertise to facilitate improvements in the production process and ultimately safeguard our ability to maintain our margins. The evolution of our business from being component-driven toward being more systems-based is ongoing, and, because these systems may employ a greater proportion of components not manufactured by us, but purchased from other suppliers, this change could reduce the proportion of value added by us.

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.

As a global supplier to the automotive and industrial sector we are exposed to substantial risks associated with the performance of the global economy, political uncertainty and the performance of the economy in the regions in which we operate, particularly in the Eurozone, the United States and China.

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.

The expected development of the global economy is subject to a number of uncertainties. Should the international equity markets experience persistently falling prices, this would adversely affect the real economy. In addition, a number of countries, including the United States, have experienced rising interest rates in the recent past, and further increases in interest rates could hamper economic development and slow down economic growth. Any signs of economic uncertainty, including a slowdown in economic growth could lead to significant long-term economic weakness.

China remains susceptible to an unexpected setback in growth, especially considering its debt situation. The government of the People's Republic of China ("**China**") has in recent years implemented a number of measures to control the rate of economic growth, including by raising interest rates and adjusting deposit reserve ratios for commercial banks, among other measures designed to tighten credit and liquidity. These measures have contributed to a slowdown of the Chinese economy, which could significantly reduce consumer spending in China. Further, an escalation of trade tensions between the United States and China may result in further uncertainty in the global economy and may jeopardize economic growth in China. In 2018, the Chinese economy expanded at its slowest pace in more than two decades driven by the ongoing trade dispute with the United States and weaker growth in the Eurozone. Sales of new light duty vehicles in China also fell for the first time in 20 years in 2018 and so far this trend has continued in 2019. In the past, the Chinese government has relied heavily on increased infrastructure spending to stimulate growth in,

among other sectors, the automotive industry. However, given heightened debt levels it is unclear if the Chinese government will respond by taking similar measures in the current downturn and if such measures would be successful.

Additional risks to the economic environment, international trade and demand for our products could arise from rising protectionist tendencies, which could result in, *inter alia*, higher customs charges. The United States has announced a series of potential measures relating to international trade, which could have an adverse impact on the global economy, international trade and the automotive industry. The current U.S. government also negotiated a replacement of the North American Free Trade Agreement in October 2018. The new United States-Mexico-Canada Agreement, which is expected to enter into force in 2019, includes more stringent rule of origin provisions and requirements for a minimum percentage of manufacturing being made with labor above a certain minimum wage. In February 2019, the U.S. Commerce Department concluded a probe into whether vehicle imports pose a national security threat to the United States. Retaliatory measures have been announced by many of the United States' trading partners, including China and the European Union (the "**EU**"). The findings of such probe are not publicly known, but could result in the imposition of additional duties on imports of vehicles into the United States. These and other changes in trade policies could trigger additional retaliatory actions, resulting in "trade wars."

There also continues to be uncertainty about a potential deterioration of the sovereign debt of several Eurozone countries, which could also affect more stable countries and adversely affect the stability of the Economic and Monetary Union. Political developments and uncertainties in certain European countries, such as the recent appointment of a coalition government in Italy comprised of two Eurosceptic parties could further exacerbate these uncertainties. Furthermore, escalation of conflicts, armed conflicts, terrorist activities, natural catastrophes or the spread of infectious diseases may lead to prompt unexpected, short-term responses from the markets and declines in demand for our products and services.

Furthermore, on June 23, 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum and on March 27, 2017 the UK government formally initiated the withdrawal process ("**Brexit**") and the negotiations are ongoing to determine the terms of the United Kingdom's withdrawal from the European Union as well as its future relationship with the European Union, including free movement of goods, service and people between the United Kingdom and the European Union. This gave rise to calls from populist movements for the governments of other EU member states to consider withdrawal. This has created substantial political uncertainty in the EU and uncertainty in international financial markets. Depending on the terms of Brexit, particularly after a possible transition period or as a result of a "no-deal" Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and increased volatility. The resulting political and economic uncertainty could also lead to a departure, or heighten the risk of departure, from the Economic and Monetary Union by one or more Eurozone countries and/or the abandonment of the euro as a currency. This heightened uncertainty may have a negative effect on consumer confidence, thereby reducing demand for automobiles.

The impact of a "no-deal" Brexit could have a material adverse effect on the automotive industry in the United Kingdom and the EU. In particular, the imposition of tariffs could disrupt cross-border supply chains making it difficult for automotive manufacturers in the United Kingdom together with automotive part manufacturers in the EU to continue to operate their business, as currently conducted. For example, certain manufacturers have recently announced that a "no-deal" Brexit could, materially disrupt their supply chains and force them to relocate operations outside the United Kingdom. The imposition of tariffs could also increase the costs of, and decrease the demand for, automobiles in the United Kingdom.

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.

The imposition of tariffs or non-tariff trade barriers on automobiles and other goods could have a material adverse effect on us.

Since the beginning of 2018, the United States, announced a series of potential measures relating to international trade, which individually or in aggregate could have a material adverse impact on the global economy, international trade or the automotive industry. In January 2018, the U.S. began to impose tariffs on certain products, which were later expanded to include a 25% tariff on imports of steel and a 10% tariff on imports of aluminum in June 2018. The U.S. also negotiated a replacement of the North American Free Trade Agreement in October 2018. The new United States-Mexico-Canada Agreement, which is expected to enter into force in 2019, includes more stringent rule of origin provisions and requirements for a minimum percentage of manufacturing being made with labor above a certain minimum wage. We have operations in Mexico and the imposition of additional import restrictions, non-tariff trade barriers or tariffs could adversely affect our ability to supply customers in the United States. In addition, new import restrictions, non-tariff trade barriers and/or tariffs could result in higher prices for light duty and heavy duty vehicles, which could in turn have a negative impact on the demand for our products. In addition, our results of operations could also be affected by retaliatory measures from Europe, China or other countries imposing tariffs on the United States.

In February 2019, the U.S. Commerce Department concluded a probe into whether vehicle imports pose a national security threat to the United States. The findings of such probe are not publicly known, but could result in the imposition of additional duties on imports of vehicles into the United States. Such import tariffs, if imposed, could have a material adverse effect on the demand for non-U.S. light duty vehicles in the United States. Through our European operations, we, directly and indirectly, supply a number of OEMs that currently export a large number of light duty vehicles into the U.S. market. A significant decrease in demand for these cars in the U.S. market would therefore materially and adversely affect demand for our products. Any such decrease in demand could have a material and adverse effect on our business, net assets, financial condition, cash flows and results of operations, which could in turn adversely affect our ability to fulfill our obligations under the Notes or cause the market price of the Notes to decline.

Higher tariffs, or the imposition of tariffs or a “no-deal” Brexit, could materially and adversely affect complex supply chains in the automotive industry. The automotive industry supply chain has developed over decades and relies on existing trade arrangements to provide for cross-border supplies of raw materials, automotive parts and other components. The impact of terminating existing trade arrangements could be materially disruptive to the supply chains resulting in immediate shortages of critical parts and components necessary to manufacture automobiles and other vehicles. This could have a material adverse effect on the automotive industry as a whole and our business in particular.

We operate in a cyclical industry and this makes it hard 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 of our Automotive OEM division, which accounted for 63.2% of our consolidated revenue in 2018, 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 and fuel prices, 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. Demand for our automotive products can also be affected by regulatory developments or investigations affecting our customers. For example, in recent years, authorities in the United States and Europe determined that certain OEMs intentionally programmed automobiles with diesel engines to restrict emissions during testing to pass applicable requirements. A number of OEMs have been subject to negative press coverage and/or criminal investigations and/or civil actions in multiple jurisdictions, in some cases leading to product recalls and substantial fines. Regulators in the U.S. and the EU have announced or indicated that more stringent testing standards for diesel vehicles may be developed in response. See "*—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.*" Additionally, certain groups and initiatives have announced voluntary or local-level restrictions on the circulation of diesel mobiles, even if they are compliant with applicable standards, including the mayors of Paris, Mexico City, London, Madrid and Athens. In China, limited access to vehicle registration is used to slow the increase in traffic and related pollution. If, as a result of these investigations, actions and increased scrutiny regarding diesel automobiles, our significant OEM customers curtail their production of, or discontinue, diesel automobiles that incorporate our products, the sales of our Automotive OEM division could be adversely affected.

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 of our Automotive Aftermarket Division, which accounted for 13.0% of our consolidated revenue in 2018, depend, among other things, on general economic conditions as well as on consumer spending and preferences, available innovations in products and technologies, on composition, growth and average age of global vehicle population as well as on average usage and lifetime of parts before a replacement is required. Inability to correctly forecast demand for our aftermarket products could lead to underutilization of our facilities or insufficient capacity to meet customer demand.

Sales of our Industrial division, which accounted for 23.8% of our consolidated revenue in 2018, 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 highly competitive, technologically fast-paced 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. We compete primarily on the basis of price, quality, timeliness of delivery and design as well as the ability to provide engineering support, repair know-how and service on a global basis. Some OEMs have begun to reduce the number of vendors in their supply base in an effort to simplify their value chain and focus on their relationships with a limited number of vendors. 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 has been characterized by significant investments, rapid technological change, for example, in electric mobility and autonomous driving, 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. We may not be able to pass some or all of these demands for extensive price reductions on to our own suppliers. If we are unable to offset price reductions through improved operating efficiencies and the realization of synergies, price reductions could impact our profit margins.

Our industrial business is also increasingly faced with competitors from emerging countries that are exerting pressure on market prices, considerably so in some cases. In certain industries, customers increasingly prefer standardized products over customer-specific developments, and this trend benefits competitors from emerging countries as well, which could lead to a loss in our market share. In addition, some of the industries and markets in which we are active, particularly the automotive aftermarket business, are characterized by consolidation among competitors. Any future consolidation among our competitors could allow them to benefit from economies of scale, offer more comprehensive product portfolios, and increase the size of their serviceable markets. This could require us to accept reductions in our profit margins and the loss of market share due to price pressure.

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 OEMs and Tier 1 suppliers for the sale of a substantial portion of our products and adverse developments relating to these customers could also adversely affect our own business.

In 2018, we generated revenue of €1.49 billion from one key customer, representing 10.4% of our total revenue and 15.8% of the revenue of the Automotive OEM Division. In the Automotive OEM Division, the ten largest customers accounted for approximately 62.0% of the division's total revenue in 2018. Many of our customers are large OEMs and Tier 1 suppliers (*i.e.*, suppliers that sell their products directly to OEMs). 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, bankruptcy or insolvency of a customers and plant shutdowns, strikes or other work stoppages and changed regulatory requirements, affecting production by such customers could cause a loss of all or a substantial portion of sales to any of our major customers. For example, the introduction of the new emissions

testing methodology ("**WLTP**") in Europe in 2018 caused delays in automobile production. Furthermore, any reputational damage incurred by such customers (*e.g.*, due to compliance violations, product defects) could also damage our reputation, even if the actual facts and parts in question are completely unrelated to us.

Furthermore, our customers may consolidate or merge from time to time. Consolidated among our customers could result in an increasingly concentrated client base of large customers which could, among others, increase the bargaining power of our current and future customers. Mergers of our customers with entities that are not our customers could also materially impact our financial position and results of 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.

The significant bargaining power of our major customers may adversely affect our profit margins.

Our major customers 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 major customers discontinues the business relationship with us or terminates a supply contract prematurely, the original investments made by us to provide products to this customer could be wholly or partially lost.

The timing and amount of sales to our major customers ultimately depend on factors that are beyond our control (*i.e.*, sales levels and shipping schedules for the customer's products into which our products are incorporated). We cannot be certain that our customers will continue to manufacture products that incorporate our products at current levels or at all. Failure of our 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.

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. In addition, if any of our customers becomes insolvent, the original investments made by us to provide products to this customer could be wholly or partially lost.

Payment defaults by 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.

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 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 the Greater China and Asia/Pacific regions. 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.

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.

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;
- political or social unrest or acts of sabotage or terrorism; and
- international sanctions or boycott measures.

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 be unable to successfully integrate or achieve expected benefits from recent or future acquisitions or investments in joint venture or other arrangements where we do not exercise full control.

We have pursued and may in the future pursue selected acquisitions and investments in joint ventures and other arrangements where we do not exercise full control, such as our recently established joint venture Schaeffler Paravan Technologie GmbH & Co. KG. To the extent that we are successful in making acquisitions or investments, we may need to expend substantial amounts of cash, incur additional debt or assume loss-making divisions. Acquisitions and investments 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;
- control issues in relation to investments in joint ventures and other arrangements where we do not exercise full control;
- possibility that partners or co-investors may become bankrupt, fail to fund their required capital contributions or perform their obligations poorly or not at all;
- possibility that co-investors have objectives that are inconsistent or that conflict with our business interests or goals and may be in a position to block or impede action with respect to our investments or take actions contrary to our policies, objectives or interests;
- disputes may arise between us and our co-investors that may consume significant financial and other resources and result in the loss of business opportunities and growth; and
- actions by our co-investors, of which we may be unaware, or which we may be unable to control, such as political affiliations, illegal or corrupt practices and other activities, may cause reputational damage to us or result in adverse consequences to our investments.

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 recent or future acquisition will yield benefits that are sufficient to justify the expenses we incurred or will 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, in particular various types of steel and other alloys, aluminum, zinc, as well as plastics and lubricants, 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.

Although we fix purchase prices for certain of our raw materials, such as steel, for six to twelve months by entering into forward purchase contracts, 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, particularly if we enter

into forward purchase contracts with respect to such raw materials and, as a consequence, lower market prices are reflected in our inventories on a delayed basis.

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 and the punctual delivery of ordered goods.

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, our customers could potentially bring claims for damages, even if the cause of the defect is remedied at a later point in time.

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.

In addition, delivery capabilities and delivery performance represent a key competitive factor. A failure by us to meet contractual delivery dates could result in contractual penalties, expose us to damage claims from our clients, a loss of customers or negatively impact our reputation.

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. A resulting side effect is that we have been the target of product piracy in the past.

Due to the reputation of our brands, we expect that third parties will continue to produce and distribute counterfeit products under our brands in the future. Such products are usually sold at significantly reduced prices, which might put 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 prove unsuccessful. 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 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. 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, and other qualified executives and employees in key functions throughout 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 91,837 employees (as of March 31, 2019), 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 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. For example, as part of RACE, we expect to reduce the Automotive OEM Division's workforce by up to 900 positions, mostly in Germany and the rest of Europe. See "*—We may be unable to successfully implement our efficiency and portfolio optimization and growth programs.*" Though we intend to reduce the workforce in a socially acceptable manner, this could nevertheless cause our relationships with employees and employee representatives to deteriorate. 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, business strategy or confidential customer data. If an actual or perceived breach of security occurs, customer perception of the effectiveness of our security measures could be harmed which could result in the loss of customers. Similar risks exist in case of interruption, malfunction or data leakage with respect to information technology systems of third party providers that we cooperate with.

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 increase 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. See "*Description of Other Indebtedness.*" As a result of these factors, fluctuations in exchange rates and, in particular a significant appreciation of the euro against other major currencies, 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, 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.

We may be unable to successfully implement our efficiency and portfolio optimization and growth programs.

As part of our overall business strategy, we are implementing strategic initiatives to improve profitability, including consolidating our European plant network, limiting R&D expenses and restricting capital expenditures. In 2019, we began implementing our efficiency and portfolio optimization program "RACE", which is designed to structurally improve the Automotive OEM's competitiveness and to sustainably increase its efficiency and optimize its product and service portfolio. We are targeting completion of RACE in three to four years. As part of the RACE, we expect to reduce the Automotive OEM Division's workforce by up to 900 positions in a socially acceptable manner, mostly in Germany and the rest of Europe. In addition, following the completion of the realignment program "CORE" in the Industrial Division as at the end of 2018, we have initiated the continuous improvement program "Fast Industrial Transformation" or "**FIT**." FIT is aimed at securing the results of the "CORE" program and leveraging efficiencies to more proactively secure the future profitability of the Industrial Division.

If the implementation of any of these programs, or any other program that we may implement in order to increase efficiency and optimize our portfolio, is not successful and the targeted efficiency and operating improvements cannot be realized, our results of operations could be adversely affected. Even if we achieve the expected benefits, they may not be achieved within the anticipated time frame and may cause additional costs, including costs that we do not and cannot currently foresee. Any of these programs may cause our relationships with employees and employee representatives to deteriorate. See "*—Our business could be adversely impacted by strikes and other*

labor disputes." The efficiency and operating improvements anticipated by us are based on estimates and assumptions made by us that are inherently uncertain, although considered reasonable by us, and may be subject to significant business, economic and competitive uncertainties and contingencies, all of which are difficult to predict and a number of which are beyond our control. As a result, there can be no assurance that such efficiency and operating improvements will be achieved.

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.

Risks related to our Financing

The 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 March 31, 2019, on a *pro forma* basis after giving effect to the Refinancing, the Issuer would have had financial debt of €3,857 million. As of March 31, 2019, on a *pro forma* basis after giving effect to the Schaeffler Group Notes Redemption, the Schaeffler Group would have had financial debt of €3,442 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 substantial 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 and developments;
- 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, 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 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 neither the Indenture, the indenture governing the Existing Issuer Notes nor the Issuer Facilities Agreement places any restrictions on the ability of Schaeffler AG and its subsidiaries to incur additional debt, these entities will only be subject to the restrictions, if any, contained under their respective financing arrangements. See "*—Risks related to the Notes and our Structure—Despite their substantial 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. Some of the covenants currently included in the terms of the Schaeffler Group's financing arrangements impose 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 Existing Issuer Notes, the Issuer Facilities Agreement, the Schaeffler Group Syndicated Facilities Agreement, the Schaeffler Group Investment Facility 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, the Schaeffler Group Syndicated Facilities Agreement and the Schaeffler Group Investment Facility 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 Schaeffler Group Syndicated Facilities Agreement and the Schaeffler Group Investment Facility Agreement,

Schaeffler AG is generally required (subject to the fall-away date concept (see *"Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Syndicated Facilities Agreement—Fall-Away Date: fall-away of covenants."*) to maintain financial ratios regarding a maximum level of consolidated total net debt to adjusted consolidated EBITDA ("**Leverage Ratio**").

In light of the cyclical nature of the business of the Schaeffler Group and Continental AG and its possible effects on their business activities and 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 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 March 31, 2019, is our major associated company. In its financial year 2018, Continental AG reported revenue of approximately €44,404 million and net income of approximately €2,897 million. 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, the Schaeffler Group Syndicated Facilities Agreement and the Schaeffler Group Investment Facility 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.

Legal, Regulatory and Tax Risks

Our compliance management system 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 compliance management system that is aimed, among other things, at preventing corruption, fraud and other criminal or unauthorized behavior by our managers, employees, consultants, agents and business partners. Although our global compliance organization continuously seeks to improve the effectiveness and efficiency of this system, the compliance management system may fail to prevent or detect willful illegal, in particular collusive, behavior circumventing existing safeguards and controls. Similarly, our risk management function may fail to identify, mitigate or manage relevant risk exposures. Furthermore, it is possible that violations of existing law occur despite careful observance of such legal requirements.

If our managers, employees, consultants, agents or business partners 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 managers, employees, consultants, agents or business partners 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. 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 management systems, 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.

Our material compliance management system may fail to prevent us from distributing products in the market in violation of the law or in non-compliance with customer specifications.

We use a material compliance management system to help us meet our commitment to using only components and raw materials that comply with the applicable laws and regulations and to provide products that meet all customer specifications. However, there is a risk that changes in requirements relating to materials are not identified in time, that products are distributed in the market in violation of the law or that products are delivered to customers that do not meet the customers' specifications. In case of violations of laws and regulations, we could be subject to administrative or criminal fines or other sanctions. We could also be exposed to civil damage claims from direct or indirect purchasers of the affected products. Finally, potential violations could also damage our reputation or negatively impact the perception of our products.

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

Companies of 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 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.
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 where applicable. We are also subject to follow-on civil damages claims and we may be exposed to additional claims from both direct and indirect purchasers of affected products. 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.

If we fail to maintain an effective system of internal controls over financial reporting and payment transactions, 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 and payment transactions. Based on these evaluations, we may conclude that enhancements, modifications, or changes to internal controls are necessary or desirable.

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. 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.

On November 29, 2018, the OEM Opel issued a notification through the EU's rapid alert system "RAPEX" (the "**Opel Alert**"). The alert alleged that in its Astra K model (model years 2016-2018), particles coming from the clutch slave cylinder sealing might contaminate the brake master cylinder, which may cause a reduction in braking power. We delivered the clutch slave cylinder, including the sealing, to Opel. To our knowledge, as of the date of this Listing Memorandum, a root cause investigation is not yet completed. However, it is possible that Opel may seek to hold us liable for this issue. As of the date of this Listing Memorandum, Opel has not submitted a claim to us related to the Opel Alert.

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, could copy our know-how without incurring adequate 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 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 unexpected 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 and customers also submit a large number of inventions for intellectual property protection, such as for patents and utility models. 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, 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, South Korea, Romania, Hungary, Brazil 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 have substantial pension obligations and other employee benefit obligations, most of which are not covered by underlying plan assets. We provide defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of December 31, 2018, our defined benefit obligations amounted to €2,864 million using a discount rate of 2.2%. Total provisions recognized for these commitments amounted to €2,173 million as of December 31, 2018.

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.

The amount of our total provisions for pension obligations depends on the development of the present value of our defined benefit obligations and the fair value of the assets available to fund such obligations. The present value of our pension obligations and other long-term benefit obligations is significantly influenced by the discount rate used. Furthermore, the longevity and actuarial profile of plan participants may have a negative impact on pension obligations. Pension obligations and other long-term benefit obligations may also be affected by legal and regulatory developments and changes in case law. The amount determined is based on various assumptions, and any change in legal requirements or in the interpretation thereof with regard to the calculation of pension

obligations or other long-term benefit obligations may have a material impact on the amount of our pension and benefit obligations and thus on their present value.

Any increase in the amount of our defined benefit obligations could adversely affect our financial condition due to additional outflow of funds to finance these obligations or could lead to a depreciation of our equity.

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. While Schaeffler Group has established an integrated environment, health and safety management system, 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.

For example, we are subject to Regulation (EC) No. 1907/2006 (Registration, Evaluation, Authorization and Restriction of Chemicals ("**REACH**") and similar regulations under other applicable law which govern the production and use of chemicals. Several of the chemicals we use are or may be classified as substances of very high concern and are or could become subject to restrictions on use or become prohibited. If chemicals we use become subject to further restrictions on use or are prohibited, we must replace these substances, which may have a financial impact on our business operations.

We are also subject to increasingly stringent data protection and privacy requirements, such as the EU General Data Protection Regulation (the "**GDPR**"), which became effective in all EU member states on May 25, 2018. The GDPR introduced new data protection and privacy obligations and significantly increased the penalties that may be imposed as a result of non-compliance.

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 and health. 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, the United States and China. 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.

Many of our products are subject to comprehensive and constantly changing regulatory requirements that are not always homogeneous worldwide. These national and international regulations can impact the design, manufacture, marketing and sale of our products and services and are subject to increasing governmental scrutiny and enforcement. A violation of applicable regulations could lead to the imposition of penalties, fines, damages, reputational harm and other adverse consequences. 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.

For example, the introduction of the WLTP has recently had a significant negative impact on sales of light duty vehicles. All light duty vehicles sold after September 1, 2018 must be certified in accordance with WLTP, a new test procedure to measure fuel and energy consumption, CO2 and pollutants emissions and electric range from light duty vehicles. This requirement resulted in significant supply-side issues as some of our OEMs customers experienced delays in certifying their models, thereby affecting deliveries to end-customers. These developments in turn had, and continue to have, a negative impact on our business and results of operations. The framework was amended by Commission Regulation (EU) 2018/1832 of November 5, 2018 (the "**WLTP 2nd Act**") and the first changes became effective on January 1, 2019. From September, 1 2019, the Real Driving Emissions Procedure (the "**RDE**") will apply to all new car registrations. See "*Regulatory Framework —Regulatory Framework for our Operations and Products in Europe—Emissions from Vehicles—Pollutant Emissions.*" These changes may result in increased and additional WLTP and RDE testing requirements and, in the worst case, a recertification of current models.

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. 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.

Certain shares in Schaeffler Group companies (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 Schaeffler Group, certain shares 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 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 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.

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

The Issuer and 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).

Due to certain reorganizations (*i.e.*, the transfer of Schaeffler KG's (currently named IHO 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 2010 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 relevant fiscal years have not yet been finally audited by the tax authorities. In this respect there might be risks of additional tax burdens.

The Issuer and Schaeffler AG and its affiliates have set up certain tax provisions to address identifiable risks in respect of uncertain tax positions. The unconsolidated financial statements of the Issuer and the consolidated financial statements of Schaeffler AG included in this Listing 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.

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 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 Listing 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 terms of Schaeffler Group's financing arrangements, 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, the Existing Issuer Notes, 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 and the Existing Issuer Notes, 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 and holders of the Existing Issuer Notes (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 the trustee for the Existing Issuer Notes (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 Refinancing, the aggregate principal amount of the Notes outstanding, together with the principal amount of Existing Issuer 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, 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 its 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 defenses available to grantors of security interests generally. These laws and defenses include those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, initial over-collateralization and defenses affecting the rights of creditors generally.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and similar laws, a court could subordinate or void any security interest provided by such security grantor and, if enforcement proceeds had already been applied, require that the recipient return the payment to the relevant security provider, 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.

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 (over-collateralization), 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. 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.*"

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

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

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 March 31, 2019, on a *pro forma* basis after giving effect to the Schaeffler Group Notes Redemption, Schaeffler AG and its subsidiaries would have had €3,442 million in financial indebtedness on a consolidated basis.

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, the Existing Issuer 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 and the Existing Issuer Notes. 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 66.7% of the voting shares (*Stammaktien*) and 50.0% *plus* one share of the total share capital of Schaeffler AG) and (ii) 41,937,694 common shares in Continental AG (representing 21.0% of the total share capital of Continental AG). 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 "*—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 amounts outstanding 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 ("claw back periods") after, the grant. At each time, if the Collateral granted, perfected or recreated were to be enforced before the end of the respective claw back 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 claw back 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 holders of the Existing Issuer Notes, 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 claw back 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 in this Listing 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 Listing 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 substantial 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 Schaeffler Group Syndicated Facilities Agreement, we have a €1,500 million revolving credit facility available to us, of which €20 million were utilized as of March 31, 2019, primarily in the form of letters of credit, as well as a €250 million investment facility, of which €184 million were utilized as of March 31, 2019. In addition, following the Refinancing, under the Issuer Facilities Agreement the Issuer will have a €400 million revolving credit facility, of which €6 million were utilized in the form of ancillary facilities as of March 31, 2019. Although the Indenture, the indenture governing the Existing Issuer Notes, the Issuer Facilities Agreement and certain of the Schaeffler Group's financing arrangements contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and 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, the indenture governing the Existing Issuer Notes and the Issuer Facilities Agreement do not place any restrictions on the ability of Schaeffler AG and its subsidiaries to incur additional debt, these entities are only subject to any restrictions contained under the terms of their respective financing arrangements. 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 and the Existing Issuer Notes, which will increase the amount of the Issuer's outstanding debt in the future. In addition, the Indenture, the indenture governing the Existing Issuer Notes, the Issuer Facilities Agreement and the financing arrangements of the Schaeffler Group as well as the agreements governing 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 Existing Issuer Notes and the credit facilities and debt securities of the Schaeffler Group. 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 contain provisions that may prohibit the upstreaming of funds to the Issuer necessary to repurchase

or repay the Notes upon a change of control. 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 Listing 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, the Indenture and the indenture governing the Existing Issuer Notes, as well as the Schaeffler Group's financing arrangements, 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. The Issuer cannot assure you that 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 Listing 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.

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, political uncertainty and the performance of the economy in the regions in which we operate, particularly in the Eurozone, the United States and China.*"). Any such downgrade could have adverse effects on our options for obtaining funding as well as our financing costs and interest expenses. A 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 cash on hand, to (i) redeem in full (the "**Issuer Notes Redemption**") the Existing 2021 Euro Notes, the Existing 2021 Dollar Notes, the Existing 2023 Euro Notes and the Existing 2023 Dollar Notes (together, the "**Redeemed Issuer Notes**"), in each case including the payment of the applicable redemption premium and accrued and unpaid interest up until the redemption date for the Redeemed Issuer Notes (which is expected to be the Issue Date), (ii) repay €150 million under the Issuer Term Facility, (iii) close out cross-currency hedging arrangements related to certain of the Redeemed Issuer Notes and (iv) pay related fees and expenses.

We estimate that the net proceeds from the sale of the Notes will amount to €2,027 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 Refinancing (all amounts shown are principal amounts). See "*Summary—The Refinancing.*"

Sources of Funds	**(unaudited)** **(in € million)**
Notes offered hereby[1]	2,049
Cash on hand	600
Total Sources	**2,649**

Uses of Funds	**(unaudited)** **(in € million)**
Issuer Notes Redemption[2]	2,446
Partial repayment of Issuer Term Facility	150
Close-out of cross-currency hedges[3]	31
Estimated fees and expenses[4]	22
Total Uses	**2,649**

(1) The amount reflects the €2,049 million-equivalent gross proceeds from the issuance of the Notes. For presentational purposes, the Dollar Notes have been converted into euro at the exchange rate of $1.1235 to €1.00 as of March 31, 2019.

(2) The redemption amount reflects the aggregate principal amount of the Redeemed Issuer Notes (€2,390 million), the applicable redemption premium (€51 million), and accrued and unpaid interest up until the redemption date for the Redeemed Issuer Notes, which is expected to be the Issue Date (€5 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 redemption date for the Redeemed Issuer Notes and may change based on the Issue Date. For presentational purposes, the redemption amount has been calculated based on an exchange rate of $1.1235 to €1.00 for the U.S. dollar tranches of the Redeemed Issuer Notes.

(3) Represents our estimate of the amount required to close out cross-currency hedging arrangements related to Redeemed Issuer Notes denominated in U.S. dollars, based on the exchange rate of $1.1235 to €1.00 as of March 31, 2019. The actual amount may differ.

(4) Represents our estimate of fees and expenses in connection with or otherwise related to the Offering, 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 (a) the unaudited unconsolidated capitalization of the Issuer as of March 31, 2019 (i) on an actual basis and (ii) as adjusted to give effect to the Refinancing and the Issuer Dividend and (b) the unaudited consolidated capitalization of the Schaeffler Group as of March 31, 2019 (i) on an actual basis and (ii) as adjusted to give effect to the Schaeffler Group Notes Redemption. 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 Listing Memorandum beginning on page F–1. See "Summary—The Refinancing."

	As of March 31, 2019	
Issuer (German GAAP)[(1)]	**Actual**	**As Adjusted**
	(unaudited) (in € million)	
Cash at banks[(2)]	505	240
Issuer Facilities Agreement[(3)]	756	606
Term Facility	750	600
Revolving Facility	6	6
Notes offered hereby[(4)]	–	2,057
Existing Issuer Notes[(4)]	1,195	1,195
Redeemed Issuer Notes[(4)]	2,390	–
Financial debt (current and non-current)[(5)]	**4,341**	**3,857**
Shareholders' equity[(5)]	7,047	7,296
Total capitalization	**11,388**	**11,153**

(1) This information is based on the unaudited accounting records of the Issuer as of March 31, 2019, in accordance with German GAAP, although the presentation rules of German GAAP are not applied.

(2) As adjusted cash at banks reflects, (i) the use of €600 million in connection with the Refinancing, as described under "*Use of Proceeds*," (ii) the payment of the Issuer Dividend in the amount of €250 million, (iii) the receipt by the Issuer of dividends of €612 million from Schaeffler AG in April 2019 (€270 million) and from Continental AG in May 2019 (€342 million) and (iv) the payment of accrued interest on the Redeemed Issuer Notes of €28 million on May 15, 2019.

(3) As of March 31, 2019, the Issuer Facilities consisted of a €750 million term facility, which was fully drawn, and a €250 million revolving credit facility, of which €6 million were drawn in the form of ancillary facilities. Following the Refinancing, the Issuer Facility will consist of the €600 million Issuer Term Facility and the €400 million Issuer Revolving Facility. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement*."

(4) The amount reflects the aggregate principal amount (euro-equivalent) of the Notes, Existing Issuer Notes and Redeemed Issuer Notes, respectively. For presentational purposes, the Notes, Existing Issuer Notes and Redeemed Issuer Notes denominated in U.S. dollar have been converted into euro at the exchange rate of $1.1235 to €1.00 as of March 31, 2019. See "*Use of Proceeds.*"

(5) For this illustration, we have assumed that transaction costs related to the Offering (estimated at €22 million), the redemption premium with respect to the Redeemed Issuer Notes (estimated at €51 million), the cost of closing out cross-currency hedging arrangements related to certain of the Redeemed Issuer Notes (estimated at €31 million) and the derecognition of call options embedded in the Redeemed Issuer Notes (€1 million) are not amortized and have thus deducted these amounts from shareholders' equity. In addition, adjustments to shareholders' equity reflect the payment by the Issuer of the Issuer Dividend (€250 million) and receipt by the Issuer of dividends from Schaeffler AG and Continental AG in April and May 2019 (€612 million).

Schaeffler Group (IFRS)	As of March 31, 2019	
	Actual	**As Adjusted**
	(unaudited) **(in € million)**	
Cash and cash equivalents[1][2]	2,071	250
Schaeffler Group Syndicated Facilities Agreement[3][4]	500	500
Term Facility[3][4]	500	500
Revolving Facility[3][4]	0	0
Schaeffler Group Investment Facility[3]	184	184
Schaeffler Group Notes[3][5]	4,234	2,800
EUR Notes[3][5]	3,700	2,800
USD Notes[2][3][5]	534	--
Financial debt (current and non-current)[3]	**4,918**	**3,484**
Shareholders' equity	3,169	3,169
Total capitalization	**8,087**	**6,653**

(1) The adjustment reflects the deduction of €1,460 million to effect the Schaeffler Group Notes Redemption (reflecting €1,434 million in aggregate principal amount for the Redeemed Schaeffler Group Notes, €6 million in redemption premium, €2 million of unpaid transaction costs and €18 million in accrued interest) and €361 million in dividends paid by Schaeffler AG on its common and preferred shares on April 29, 2019.

(2) For presentational purposes, unless otherwise indicated, any dollar amounts have been converted into euro at an exchange rate of $1.1235 to €1.00 as of March 31, 2019.

(3) Values are principal amounts and do not reflect amortized transaction costs.

(4) As of March 31, 2019, the €500 million Schaeffler Group Term Facility was fully drawn and €20 million were utilized under the Schaeffler Group Revolving Facility in the form of letters of credit.

(5) As of March 31, 2019, the aggregate principal amount of Schaeffler Group Notes outstanding and denominated in euros and U.S. dollar was €3,700 million and $600 million, respectively. As of March 31, 2019, after giving *pro forma* effect to the Schaeffler Group Notes Redemption, the aggregate principal amount of Schaeffler Group Notes (all denominated in euros) amounted to €2,800 million.

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 Issuer Audited Unconsolidated Financial Statements, which are included elsewhere in this Listing Memorandum, as well as the section entitled "Important Information about this Listing Memorandum—Presentation of Financial and Other Information." The unconsolidated 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 Audited Unconsolidated Financial Statements. 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 2016, 2017 and 2018, as well as for the three-month periods ended March 31, 2018 and 2019.

	For the year ended December 31,			For the three-month period ended March 31,	
	2016	2017	2018	2018	2019
	(audited) (in € million)			(unaudited) (in € million)	
Income from equity investments	515	551	594	0	0
Interest and similar expenses (net)	(122)	(145)	(172)	(43)	(21)
General and administrative expenses	(8)	(1)	(3)	(1)	0
Other operating income (net)	5	21	15	0	0
Income from other securities and loans	5	18	18	4	4
Income tax income/(expense)	72	79	86	3	(3)
Net income/(loss)	**467**	**523**	**537**	**(37)**	**(19)**

Comparison of the Three-Month Period Ended March 31, 2018 with the Three-Month Period Ended March 31, 2019

	For the three-month period ended March 31,		
	2018	2019	Change
	(unaudited) (in € million)		(unaudited) (in %)
Income from equity investments	0	0	*0.0*
Interest and similar expenses (net)	(43)	(21)	*(51.2)*
General and administrative expenses	(1)	0	*(69.2)*
Other operating income (net)	0	0	*218.8*
Income from other securities and loans	4	4	*0.0*
Income tax income/(expense)	3	(-3)	*(196.8)*
Net loss	**(37)**	**(19)**	***(47.6)***

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 in Schaeffler AG and Continental AG its most significant financial performance indicator.

Income from equity investments was €0 in the three-month period ended March 31, 2018 and 2019. No dividends from Schaeffler AG or Continental AG were received by the Issuer in the three-month periods ended March 31, 2018 and 2019, as dividends are declared at the annual general meeting of Schaeffler AG and Continental AG, respectively, which typically take place in the second quarter of the year.

Interest and Similar Expenses

Interest and similar expenses consists of interest expenses incurred under the Existing Issuer Notes and the Redeemed Issuer Notes, the Issuer Term Facility and the Issuer Revolving Facility, net of interest income on items, including bank deposits, tax reimbursements and amortized transaction costs.

Net interest and similar expenses decreased from €43 million in the three-month period ended March 31, 2018 by €22 million, or 51.2%, to €21 million in the three-month period ended March 31, 2019. The decrease in net interest expenses was mainly attributable to valuation effects on currency exchange rates and embedded derivatives.

General and Administrative Expenses

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

General and administrative expenses decreased from €1 million in the three-month period ended March 31, 2018 by €1 million, or 69.2%, to €0 million in the three-month period ended March 31, 2019.

Other Operating Income

Other operating income primarily consists of income from exchange rate gains.

Net other operating income increased from €0 million in the three-month period ended March 31, 2018 by €0 million, or 218.8%, to €0 million in the three-month period ended March 31, 2019.

Income from Other Securities and Loans

Income from other securities and loans remained flat at €4 million in the three-month period ended March 31, 2019 and was related to interest income on an €880 million upstream loan to the Issuer's shareholder, IHO Beteiligung, which the Issuer provided to IHO Beteiligung in connection with a comprehensive refinancing in 2016.

Income Tax Income/(Expense)

Income tax income/(expense) consist of prepayments and provisions for corporate income and trade tax.

The Issuer recorded income tax income of €3 million in the three-month period ended March 31, 2018 and income tax expense of €3 million in the three-month period ended March 31, 2019.

Net Loss

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

Net loss decreased from €37 million in the three-month period ended March 31, 2018 by €18 million, or 47.6%, to €19 million in the three-month period ended March 31, 2019. This decrease was largely due to a decrease in net interest and similar expenses of €22 million.

Comparison of 2017 with 2018

	For the year ended December 31,		
	2017	**2018**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Income from equity investments	551	594	*7.8*
Interest and similar expenses (net)	(145)	(172)	*18.9*
General and administrative expenses	(1)	(3)	*160.8*
Other operating income (net)	21	15	*(29.1)*
Income from other securities and loans	18	18	*0.0*
Income tax income	79	86	*8.6*
Net income	**523**	**537**	***2.8***

Income from Equity Investments

Income from equity investments increased from €551 million in 2017 by €43 million, or 7.8%, to €594 million in 2018. Income from equity investments in 2017 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2017 (€245 million) and Continental dividends declared at the annual general meeting of Continental AG in 2017 (€306 million). Income from equity investments in 2018 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2018 (€270 million) and Continental dividends declared at the annual general meeting of Continental AG in 2018 (€324 million). The increase of Schaeffler AG dividends and Continental dividends in 2018 was due to higher net income of Schaeffler AG and Continental, respectively, while the dividend payout ratio remained stable.

Interest and Similar Expenses

Net interest and similar expenses increased from €145 million in 2017 by €27 million, or 18.9%, to €172 million in 2018. Net interest expenses in 2017 and 2018 were mainly related to interest accruing on the Existing Issuer Notes, the Redeemed Issuer Notes as well as drawings under the Issuer Facilities Agreement, net of interest income. The increase in net interest income was mainly attributable to valuation effects on currency exchange rates and embedded derivatives.

General and Administrative Expenses

General and administrative expenses increased from €1 million in 2017 by €2 million, or 160.8%, to €3 million in 2018. This increase was largely due to higher banking, legal and consulting costs.

Other Operating Income

Net other operating income decreased from €21 million in 2017 by €6 million, or 29.1%, to €15 million in 2018. The decrease was due to lower currency exchange rate gains from currency swaps, mainly driven by the performance of the USD.

Income from Other Securities and Loans

Income from other securities and loans remained flat at €18 million 2018 and was related to interest income on an €880 million upstream loan to the Issuer's shareholder, IHO Beteiligung, which the Issuer provided to IHO Beteiligung in connection with a comprehensive refinancing in 2016.

Income Tax Income

Income tax income increased from €79 million in 2017 by €7 million, or 8.6%, to €86 million in 2018. This increase was largely due to deferred tax effects and tax refunds.

Net Income

As a result of the above, net income increased from €523 million in 2017 by €14 million to €537 million in 2018.

Comparison of 2016 with 2017

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Income from equity investments	515	551	*7.0*
Interest and similar expenses (net)	(122)	(145)	*18.8*
General and administrative expenses	(8)	(1)	*(85.6)*
Other operating income (net)	5	21	*300.9*
Income from other securities and loans	5	18	*263.6*
Income tax income	72	79	*10.5*
Net income	**467**	**523**	***12.0***

Income from Equity Investments

Income from equity investments increased from €515 million in 2016 by €36 million, or 7.0%, to €551 million in 2017. Income from equity investments in 2016 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2016 (€245 million which included a special dividend of €0.15 per share) and Continental dividends declared at the annual general meeting of Continental AG in 2016 (€270 million). Income from equity investments in 2017 consisted solely of Schaeffler AG dividends declared at the annual general meeting of Schaeffler AG in 2017 (€245 million) and Continental dividends declared at the annual general meeting of Continental AG in 2017 (€306 million). The decrease in Schaeffler AG dividends in 2017 was due to the absence of a special dividend of €0.15 per share which was paid in 2016, while both net income and the dividend payout ratio of Schaeffler AG increased as compared to the prior year. The increase of Continental dividends in 2017 was due to an increased payout ratio as well as an increase of net income.

Interest and Similar Expenses

Net interest and similar expenses increased by €23 million, or 18.8%, from €122 million in 2016 to €145 million in 2017. Net interest expenses in 2017 primarily reflect interest accruing on the Existing Issuer Notes, the Redeemed Issuer Notes as well as on drawings under the Issuer Term Facility, net of interest income related to valuation effects on currency exchange rates and embedded derivatives. In 2016, interest expense until September 2016 primarily related to intercompany loans provided by Schaeffler AG to the Issuer in an aggregate principal amount of €1,674 million. In September 2016, the Issuer issued the Existing Issuer Notes and the Redeemed Issuer Notes and made drawings of €425 million under the Issuer Term Facility and used the net proceeds therefrom to repay in full those intercompany loans, as well as to make certain payments to its shareholder, IHO Beteiligung, in the form of dividends and an €880 million upstream loan. Accordingly, interest expense from

September 2016 primarily reflects interest accrued on the Existing Issuer Notes, the Redeemed Issuer Notes and the Issuer Term Facility. Interest income in 2016 mainly related to interest on bank deposits.

General and Administrative Expenses

General and administrative expenses decreased from €8 million in 2016 by €7 million, or 85.6%, to €1 million in 2017, driven by a reduction of advisory costs, personnel costs due to a personnel change and transfer of tasks.

Other Operating Income

Net other operating income increased from €5 million in 2016 by €16 million, or 300.9%, to €21 million in 2017. The increase was largely due to higher currency exchange gains of currency swaps, which were driven by the performance of the USD.

Income from Other Securities and Loans

Income from other securities and loans increased from €5 million in 2016 by €13 million, or 263.6%, to €18 million in 2017 and, in both years, related to interest income on the €880 million upstream loan that the Issuer provided to its shareholder, IHO Beteiligung, in September 2016.

Income Tax Income

Income tax income increased from €72 million in 2016 by €7 million, or 9.7%, to €79 million in 2017. This increase was largely due to deferred tax effects and tax refunds.

Net Income

For the reasons above, net income increased from €467 million 2016 by €56 million to €523 million in 2017.

Liquidity

For 2016, 2017 and 2018, 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 three-month period ended March 31,	
	2016	**2017**	**2018**	**2018**	**2019**
	(unaudited) (in € million)			(unaudited) (in € million)	
Dividends received	515	551	594	-	-
Dividends paid	1,658	0	660	-	-
Interest received	0	12	19	0	0
Interest paid	92	150	139	(5)	(5)
Income taxes received	0	5	0	-	-
Income taxes paid	2	38	11	(7)	(1)

Cash Flows

Dividends

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

No dividends from Schaeffler AG or Continental AG were received by the Issuer, and no dividends were paid by the Issuer to IHO Beteiligung in the three-month periods ended March 31, 2018 and 2019 as dividends are declared at the respective annual general meeting, which typically take place in the second quarter of the year.

Dividends received in 2016, 2017 and 2018 were €515 million, €551 million and €594 million, respectively, and consisted solely of dividends received from Schaeffler AG and Continental AG.

Dividends paid to IHO Beteiligung were €660 million, €0 million and €1,658 million in 2018, 2017 and 2016, respectively.

Principal Payments On/From Financial Debt

Our financial debt consists mainly of drawings under the Issuer Facilities Agreement and the Existing Issuer Notes and Redeemed Issuer Notes. In the three-month period ended March 31, 2019 and 2018, we made drawings (net of repayments) under the Issuer Revolving Facility of €6 million and €0 million, respectively. In 2018 and 2017, we made drawings under the Issuer Term Loan of €150 million and €175 million, respectively, which we used to pay dividends to IHO Beteiligung and for general corporate purposes. We did not make any principal payments in respect of the Existing Issuer Notes, Redeemed Issuer Notes or the Issuer Term Facility in the three-month period ended March 31, 2019 or during 2018 or 2017.

In 2016, we received cash in an aggregate amount of €3,568 million from the issuance of the Existing Issuer Notes and the Redeemed Issuer Notes and €425 million from drawings under the Issuer Term Facility, and we used cash in the aggregate amount of €1,674 million to repay the principal amount of the intercompany loan provided by Schaeffler AG in full. In addition, we paid €880 million in the form of an upstream loan to our shareholder IHO Beteiligung in 2016.

Interest

Interest paid primarily consists of interest payments on the Existing Issuer Notes, the Redeemed Issuer Notes and the Issuer Facility Agreement and, until September 2016, interest we paid under the €1,674 million intercompany loan provided to us by Schaeffler AG. Interest received primarily relates to interest on bank deposit and interest we receive under the €880 million upstream loan to IHO Beteiligung.

Interest paid was €5 million both in the three-month period ended March 31, 2019 and the three-month period ended March 31, 2018. During each of these periods we received interest payments of €0 million. Interest paid in 2018, 2017 and 2016 amounted to €139 million, €150 million and €92 million, respectively. During these periods we received interest payments of €19 million, €12 million and €0 million, respectively.

Income Taxes

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

Net income taxes in the three-month period ended March 31, 2019 amounted to €1 million. In 2018, 2017 and 2016, net income taxes amounted to €11 million, €33 million and €2 million, respectively.

Liabilities

Financial Debt

As of March 31, 2019, on a *pro forma* basis after giving effect to the Refinancing, the Issuer's financial debt amounted to €3,857 million, which primarily consists of the Notes offered hereby, the Existing Issuer Notes and drawings under the Issuer Facilities Agreement. See "*Summary—The Refinancing*," "*Use of Proceeds*" and "*Capitalization.*"

Issuer Facilities

The Issuer, as borrower, is party to a €1,000 million syndicated term loan and revolving credit facilities agreement (as amended, the "**Issuer Facilities Agreement**"), originally dated as of September 7, 2016, as amended from time to time. On May 20, 2019, we entered into an amendment to the Issuer Facilities Agreement, primarily to increase the revolving credit facility thereunder from €250 million to €400 million and to extend the maturity thereof. Upon effectiveness of the amendment (which is subject to a partial repayment of the term loan to reduce it from €750 million to €600 million), the Issuer Facilities Agreement will consist of:

- a €600 million term loan facility (the "**Issuer Term Facility**"), accrued interest on which will be payable in cash and which matures on May 20, 2024; and
- a €400 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 May 20, 2024.

The Issuer Facilities are secured by the same collateral that secures the Notes and the Existing Issuer Notes (as defined below) on a *pari passu* basis. Up to €50 million of the Issuer Revolving Facility are available for drawing, in the form of ancillary facilities, on behalf and for the account of the Issuer, by Atesteo, a wholly-owned subsidiary of IHO Holding GmbH & Co. KG, an indirect shareholder of the Issuer.

As of March 31, 2019, €750 million were drawn under the Issuer Term Facility. We intend to use a portion of the proceeds of the Offering to repay €150 million under the Issuer Term Facility, reducing it from €750 million to €600 million. Of the Issuer Revolving Facility, €6 million were drawn as of March 31, 2019, all in the form of ancillary facilities drawn by Atesteo on behalf and for the account of the Issuer. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Issuer Facilities Agreement.*"

Existing Issuer Notes

The Issuer issued the following series of notes: €750 million in aggregate principal amount of 2.750% / 3.500% senior secured PIK toggle notes due 2021 (the "**Existing 2021 Euro Notes**"), €750 million in aggregate principal amount of 3.250% / 4.000% senior secured PIK toggle notes due 2023 (the "**Existing 2023 Euro Notes**"), €750 million in aggregate principal amount of 3.750% / 4.500% senior secured PIK toggle notes due 2026 (the "**Existing 2026 Euro Notes**"), $500 million in aggregate principal amount of 4.125% / 4.875% senior secured PIK toggle notes due 2021 (the "**Existing 2021 Dollar Notes**"), $500 million in aggregate principal amount of 4.500% / 5.250% senior secured PIK toggle notes due 2023 (the "**Existing 2023 Dollar Notes**") and $500 million in aggregate principal amount of 4.750% / 5.500% senior secured PIK toggle notes due 2026 (the "**Existing 2026 Dollar Notes**"). See "*Description of Other Indebtedness—Indebtedness of the Issuer—Existing Issuer Notes.*"

The Issuer intends to use the net proceeds from the Offering, together with cash on hand, to redeem (the "**Issuer Notes Redemption**") the Existing 2021 Euro Notes, the Existing 2021 Dollar Notes, the Existing 2023 Euro Notes and the Existing 2023 Dollar Notes (together, the "**Redeemed Issuer Notes**") in full on or about the Issue Date. See "*Summary—The Refinancing*" and "*Use of Proceeds.*"

Following the Issuer Notes Redemption, in addition to the Notes, the Existing 2026 Euro Notes and the Existing 2026 Dollar Notes will remain outstanding. See "*Description of Other Indebtedness—Indebtedness of the Issuer—Existing Issuer Notes.*"

Taxes

Deferred Tax Liabilities

Deferred taxes as of December 31, 2018 of €85 million primarily relate to differences in recognized amounts of equity investments.

Tax Provisions

Tax provisions as of December 31, 2018 amounted to €36 million. 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.

Selected Financial Information of the Schaeffler Group

The following tables set forth selected consolidated financial information of Schaeffler AG as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 and 2019, as derived from the Audited Consolidated Financial Statements and the Unaudited Condensed Consolidated Interim Financial Statements, which have been prepared in accordance with the IFRS and which are included elsewhere in this Listing Memorandum, and from Schaeffler Group's internal accounting system. See "Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Presentation of Financial Information."

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 Condensed Consolidated Interim Financial Statements or the internal reporting system of the Schaeffler Group, or is based on calculations of figures of the abovementioned sources.

The selected financial information presented below should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements (including the respective notes thereto). This information should also be read together with the section entitled "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

	For the year ended December 31,			For the three-month period ended March 31,	
	2016	**2017**	**2018***	**2018**	**2019****
	(audited) **(in € million)**			**(unaudited)** **(in € million)**	
Revenue	**13,338**	**14,021**	**14,241**	**3,551**	**3,622**
Cost of sales	(9,552)	(10,175)	(10,558)	(2,591)	(2,708)
Gross profit	**3,786**	**3,846**	**3,683**	**960**	**913**
Research and development expenses	(751)	(846)	(847)	(224)	(229)
Selling expenses	(915)	(970)	(1,004)	(242)	(253)
Administrative expenses	(428)	(443)	(488)	(119)	(140)
Other income	41	82	87	26	28
Other expenses	(177)	(141)	(77)	(10)	(90)
Earnings before financial result, income from equity-accounted investees and income taxes (EBIT)	**1,556**	**1,528**	**1,354**	**391**	**230**
Financial income	220	108	66	10	26
Financial expenses	(561)	(300)	(221)	(64)	(64)
Financial result	**(341)**	**(192)**	**(155)**	**(54)**	**(38)**
Income from equity-accounted investees	**0**	**0**	**(4)**	**0**	**(4)**
Earnings before income taxes	**1,215**	**1,336**	**1,195**	**337**	**188**
Income taxes	(343)	(339)	(300)	(95)	(47)
Net income	**872**	**997**	**895**	**242**	**140**
Attributable to shareholders of the parent company	859	980	881	238	137
Attributable to non-controlling interests	13	17	14	4	3

* The consolidated income statement information for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement information 2016 and 2017 is not fully comparable to the consolidated income statement information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement information for 2016, 2017, 2018 and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement information for the three-month period ended March 31, 2019. See the notes to the Unaudited Consolidated Condensed Interim Financial Statements included elsewhere in this Listing Memorandum.

Consolidated Statement of Financial Position

	As of December 31,			As of March 31,
	2016	2017*	2018**	2019***
		(audited) (in € million)		(unaudited) (in € million)
Assets				
Total non-current assets	**5,979**	**6,178**	**6,828**	**7,315**
of which intangible assets	632	636	627	718
of which property, plant and equipment	4,507	4,865	5,318	5,443
of which deferred tax assets	572	492	520	585
Total current assets	**5,585**	**5,359**	**5,534**	**7,246**
of which inventories	1,905	2,017	2,183	2,334
of which trade receivables	2,218	2,192	2,003	2,225
of which cash and cash equivalents	1,071	698	801	2,071
Total assets	**11,564**	**11,537**	**12,362**	**14,561**
Shareholders' equity and liabilities				
Total shareholders' equity	**1,997**	**2,581**	**3,060**	**3,169**
Total non-current liabilities	**6,361**	**5,644**	**5,780**	**6,404**
of which provisions for pensions and similar obligations	2,182	2,124	2,173	2,362
of which financial debt	3,704	3,066	3,188	3,442
Total current liabilities	**3,206**	**3,312**	**3,522**	**4,988**
of which financial debt	3	2	160	1,434
of which trade payables	1,625	1,867	1,967	1,980
of which other financial liabilities	696	682	481	501
Total shareholders' equity and liabilities	**11,564**	**11,537**	**12,362**	**14,561**

* In September 2018, the IFRS Technical Committee of the Accounting Standards Committee of Germany (*Deutsches Rechnungslegungs Standards Committee* – "**DRSC**") issued DRSC Interpretation 4 (IFRS) Accounting for Interest and Penalties Related to Income Taxes. The Interpretation addresses the accounting for interest and penalties pursuant to section 3 (4) Fiscal Code of Germany (*Abgabenordnung* – "**AO**") related to actual income taxes as defined in IAS 12.5 ("interest and penalties related to income taxes") in financial statements prepared in accordance with IFRS as adopted by the EU. The Interpretation clarifies that interest and penalties pursuant to section 3 (4) AO related to income taxes should be accounted for under IAS 37. This has resulted in changes in the recognition, measurement, and presentation of interest and penalties related to income taxes in our consolidated statement of financial position as of December 31, 2018. The change in accounting treatment represents a change in accounting policy in accordance with IAS 8. See note 1.4 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum. To ensure comparability between periods, figures for 2017 have been restated. Accordingly, certain figures for 2016 and 2017 differ from the corresponding figures in the Audited Consolidated Financial Statements 2017.

** The consolidated statement of financial position information as of December 31, 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated statement of financial position information as of December 31, 2016 and 2017 is not fully comparable to the consolidated statement of financial position information as of December 31, 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

*** The consolidated statement of financial position information as of March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated statement of financial position information as of December 31, 2016, 2017 and 2018 and March 31, 2018 is not fully comparable to the consolidated statement of financial position information as of March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Consolidated Statement of Cash Flows

	As of and for the year ended December 31,			As of and for the three-month period ended March 31,	
	2016	2017	2018	2018	2019*
	(audited) (in € million)			(unaudited) (in € million)	
Cash flow from operating activities	1,876	1,778	1,606	237	154
Cash flow used in investing activities	(1,141)	(1,290)	(1,384)	(308)	(440)
Cash flow provided by (used in) financing activities	(466)	(830)	(111)	55	1,541
Net increase (decrease) in cash and cash equivalents	**269**	**(342)**	**111**	**(16)**	**1,255**
Cash and cash equivalents as at end of period	1,071	698	801	672	2,071

* The consolidated statement of cash flow information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standard, no comparative information is restated and as such the consolidated statement of cash flow information for 2016, 2017, 2018 and the three-month period ended March 31, 2018 is not fully comparable to the consolidated statement of cash flow information for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Selected Segment Information

Effective January 1, 2018, Schaeffler Group began reporting financial information by business segment based on the following three segments: Automotive OEM, Automotive Aftermarket and Industrial. Until December 31, 2017, the Schaeffler Group reported based on two segments, Automotive (which included the activities of the Automotive OEM and Automotive Aftermarket businesses) and Industrial. In order to facilitate the comparison of Schaeffler Group's results of operations by segments, the Audited Consolidated Financial Statements 2018 and the Unaudited Condensed Consolidated Interim Financial Statements include comparative financial information for 2017 and the three-month period ended March 31, 2017, respectively (which has been adjusted retroactively) based on the new segment reporting structure. Accordingly, figures for the segments Automotive OEM and Automotive Aftermarket are presented for the years ended December 31, 2017 and 2018, as taken or derived from the Audited Consolidated Financial Statements 2018, and for the three-month periods ended March 31, 2018 and 2019, as taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements. Figures for the previous segment Automotive are presented for 2016 and 2017, as taken or derived from the Audited Consolidated Financial Statements 2017. Figures for the segment Industrial are presented for 2016, as taken or derived from the Audited Consolidated Financial Statement 2017, for 2017 and 2018, as taken or derived from the Audited Consolidated Financial Statements 2018, and for the three-month periods ended March 31, 2018 and 2019, as taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements.

*In October 2018, Schaeffler Group commenced the integration of its Bearing & Components Technologies ("**BCT**") unit, which had previously acted as an internal supplier (the "**BCT Reorganization**"). Under the BCT Reorganization, the plants previously assigned to BCT and the related operations functions were integrated into the Automotive OEM and Industrial Divisions. In this context, the risk of fluctuations in production cost during the year has been borne exclusively by the two producing divisions Automotive OEM and Industrial starting in 2019, a change designed to strengthen divisional management. The BCT Reorganization had a significant impact on the allocation of costs among segments as from January 1, 2019. In order to ensure comparability, comparative financial information as of and for the three-month period ended March 31, 2018 has been* restated.

In addition, the allocation of customers to segments is reviewed at least annually and adjusted where necessary. In 2017, 2018 and the three-month period ended March 31, 2019, such review resulted in the re-allocation of customers between divisions. To ensure that segment information is comparable,

certain prior year figures are presented using the customer allocation structure from subsequent periods. Figures for the Automotive OEM, Automotive Aftermarket and Industrial segments for the three-month periods ended March 31, 2018 and 2019 reflect the customer allocation structure as currently in effect and are taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements, respectively. Figures for the Automotive OEM, Automotive Aftermarket and Industrial segments for 2017 and 2018 reflect the customer allocation structure as in effect in 2018. Therefore, the 2017 segment figures for the Industrial segment may differ from the corresponding figures in the Audited Consolidated Financial Statements 2017 and the segment figures for all three divisions for the three-month period ended March 31, 2018 may differ from the corresponding figures in the Unaudited Condensed Consolidated Interim Financial Statement, respectively.

Figures for the Automotive segment for 2016 and 2017 and for the Industrial segment for 2016 reflect the customer allocation structure as of December 31, 2017 and are taken or derived from the Audited Consolidated Financial Statement 2017. Therefore, the 2016 segment figures differ from the corresponding figures in the audited consolidated financial statements of Schaeffler AG as of and for 2016.

As such, the 2016 segment figures of the Industrial division and the segment figures for subsequent periods were based on different customer allocation structures and therefore are not directly comparable. Also, the segment figures for the Automotive OEM and Automotive Aftermarket segments were based on different customer allocation structures than the segment figures for the Automotive segment and are not directly comparable.

Automotive OEM Division (new segmentation)

	As of and for the year ended December 31,		**As of and for the three-month period ended March 31,**	
	2017	**2018***	**2018**	**2019****
	(audited) **(in € million, unless otherwise stated)**		**(unaudited)** **(in € million, unless otherwise stated)**	
Revenue	**8,991**	**8,997**	**2,280**	**2,286**
EBIT	**951**	**682**	**218**	**59**
In % of revenue	*10.6*	*7.6*	*9.6*	*2.6*
Adjusted EBIT[(1)]	**973**	**693**	**218**	**113**
In % of revenue	*10.8*	*7.7*	*9.6*	*5.0*
Depreciation, amortization and impairments	(581)	(637)	(157)	(187)
Working capital[(2)]	1,127	945	1,239	1,166
Additions to intangible assets and property, plant and equipment	1,006	970	181	225

* The consolidated income statement and statement of financial position information as of and for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016 and 2017 is not fully comparable to the consolidated income statement and statement of financial position information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,		For the three-month period ended March 31,	
	2017	**2018**	**2018**	**2019**
	(audited, unless otherwise stated) (in € million)		**(unaudited) (in € million)**	
EBIT	**951**	**682**	**218**	**59**
Special items (unaudited)	22	11	0	55
of which legal cases (unaudited)	(3)	(13)	0	0
of which restructuring (unaudited)	25	24	0	55
of which other (unaudited)	0	0	0	0
Adjusted EBIT	**973**	**693**	**218**	**113**

(2) As at the end of the respective period. We define working capital as inventories, plus trade receivables, less trade payables.

Automotive Aftermarket Division (new segmentation)

	As of and for the year ended December 31,		As of and for the three-month period ended March 31,	
	2017	**2018***	**2018**	**2019****
	(audited) (in € million, unless otherwise stated)		**(unaudited) (in € million, unless otherwise stated)**	
Revenue	**1,880**	**1,859**	**447**	**441**
EBIT	**333**	**319**	**81**	**64**
In % of revenue	*17.7*	*17.2*	*18.1*	*14.4*
Adjusted EBIT[(1)]	**358**	**316**	**81**	**64**
In % of revenue	*19.0*	*17.0*	*18.1*	*14.4*
Depreciation, amortization and impairments	(5)	(6)	(7)	(10)
Working capital[(2)]	416	398	418	386
Additions to intangible assets and property, plant and equipment	33	64	18	40

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** The consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,		**For the three-month period ended March 31,**	
	2017	**2018**	**2018**	**2019**
	(audited, unless otherwise stated) (in € million)		**(unaudited) (in € million)**	
EBIT	**333**	**319**	**81**	**64**
Special items (unaudited)	25	(3)	0	0
of which legal cases (unaudited)	20	(3)	0	0
of which restructuring (unaudited)	5	0	0	0
of which other (unaudited)	0	0	0	0
Adjusted EBIT	**358**	**316**	**81**	**64**

(2) As at the end of the respective period. We define working capital as inventories, plus trade receivables, less trade payables.

Automotive Division (previous segmentation)

	As of and for the year ended December 31,	
	2016	**2017**
	(audited) (in € million, unless otherwise stated)	
Revenue	**10,338**	**10,869**
EBIT	**1,373**	**1,283**
In % of revenue	*13.3*	*11.8*
Adjusted EBIT[1]	**1,481**	**1,330**
In % of revenue	*14.3*	*12.2*
Depreciation, amortization and impairments	(543)	(585)
Additions to intangible assets and property, plant and equipment	904	1,039

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,	
	2016	**2017**
	(audited, unless otherwise stated) (in € million)	
EBIT	**1,373**	**1,283**
Special items (2016 unaudited)	108	47
of which legal cases (2016 unaudited)	82	17
of which restructuring (2016 unaudited)	13	30
of which other (2016 unaudited)	13	0
Adjusted EBIT (2016 unaudited)	**1,481**	**1,330**

Industrial Division

	As of and for the year ended December 31,			As of and for three-month period ended March 31,	
	2016	2017	2018	2018	2019**
	(audited) (in € million, unless otherwise stated)			(unaudited) (in € million, unless otherwise stated)	
Revenue	**3,000**	**3,150**	**3,385**	**824**	**895**
EBIT	**183**	**244**	**353**	**92**	**108**
In % of revenue	*6.1*	*7.7*	*10.4*	*11.2*	*12.0*
Adjusted EBIT[(1)]	**219**	**253**	**372**	**92**	**95**
In % of revenue	*7.3*	*8.0*	*11.0*	*11.2*	*10.6*
Depreciation, amortization and impairments	(194)	(181)	(178)	(32)	(46)
Working capital[(2)]	n/r***	799	876	920	1,028
Additions to intangible assets and property, plant and equipment	211	248	241	35	30

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** The consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement and statement of financial position information as of and for the years ended December 31, 2016, 2017 and 2018 and as of and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement and statement of financial position information as of and for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

*** Not reported.

(1) We define Adjusted EBIT as EBIT before special items, which are items which management considers to render the financial indicators less meaningful for evaluating the sustainability of our profitability due to their nature, frequency and/or size. Adjusted EBIT is not a performance indicator recognized under IFRS. The Adjusted EBIT figures presented are not necessarily comparable to the performance figures published by other companies as Adjusted EBIT or the like. See "*Important Information about this Listing Memorandum—Presentation of Financial and Other Information—Non-GAAP Financial Measures.*" The following is a reconciliation of EBIT to Adjusted EBIT for the periods below:

	For the year ended December 31,			For the three-month period ended March 31,	
	2016	2017	2018	2018	2019
	(audited, unless otherwise stated) (in € million)			(unaudited) (in € million)	
EBIT	**183**	**244**	**353**	**92**	**108**
Special items (2016 unaudited)	36	9	19	0	(13)
of which legal cases (2016 unaudited)	4	0	(5)	0	(13)
of which restructuring (2016 unaudited)	32	9	24	0	0
of which other (2016 unaudited)	0	0	0	0	0
Adjusted EBIT (2016 unaudited)	**219**	**253**	**372**	**92**	**95**

(2) As at the end of the respective period. We define working capital as inventories, plus trade receivables, less trade payables.

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 derived from the Consolidated Financial Statements, which have been prepared in accordance with IFRS and which are included elsewhere in this Listing Memorandum, and from Schaeffler Group's internal accounting system. 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.

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 Consolidated Financial Statements but has been taken or derived from the Unaudited Condensed Interim Financial Statements or the internal reporting system of the Schaeffler Group or is based on calculations of figures of the abovementioned sources.

Prospective investors should read the following discussion together with the Consolidated Financial Statements (including the respective notes thereto). The following discussion should also be read in conjunction with "Important Information about this Listing 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 Listing 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 Listing 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 approximately 92,000 employees and a network of manufacturing locations, R&D facilities and distribution companies in approximately 170 locations in 50 countries (as of March 31, 2019). Our 73 manufacturing locations form the foundation of our operations.

In 2018, we had consolidated revenues of €14.2 billion (€3.6 billion in the three-month period ended March 31, 2019) and Adjusted EBITDA of €2.2 billion in 2018 (€509 million in the three-month period ended March 31, 2019). For an explanation of the components of Adjusted EBITDA and a reconciliation of net income to Adjusted EBITDA, see "*Summary Financial Information—Other Financial and Operating Data—Summary Financial Information of Schaeffler AG (IFRS)—Schaeffler AG.*" We believe that we are among the top three manufacturers in each of our core sectors worldwide and we have a large presence in a number of growth markets, such as China (the Greater China region accounted for 16.2% of our consolidated revenue during the three-month period ended March 31, 2019 and 13.8% of our employees as of March 31, 2019) 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, systems solutions and service offering position us well for future growth.

Effective January 1, 2018, we began reporting financial information by business segment based on the following three segments: Automotive OEM, Automotive Aftermarket and Industrial. Until December 31, 2017, the Schaeffler Group reported based on two segments, Automotive (which included the activities of the Automotive OEM and Automotive Aftermarket businesses) and Industrial. See also "*—Key Factors affecting Comparability—Schaeffler Group's Segments*" below. Also, since January 1, 2018, our products and system solutions for hybrid and all-electric vehicles are managed centrally through the new electric mobility ("**E-Mobility**") business division ("**BD**"). As a result, our Automotive OEM Division is now subdivided into four BDs.

- ***Automotive OEM Division:*** Our Automotive OEM Division offers products and system solutions for engines, transmissions, E-Mobility and chassis systems to customers in the automotive sector. Customers of the Automotive OEM Division include all major global automobile OEMs and Tier 1 and Tier 2 suppliers in the areas of passenger cars as well as light, medium and heavy-duty trucks. Our Automotive OEM Division accounted for approximately 63.2% of our consolidated revenue and approximately 50.2% of our Adjusted EBIT in 2018 and for approximately 63.1% of our consolidated revenue and approximately 41.5% of Adjusted EBIT in the three-month period ended March 31, 2019. Our Automotive OEM Division comprises four BDs with a distinctive product and service portfolio: (i) Engine Systems, (ii) Transmission Systems, (iii) E-Mobility and (iv) Chassis Systems, which accounted for approximately 30.9%, 46.3%, 5.4% and 17.3%, respectively, of the Automotive OEM Division's revenue during 2018.

- ***Automotive Aftermarket Division***: Our Automotive Aftermarket Division complements the Automotive OEM Division with an extensive aftermarket offering, which includes the distribution of spare parts and services to customers globally. The Automotive Aftermarket Division uses two distribution channels to sell its products and services to automotive customers: the Original Equipment Service ("**OES**") and the Independent Aftermarket ("**IAM**"). The OES comprises the automobile OEMs' spare parts business, which is, supplying original spare parts and services to branded repair shops, *i.e.*, those that are authorized by automobile OEMs. IAM supplies independent repair shops that are not tied to any vehicle brand with spare parts and services via the various distribution levels. Our Automotive Aftermarket Division accounted for approximately 13.1% of our consolidated revenue and 22.9% of Adjusted EBIT in 2018 and for 12.2% of our consolidated revenue and 23.5% of Adjusted EBIT in the three-month period ended March 31, 2019. As a result of the significant growth of our automotive aftermarket business, effective January 1, 2018, we made the Automotive Aftermarket Division a third reporting segment.
- ***Industrial Division:*** The Industrial Division distributes components and systems for rotary and linear movements as well as services such as maintenance products and monitoring systems, to customers in a variety of different sectors, which we group into eight sector clusters: industrial automation, power transmissions, wind, offroad, aerospace, raw materials, railway and two-wheelers. The Industrial Division accounted for 23.8% of our consolidated revenue and 26.9% of our Adjusted EBIT in 2018 and 24.7% of our consolidated revenue and 34.9% of our Adjusted EBIT in the three-month period ended March 31, 2019.

Geographically, we manage our divisions and businesses based on four regions, Europe (Germany, Western-Europe, Central and Eastern Europe, Middle East, Africa and India), the Americas (North America and South America), Greater China and Asia/Pacific.

Key Factors affecting Results of Operations

Our results of operations, financial condition and liquidity have been influenced in the periods discussed in this Listing 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 revenue development is dependent on the economic developments in the automotive and the industrial sectors. In 2016 and 2017, our revenue was impacted, in general, by the global economic upturn that had emerged in the second half of 2016 and continued in 2017. The increasing momentum affected large parts of the industrialized economies as well as the emerging and developing countries. In 2018, overall global economic growth remained robust, despite increasing international trade conflicts. However, global trade slowed down noticeably at the end of 2018, which particularly impacted export-dependent economies. Europe especially demonstrated a considerable slowdown in economic growth, mainly driven by weaker foreign demand. Also, economic growth in China slowed down to some extent after a stronger than expected first quarter, mainly due to the trade dispute with the United States. However, the industrialized countries as a whole were able to maintain their dynamic growth rate. In particular, the U.S. continued its economic upturn, mainly driven by its most current tax reform and further fiscal policy measures. In the three-month period ended March 31, 2019, overall economic growth continued to slow, mainly driven by persistently weak global trade and unresolved trade disputes. Europe and Japan especially demonstrated slowdowns in economic growth, mainly driven by weaker foreign demand. The U.S. continued its economic upturn, although the growth rate slowed, partly due to diminishing fiscal stimuli. Economic growth in China grew faster than anticipated, partly due to fiscal stimuli. See also "*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, political uncertainty and the performance of the economy in the regions in which we operate, particularly in the Eurozone, the United States and China."

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 our Americas region, where revenues grew by 16.7% from €700 million during the three-month period ended March 31, 2018 to €817 million during the three-month period ended March 31, 2019. Our Asia/Pacific region also contributed to our revenue growth, with revenues increasing by 6.3%, from €351 million during the three-month period ended March 31, 2018 to €373 million during the three-month period ended March 31, 2019. Revenues in our Europe region decreased slightly by 1.7% from €1,878 million during the three-month period ended March 31, 2018 to €1,846 million during the three-month period ended March 31, 2019. Revenues in our Greater China region declined by 5.7% from €622 million during the three-month period ended March 31, 2018 to €586 million during the three-month period ended March 31, 2019.

Developments in the Global Automotive Market

We are a main supplier to large OEMs 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 OEM Division's revenue is primarily affected by the global automobile production which is in turn impacted by factors influencing consumer demand for new passenger vehicles and commercial vehicles. The Automotive OEM 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 OEM 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. After the economic recovery of the automotive markets in 2016 and 2017, the former Automotive division continued to generate growth higher than the growth in the global automotive market as a result of higher demand. Our Automotive OEM Division once again expanded faster than automotive production volumes and benefited from continuing high demand for its products, especially in the key markets of China. In 2018, our Automotive OEM Division's revenue was affected by increasing market volatility in the global automotive business. Following the encouraging revenue trend in the first half of 2018, market conditions resulted in the Automotive OEM Division reporting less dynamic revenue growth for the third quarter of 2018, mainly driven by lower growth in demand in the Europe and Greater China regions. While in Europe the introduction of the WLTP resulted in production delays, in China, factors including subdued consumer sentiment due to the trade conflict with the U.S. and stricter lending practices led to market-driven lower demand in the third quarter of 2018. In the three-month period ended March 31, 2019, our Automotive OEM Divisions' business continued to be impacted by the persistent decline in production volumes for vehicles up to six tons, which declined by 6.7% in the first three months of 2019 compared to the prior-year period (*source:* IHS Markit (April 2019)) and affected all of our geographic regions, particularly Europe and Greater China. Automobile production in Europe, which declined by 7.0% in the first three months of 2019, continued to be affected by the changeover to the new emissions testing methodology, WLTP, as well as by discussions regarding bans on driving in downtown areas which have unsettled consumers. In the Greater China region, the decline in automobile production by 13.7% was primarily driven by high inventory levels and delayed consumer purchases in anticipation of a decrease in value-added tax becoming effective date on April 1, 2019.

Developments in the Automotive Aftermarket

The Automotive Aftermarket Division is generally influenced by the growing vehicle population, measured as the number of passenger cars and light commercial vehicles up to 3.5 tons in weight, as well as by the rising average age and growing complexity of vehicles. The number of passenger vehicles and light commercial vehicles on the road impacts the size of the aftermarket for spare parts for passenger vehicles and light commercial vehicles. The global vehicle population grew steadily at a CAGR of 3.7% between 2016 and 2018 and is expected to grow at a CAGR of 4.6% between 2019 and 2022 (*source:* IHS Markit (February 2019)). In particular in the Greater China region the vehicle population is expected to increase significantly in the coming years as a result of strong growth expected in new vehicle registrations (*source:* IHS Markit (February 2019)). The average age of passenger cars and light commercial vehicle also has an impact on the distribution aftermarkets in which we operate. In 2016, 2017 and 2018, the average vehicle age was approximately 9.6 years, 9.7 years and 9.7 years (*source:* IHS Markit (February 2019)). In general, older vehicles require more repair and maintenance services and spare parts than younger vehicles. Therefore, an increase in the age of vehicles is expected to have a positive impact on the sales of our Automotive Aftermarket Division. Furthermore, the average age of the vehicle population is impacted by sales volumes and the production quality of the vehicles in the vehicle population (higher production quality generally enables vehicles to run longer without repair or replacement). Increased sales and higher production quality generally lead to decreased demand for the products and services of our Automotive Aftermarket Division in the short-term. However, the same trends would also increase the vehicle population going forward and stimulate demand for our Automotive Aftermarket Division's products and services in the medium- to-long-term.

In 2016 and 2017, our Automotive Aftermarket Division's revenue was affected by our continued sales efforts, particularly in the Americas and Europe regions. In the three-month period ended March 31, 2019, our Automotive Aftermarket Division's revenue was negatively affected by increasing consolidation in the European aftermarket and decline in demand which were partially offset by our continued sales efforts.

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 wholesale 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. Our Industrial Division's customers include, among others, OEMs in the area of power transmissions, production and heavy industries machinery and equipment, and wind power turbines as well as airline manufacturers and aerospace customers.

In 2016, the Industrial Division was particularly affected by relatively low commodity and oil prices which weakened customer demand and, in turn, adversely affected the performance of the raw materials and power transmission sector clusters. In particular, the Greater China region reported a considerable drop in revenue due to weak market conditions, reduced investing activity and the resulting pressure on market prices. In 2017 and 2018, the Industrial Division benefitted from the overall rising industrial production in all regions, particularly in our Greater China region, although growth rates declined in 2018 relative to 2017 in all regions except for the Americas, here growth was mainly driven by significant production growth in the oil industry, contributed to the revenue growth of the Industrial Division in 2017 and 2018. In the three-month period ended March 31, 2019, the Industrial Division benefitted from persistent growth in industrial production in all regions, though with decreased momentum.

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 various types of steel (*e.g.*, flat steel or steel bars), plastics, brass, cast iron and cast aluminum, non-ferrous metals as well as lubricants, are subject to price volatility. Commodity market price trends to varying degrees and affect our cost in some instances with some delay, depending on the terms of the relevant supplier contracts. 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 2016, 2017 and 2018, average prices for most of our significant input materials increased. In 2016, average prices for cold- and hot-rolled steel and metallurgical coal substantially increased, while the price of aluminum and copper declined. Although the crude oil price also increased significantly toward the end of 2016, due to the Organization of the Petroleum Exporting Countries ("**OPEC**") agreeing to limit production volumes, the annual average price was still below the prior year average. In 2017, increased demand and the continuation of the OPEC agreement on limiting production volumes brought the crude oil price to its highest level in two years. The price of metallurgical coal continued to substantially increase. Higher global demand and a decrease in supply in China also significantly drove up the annual average price of aluminum. The price of cold- and hot-rolled steel increased again in 2017 as compared to 2016. Furthermore, the copper price increased, mainly due to higher growth rates in the industrial production. Also, the mean price of zinc was substantially higher than the prior year average. In 2018, the average prices for commodities and input materials nearly consistently exceeded the level of the prior year period. At the same time, most prices declined over the course of the year – price reductions especially during the second half of the year resulted in the prices of some input materials closing lower at year-end than at the beginning of the year. In most of the Schaeffler Group's relevant procurement regions, prices for hot- and cold-rolled steel rose during the course of 2018, in particular in the United States, due to the introduction of tariffs on steel imports, while the price of aluminum and copper declined in 2018. The crude oil price rose to more than $86 in October 2018, its highest level in four years, but dropped again considerably by year-end, partly because a number of oil-producing countries significantly increased production. The annual price average in 2018 was more than 30% higher than in 2017. In the three-month period ended March 31, 2019, prices for hot- and cold-rolled steel declined, while the prices for crude oil as well as for aluminum and copper rose.

*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 almost 8,000 people and operate a global R&D network comprising 20 R&D centers in a total of 24 countries. Key locations outside Germany are China, India, Brazil and the United States. We have invested approximately 5.8% of our consolidated revenue in R&D on average over 2016, 2017 and 2018 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 2016, 2017 and 2018 and the three-month period ended March 31, 2019:

	For the year ended December 31,			For the three-month period ended March 31,
	2016	2017	2018*	2019
	(unaudited, unless otherwise stated)			(unaudited)
R&D expenses (audited and in € million)	751	846	847	229
R&D ratio (*in % of revenue*)	*5.6*	*6.0*	*5.9*	*6.3*
Number of R&D staff[(1)]	7,121	7,634	7,956	7,898

* R&D expenses for 2018 are affected by the adoption of IFRS 15: Revenue from Contracts with Customers with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such information about R&D expenses for 2016 and 2017 are not fully comparable to the R&D expenses for 2018. Excluding the impact of IFRS 15, R&D expenses in 2018 would have been €905 million and our R&D ratio would have been 6.4%. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

(1) Average during the respective period.

Cost Efficiency Programs and Initiatives

We have implemented a number of corporate restructuring, cost savings and efficiency initiatives over the past years in order to optimize our operations and reduce our cost base. These initiatives have had, and to some extent will continue to have, a material impact on our results of operations. In addition, we have begun to implement further efficiency programs, "RACE" for our Automotive OEM Division, and "FIT" for our Industrial Division, which we expect to affect our results of operations in the future.

Since 2015, we have implemented our realignment program titled "CORE" with the aim to improve the efficiency and competitive position of our industrial business for the long term in order to facilitate profitable growth. The key elements of the "CORE" program involved realigning the organizational structure towards stronger customer orientation and streamlining the leadership structure in order to improve efficiency and reduce costs. In addition, we optimized the Industrial Division's product portfolio. As part of "CORE", we reduced the Industrial Division's workforce by approximately 900, particularly in Germany and the rest of Europe. We successfully completed the implementation of CORE by the end of 2018. The efficiency gains achieved through the CORE program more than offset inflation-related cost increases, particularly in personnel expenses in 2017 and helped to offset cost increases, particularly in personnel expenses, in 2018. They also helped improve the Adjusted EBIT margin of the Industrial Division from 7.3% in 2016 to 11.0% in 2018.

In addition to CORE, in 2017, we set up a shared service center in Europe as part of our strategic Shared Services initiative. The objective of the Shared Services initiative is to develop a global, and cross-functional shared services concept, standardize and harmonize transaction processing. As part of the Shared Services initiative we are targeting headcount reductions of approximately 100 by the end of 2022. In October 2018, we reorganized our BCT unit, which had previously acted as an internal supplier. Under the BCT Reorganization, the plants previously assigned to BCT and the operations functions were integrated into the Automotive OEM and Industrial Divisions. Large plants previously producing for both divisions were divided up and aggregated in "campus locations." A key feature of these campus locations will be the existence of several plants at one location with shared use of support functions such as human resources, logistics, or location planning functions. The objective of the BCT Reorganization is to bring the plants closer to the markets and to establish consistent responsibilities in order to even better meet customers' needs. Additionally, the BCT Reorganization is aimed at streamlining workflows and processes, eliminating duplicate structures and leveraging further efficiencies. As part of the BCT Reorganization we are targeting total headcount reductions of approximately 950 by the end of 2021. Furthermore, in October 2018, we commenced the ongoing

reorganization of our business activities in the United Kingdom as part of the "Global Footprint" initiative of our "Agenda 4 plus One" program. The reorganization includes the consolidation of the logistics centers in Sutton Coldfield and Hereford, the closure of the production location in Llanelli and the sale of the Plymouth location. Under a supply agreement with the Plymouth location's purchaser, the Plymouth location will continue to supply our Industrial Division. The Llanelli location's production will be moved to existing locations in other countries. The Sheffield location, our largest location in the United Kingdom in terms of revenue and number of employees, will be retained. The objective of the reorganization is to generate synergies and increase efficiency of our business activities in the United Kingdom.

In 2019, we began implementing our efficiency and portfolio optimization program "Regroup Automotive for Higher Margin and Capital Efficiency" or "**RACE**" for our Automotive OEM Division. RACE is designed to structurally improve the Automotive OEM's competitiveness and to sustainably increase the Automotive OEM Division's efficiency and optimize its product and service portfolio. RACE focuses on six earning levers affecting all four BDs of the Automotive OEM Division as well as internal and external corporate functions: (1) optimizing the European footprint, (2) optimizing the business portfolio, (3) consistently reducing overhead costs, (4) R&D efficiency, (5) capital efficiency and (6) sustainably improving order intake. Our ambition is to sustainably increase the Automotive OEM Division's Adjusted EBIT margins into the high single digits.

We are targeting completion of RACE in three to four years and plan to implement it in three stages. In the first stage, which we aim to complete over the next 18 to 24 months, we plan to further consolidate the Automotive OEM Division's European plant network, to limit R&D expenses to 8.0 to 8.5% of the Automotive OEM Division's revenue in 2019 and 2020 and to restrict capital expenditures to €900 million per year in 2019 and 2020. We also target an increase of order intake in the E-Mobility and chassis systems sectors to €1.5 to €2.0 billion over the next three years. We further intend to dispose of certain non-core activities of the Engine Systems and Transmission Systems BDs and reinvest the proceeds into strategic growth areas. Overall, we currently expect these measures to affect five European production sites and result in a reduction of 900 positions, including approximately 700 positions in Germany.

Following the successful completion of the realignment program "CORE" in the Industrial Division, we have initiated the continuous improvement program "Fast Industrial Transformation" or "**FIT.**" FIT is aimed at securing the positive results of the "CORE" program and leveraging efficiencies to more proactively secure the future profitability of the Industrial Division.

As a result of our corporate restructuring, cost savings and efficiency initiatives, we incurred restructuring expenses of €45 million in 2016, which related to the CORE program. In 2017, we recorded restructuring expenses of €39 million incurred to set up the shared service center in Europe in 2017. In 2018, restructuring expenses amounted to €48 million related to the BCT Reorganization and to the reorganization of our business activities in the United Kingdom. In the three-month period ended March 31, 2019, we recorded restructuring expenses of €55 million related to the Automotive OEM Division's RACE program.

The efficiency and operating improvements we anticipate are based on our estimates and assumptions that are inherently uncertain, although we consider them to be reasonable, and may be subject to significant business, economic and competitive uncertainties and contingencies, all of which are difficult to predict and a number of which are beyond our control. See also "*Risk Factors—Risks related to our Business Operations and the Markets in which we operate—We may be unable to successfully implement our efficiency and portfolio optimization and growth programs.*"

Exchange Rate Fluctuations

The Schaeffler Group conducts its business in a large number of countries and several international currencies. In 2018, revenues from the two largest non-euro countries by revenue (the United States and China) accounted for 30.7% of our consolidated revenue. The most important currencies for the Schaeffler Group are the euro, the U.S. dollar and the Chinese Renminbi. In 2016, the euro experienced fluctuations against foreign currencies significant to the Schaeffler Group. The euro was stable against the U.S. dollar. However, the euro rose slightly against the Chinese Renminbi in terms of the annual average exchange rate. In 2017, the euro rose against all foreign currencies significant to the Schaeffler Group over the course of the year. In terms of annual average exchange rates, the euro gained ground against both the U.S. dollar and the Chinese Renminbi. In 2018, the euro was up against the U.S. dollar and the Chinese Renminbi. During the three-month period ended March 31, 2019, the euro fell 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 2016, 2017 and 2018, while they had a positive impact on the revenues generated during the three-month period ended March 31, 2019. In 2018, the Schaeffler Group's consolidated revenue increased by 1.6% including the impact of foreign currency translation and 3.9% excluding the impact of foreign currency translation (5.1% and 5.9%, respectively, during 2017). During the three-month period ended March 31, 2019, the Schaeffler Group's consolidated revenue increased by 2.0% including the impact of foreign currency translation and by 0.4% excluding 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

Development of Level of Financial Debt

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

As of March 31, 2019, after giving *pro forma* effect to the Schaeffler Group Notes Redemption, our financial debt amounted to €3,442 million (€3,442 million non-current financial debt and €0 million current financial debt), compared to €3,348 million as of December 31, 2018 (€3,188 million non-current financial debt and €160 million current financial debt), €3,068 million as of December 31, 2017 (€3,066 million non-current financial debt and €2 million current financial debt) and €3,707 million as of December 31, 2016 (€3,704 million non-current financial debt and €3 million current financial debt).

Interest expense on financial debt (including transaction costs) amounted to €286 million during 2016 (including €79 million in amortization of transaction costs and prepayment penalties incurred in connection with refinancing transactions), €123 million during 2017 (including €18 million in amortization of transaction costs and prepayment penalties), €99 million during 2018 and €25 million during the three-month period ended March 31, 2019 (including €6 million of prepayment penalties).

Our current financial debt consists mainly of term loans, drawings under our revolving credit facility and corporate bonds in euro and in U.S. dollars. For a description of our existing indebtedness, see "*—Financial Debt*" and "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group.*"

Interest Rate Fluctuations

A significant portion of our financial debt is subject to floating interest rates, which gives rise to interest rate risk related to fluctuations in LIBOR and EURIBOR. We do not currently hedge our interest rate exposure and instead manage by apportioning the total financial debt into a fixed rate interest portfolio and a floating rate interest portfolio. Accordingly, changes in interest rates may affect our financial result.

Income Taxes

In each of 2016, 2017 and 2018, and in the three-month period ended March 31, 2019, Schaeffler AG was in substance subject to an average domestic statutory tax rate of approximately 28.6%, including corporation tax, German solidarity surcharge and trade tax. The effective tax rate during 2018 amounted to 25.1% (25.2% during the three-month period ended March 31, 2019). 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 Three-Month Period Ended March 31, 2018 with the Three-Month Period Ended March 31, 2019—Income Taxes*," "*—Results of Operations—Comparison of 2017 with 2018—Income Taxes*" and "*—Results of Operations—Comparison of 2016 with 2017—Income Taxes*" below.

Key Factors affecting Comparability

The financial information for the periods discussed in this Listing Memorandum are derived from the Consolidated Financial Statements.

The comparability of the financial information for the periods discussed in this Listing 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 Segments

New Segment Structure

Effective January 1, 2018, we began reporting financial information by business segment based on the following three segments: Automotive OEM, Automotive Aftermarket and Industrial. Until December 31, 2017, we reported based on two segments, Automotive (which included the activities of the Automotive OEM and Automotive Aftermarket businesses) and Industrial. In order to facilitate the comparison of our results of operations by segments, the Audited Consolidated Financial Statements 2018 include comparative financial information for 2017 based on the new segment reporting structure. The comparison of our results of operations for 2018 with 2017, and for the three-month period ended March 31, 2019 with the three-month period ended March 31, 2018 under "*—Results of Operations*" below is presented under the new segment reporting structure as reported in the Audited Consolidated Financial Statements 2018 and the Unaudited Condensed Consolidated Interim Financial Statements, while the comparison of the results of operations for 2017 with 2016 is presented under the prior segment reporting structure as reported in the Audited Consolidated Financial Statements 2017.

BCT Reorganization

In October 2018, we commenced the integration of our Bearing & Components Technologies ("**BCT**") unit, which had previously acted as an internal supplier (the "**BCT Reorganization**"). Under the BCT Reorganization, the plants previously assigned to BCT and the related operations functions were integrated into the Automotive OEM and Industrial Divisions. In this context, the risk of fluctuations in production cost during the year has been borne exclusively by the two producing divisions Automotive OEM and Industrial starting in 2019, a change designed to strengthen divisional management. The BCT Reorganization had a significant impact on the allocation of costs among segments as from January 1, 2019. In order to ensure comparability, comparative financial information as of and for the three-month period ended March 31, 2018 has been restated.

Customer Allocation to Segments

The allocation of customers to segments is reviewed at least annually and adjusted where necessary. In 2017 and 2018 and the three-month period ended March 31, 2019, such review resulted in the re-allocation of customers between divisions. To ensure that segment information is comparable, certain prior year figures are presented using the customer allocation structure from subsequent periods.

Figures for the Automotive OEM, Automotive Aftermarket and Industrial segments for the three-month periods ended March 31, 2018 and 2019 reflect the customer allocation structure as currently in effect and are taken or derived from the Unaudited Condensed Consolidated Interim Financial Statements, respectively.

Figures for the Automotive OEM, Automotive Aftermarket and Industrial segments for 2017 and 2018 reflect the customer allocation structure as in effect in 2018. Therefore, the 2017 segment figures for the Industrial segment may differ from the corresponding figures in the Audited Consolidated Financial Statements 2017 and the segment figures for all three divisions for the three-month period ended March 31, 2018 may differ from the corresponding figures in the Unaudited Condensed Consolidated Interim Financial Statement, respectively.

Figures for the Automotive segment for 2016 and 2017 and for the Industrial segment for 2016 reflect the customer allocation structure as of December 31, 2017 and are taken or derived from the Audited Consolidated Financial Statement 2017. Therefore, the 2016 segment figures differ from the corresponding figures in the audited consolidated financial statements of Schaeffler AG as of and for 2016.

As such, the 2016 segment figures of the Industrial division and the segment figures for subsequent periods were based on different customer allocation structures and therefore are not directly comparable. Also, the segment figures for the Automotive OEM and Automotive Aftermarket segments were based on different customer allocation structures than the segment figures for the Automotive segment and are not directly comparable.

Adoption of new IFRS standards

Schaeffler AG adopted IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments for the reporting periods beginning on and after January 1, 2018. IFRS 9 has replaced IAS 39: Financial Instruments: Recognition and Measurement and sets out new requirements for the accounting of financial instruments including: classification, measurement, impairment and hedge accounting. IFRS 15 has replaced IAS 18: Revenue, IAS 11: Construction Contracts and related interpretation and established a new set of principles applied to reporting information about the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts with customers. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to

shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the Audited Consolidated Financial Statements 2017 and the comparative financial information for 2017 included in the Audited Consolidated Financial Statements 2018 are not fully comparable to the financial information for 2018 included in the Audited Consolidated Financial Statements 2018 or to the Unaudited Condensed Consolidated Interim Financial Statements. See note 1.5 to the Audited Consolidated Financial Statements 2018.

Schaeffler AG adopted IFRS 16: Leases for the reporting periods beginning on and after January 1, 2019. IFRS 16 has replaced the requirements of IAS 17: Leases and requires lessees to capitalize leases in their statement of financial position. The initial application of IFRS 16 has resulted in the recognition of €212 million in lease liabilities and right-of-use assets in the consolidated statement of financial position as at January 1, 2019. In accordance with the transition provisions of the standard, Schaeffler AG has only applied IFRS 16 to the three month period ended March 31, 2019, and no comparative information is restated. As such, the Audited Consolidated Financial Statements and the unaudited condensed consolidated interim financial statements as of and for the three-month period ended September 30, 2018 are not fully comparable to the Unaudited Condensed Consolidated Interim Financial Statements. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements.

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, 2018:

	As of December 31, 2018
	(audited) **(in € million)**
Estimated currency risk from operations	848
Forward exchange contracts	(653)
Remaining currency risk from operations	**195**

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 shareholder loan granted by the Issuer to the Schaeffler Group which has been repaid in full in 2016.

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 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

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. 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. Actual amounts may differ from these estimates.

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.

R&D Expenses

R&D expenses include costs incurred for R&D and expenditures for customer-specific applications, prototypes and testing. Effective as of January 1, 2018, as a result of the adoption of IFRS 15, expenses for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract are recognized as cost of sales when the completed development service is transferred to the customer. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

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 three divisions: Automotive OEM, Automotive Aftermarket 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 2021 are based on an annual growth rate of 1.0% in each of 2018, 2017 and 2016 for each division. Depending on the underlying business and our country of operation, we use an assumed pre-tax interest rate of 12.1% in 2018 as the weighted average cost of capital for the Automotive OEM Division and 12.6% for the Automotive Division in 2017 and 2016, respectively, 12.9% in 2018 for the Automotive Aftermarket Division and 12.1% in 2018, 12.4% in 2017 and 12.6% in 2016 for the Industrial Division. This corresponds to a post-tax interest rate of 8.9% in 2018 for the Automotive OEM Division and 9.1% in 2017 and 8.9% in 2016 for the Automotive Division, 9.8% in 2018 for the Automotive Aftermarket Division and 8.9% in 2018, 9.0% in 2017 and 8.9% in 2016 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 currency risk. In addition, we hold derivative financial instruments in the form of prepayment options embedded in some of our financial debt.

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. Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. We use cross-currency swaps and forward exchange contracts in this respect.

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in 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 2016, 2017 and 2018 as well as for the three-month periods ended March 31, 2018 and 2019:

	For the year ended December 31,			For the three-month period ended March 31,	
	2016	**2017**	**2018***	**2018**	**2019****
	(audited) (in € million)			**(unaudited) (in € million)**	
Revenue	**13,338**	**14,021**	**14,241**	**3,551**	**3,622**
Cost of sales	(9,552)	(10,175)	(10,558)	(2,591)	(2,708)
Gross profit	**3,786**	**3,846**	**3,683**	**960**	**913**
Research and development expenses	(751)	(846)	(847)	(224)	(229)
Selling expenses	(915)	(970)	(1,004)	(242)	(253)
Administrative expenses	(428)	(443)	(488)	(119)	(140)
Other income	41	82	87	26	28
Other expenses	(177)	(141)	(77)	(10)	(90)
Earnings before financial result and income taxes (EBIT)	**1,556**	**1,528**	**1,354**	**391**	**230**
Financial income	220	108	66	10	26
Financial expenses	(561)	(300)	(221)	(64)	(64)
Financial result	**(341)**	**(192)**	**(155)**	**(54)**	**(38)**
Income from equity-accounted investees	**0**	**0**	**(4)**	**0**	**(4)**
Earnings before income taxes	**1,215**	**1,336**	**1,195**	**337**	**188**
Income taxes	(343)	(339)	(300)	(95)	(47)
Net income	**872**	**997**	**895**	**242**	**140**
Attributable to shareholders of the parent company	859	980	881	238	137
Attributable to non-controlling interests	13	17	14	4	3

* The consolidated income statement information for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement information for the years 2016 and 2017 is not fully comparable to the consolidated income statement information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

** The consolidated income statement information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement information for the years 2016, 2017 and 2018 and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement information for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Comparison of the Three-Month Period Ended March 31, 2018 with the Three-Month Period Ended March 31, 2019

	For the three-month period ended March 31,		
	2018	**2019***	**Change**
	(unaudited) (in € million)		**(unaudited)** (in %)
Revenue	**3,551**	**3,622**	***2.0***
Cost of sales	(2,591)	(2,708)	*4.5*
Gross profit	**960**	**913**	***(4.8)***
Research and development expenses	(224)	(229)	*2.5*
Selling expenses	(242)	(253)	*4.3*
Administrative expenses	(119)	(140)	*17.2*
Other income	26	28	*7.8*
Other expenses	(10)	(90)	*>100*
EBIT	**391**	**230**	***(41.2)***
Financial income	10	26	*>100*
Financial expenses	(64)	(64)	*0.1*
Financial result	**(54)**	**(38)**	***(29.1)***
EBT	**337**	**188**	***(44.2)***
Income taxes	(95)	(47)	*(49.8)*
Net income	**242**	**140**	***(42.0)***
Attributable to shareholders of the parent company	238	137	*(42.4)*
Attributable to non-controlling interests	4	3	*(18.3)*

* The consolidated income statement information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 16 as an adjustment to shareholders' equity as of January 1, 2019. As a result, no comparative information is restated and as such the consolidated income statement information for 2016, 2017, 2018 and for the three-month period ended March 31, 2018 is not fully comparable to the consolidated income statement information for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Revenue

The following table shows the revenue contributions of each of our divisions for the three-month periods ended March 31, 2018 and 2019 (new segmentation) and the period-to-period changes in these revenue contributions:

	For the three-month period ended March 31,		
	2018*	**2019**	**Change**
	(unaudited) (in € million)		**(unaudited)** (in %)
Automotive OEM	2,280	2,286	*0.3*
Automotive Aftermarket	447	441	*(1.4)*
Industrial	824	895	*8.6*
Total	**3,551**	**3,622**	***2.0***

* Figures for the three-month period ended March 31, 2018 have been restated to reflect the segment structure currently in effect.

Consolidated revenue increased from €3,551 million in the three-month period ended March 31, 2018 by €71 million, or 2.0%, to €3,622 million in the three-month period ended March 31, 2019. Excluding the impact of foreign currency translation, consolidated revenue increased by 0.4%. The increase in consolidated revenue is primarily attributable to the Industrial Division, which was able to continue its growth trend, although with reduced momentum, in the three-month period ended March 31, 2019, primarily driven by the industrial distribution business which is responsible for the wholesale spare parts and service business with end customers and distributors and increased

demand in the wind and raw materials sectors in the Greater China region. Revenue both of the Automotive OEM and the Automotive Aftermarket Divisions remained relatively flat. In the Automotive OEM Division, lower demand in the Europe and Greater China regions were largely offset by growth in the Americas region. In the Automotive Aftermarket Division, lower demand driven by increasing consolidation in the European vehicle aftermarket, was partially offset by growth in the Americas region.

Automotive OEM Division

The Automotive OEM Division's revenue increased by €6 million, or 0.3%, from €2,280 million in the three-month period ended March 31, 2018, to €2,286 million in the three-month period ended March 31, 2019. Excluding the impact of foreign currency translation, revenue in the Automotive Division decreased by 1.7%. The Automotive OEM Division's revenue was affected by the persistent decline in the automotive sector, particularly in our Greater China and Europe regions. Compared to the growth rate of regional production volumes for passenger cars and light commercial vehicles, the Automotive OEM Division's revenue grew faster than the market in all regions.

Revenue for the Europe region decreased by 3.2%, or 3.3% excluding the impact of foreign currency translation, in the three-month period ended March 31, 2019, while the region's vehicle production declined 7.0% in the three-month period ended March 31, 2019. The decline was partly attributable to persistent repercussions resulting from the introduction of the WLTP as well as to discussions regarding bans on driving in downtown areas which have unsettled consumers. In the Americas region, revenue increased by 17.7% in the three-month period ended March 31, 2019. Excluding the impact of foreign currency translation, revenue increased by 12.4%, primarily due to a few major customers' increased product ramp-ups and the resulting increased order requirements. This growth rate put the division significantly ahead of regional automobile production, which declined by 2.7%, and made it the Automotive OEM Division's main growth driver in the three-month period ended March 31, 2019. In the Greater China region revenue decreased by 12.7% in the three-month period ended March 31, 2019 compared to the three-month period ended March 31, 2018. Excluding the impact of foreign currency translation, revenue decreased by 14.5%, while the region's vehicle production dropped by 13.7%, due to weakness in the overall market, including high inventory levels, and the delay of consumer purchases in anticipation of the impending announced reduction in value-added tax effective as of April 1, 2019. The Asia/Pacific region reported revenue growth of 5.7% (2.4% excluding the impact of foreign currency translation), while vehicle production declined slightly by 0.1% in the region.

The Engine Systems BD's revenue decreased by 1.5%, in the three-month period ended March 31, 2019. Excluding the impact of currency translation, revenue decreased by 3.4%. This decrease was primarily driven by a decrease in sales in our train components product group that was partially offset by an increase in sales of our thermal management module product. The Transmission Systems BD's revenue decreased by 3.9% in the three-month period ended March 31, 2019. Excluding the impact of currency translation, revenue decreased by 6.0%, driven primarily by lower demand in the clutch and dual-mass flywheel product groups which was only partially offset by increased demand in for our torque converters product group driven by customer product ramp-ups. The E-Mobility BD's revenue increased by 38.0%, or 33.9% excluding the impact of currency translation in the three-month period ended March 31, 2019, primarily driven by increased demand for our component parts for continuously variable transmissions and hydrostatic clutch activators resulting from customer product ramp-ups. The Chassis Systems BD's revenue increased by 4.8% in the three-month period ended March 31, 2019, due to increased demand for our chasses actuators and ball screw drives product groups. Excluding the impact of currency translation, however, the Chassis Systems BD's revenue rose by 3.6%.

Automotive Aftermarket Division

The Automotive Aftermarket Division's revenue decreased from €447 million in the three-month period ended March 31, 2018 by €6 million, or 1.4%, to €441 million in the three-month period ended March 31, 2019. Excluding the impact of foreign currency translation, revenue in the Automotive Aftermarket Division decreased by 1.1%. A significant revenue increase in the Americas region could not fully offset the revenue decline in the Europe region.

In the Europe region, the Automotive Aftermarket Division's revenue decreased by 4.9% (4.2% excluding the impact of foreign currency translation) primarily driven by the lower demand of a few major customers, increasing consolidation in the European aftermarket and lower demand for OES customers which were only partially offset by increased demand from IAM customers in the Central and Eastern Europe & Middle East and Africa subregions. In the Americas region, the Automotive Aftermarket Division's revenue increased considerably, by 13.1% (14.1% excluding the impact of foreign currency translation), primarily as a result of increased demand from IAM customers in the South America subregion. In the Greater China region, revenue grew b 3.0%, or 1.1% excluding the impact of foreign currency translation, mainly due to higher demand from IAM customers. In the Asia/Pacific region, revenue declined by 5.1%, or 9.6% excluding the impact of foreign currency translation, mainly due to decreased demand from OES customers.

Industrial Division

The Industrial Division's revenue increased from €824 million in the three-month period ended March 31, 2018 by €71 million, or 8.6%, to €895 million in the three-month period ended March 31, 2019. Excluding the impact of foreign currency translation, revenue in the Industrial Division increased by 6.9%. This increase was mainly attributable to the industrial distribution business, which is responsible for the wholesale spare parts and service business with end customers and distributors in all significant industrial sectors, and increased demand in the wind and raw materials sector clusters in the Greater China region. All market regions of the Industrial Division increased their revenue, with the Greater China region reporting the highest growth rate. Revenue in our Europe region increased by 3.8%, or 4.4% excluding the impact of foreign currency translation, primarily due to higher sales volumes in the industrial distribution business and in the railway, raw materials and wind sector clusters. Revenue in the American region increased by 15.2%, or 9.1% excluding the impact of foreign currency translation. This increase was largely driven by higher sales volumes in the industrial distribution business and the aerospace, railway, wind and raw materials sector clusters. In the Greater China region, revenue grew by 18.3%, or 14.1% excluding the impact of foreign currency translation, mainly due increased demand in the wind and raw material sector clusters. Revenue in the Asia/Pacific region increased by 10.3%, or 6.3% excluding the impact of foreign currency translation, due to higher sales volumes in the industrial distribution business and the power transmission sector cluster.

Regions

The regional distribution (by customer location) of our revenue in the three-month periods ended March 31, 2018 and 2019 and the period-to-period changes are shown below:

	For the three-month period ended March 31,		
	2018	**2019**	**Change**
	(unaudited) **(in € million)**		**(unaudited)** **(in %)**
Europe	1,878	1,846	*(1.7)*
Americas	700	817	*16.7*
Greater China	622	586	*(5.7)*
Asia/Pacific	351	373	*6.3*
Total	**3,551**	**3,622**	***2.0***

Revenue increased in two of the four regions in the three-month period ended March 31, 2019, with the Americas region reporting the highest growth rate, resulting from higher demand in all of the Automotive OEM, Automotive Aftermarket and Industrial Divisions.

In the Europe region revenue decreased by 1.7%, or 1.5% excluding the impact of foreign currency translation, in the three-month period ended March 31, 2019, primarily impacted by persistent repercussions resulting from the introduction of the WLTP as well as to discussions regarding bans on driving in downtown areas which have unsettled consumers and caused revenue decline in the Automotive OEM Division. Positive revenue development in the Industrial Division had a partially offsetting effect. In the Americas region, revenue increased by 16.7%, resulting from higher demand in all of the Automotive OEM, Automotive Aftermarket and Industrial Divisions. Excluding the impact of foreign currency translation, revenue increased by 11.9%. In the Greater China region revenue decreased by 5.7%, or 8.0% excluding the impact of foreign currency translation, in the three-month period ended March 31, 2019. The decrease was primarily attributable to the persistently challenging environment in the automotive sector, which was only partially offset by positive revenue development in the Industrial Division. In the Asia/Pacific region, revenue increased by 6.3%. Excluding the impact of foreign currency translation, revenue increased by 2.8%, mainly due to increases in revenue in the Automotive OEM and Industrial Divisions.

Cost of Sales

The following table shows the cost of sales of each of our divisions for the three-month periods ended March 31, 2018 and 2019 and the period-to-period changes in these costs:

	For the three-month period ended March 31,		
	2018	**2019**	**Change**
	(unaudited) **(in € million)**		**(unaudited)** **(in %)**
Automotive OEM	(1,728)	(1,804)	*4.4*
Automotive Aftermarket	(288)	(292)	*1.4*
Industrial	(575)	(613)	*6.5*
Total	**(2,591)**	**(2,708)**	***4.5***

Our cost of sales increased by €117 million, or 4.5%, from €2,591 million for the three-month period ended March 31, 2018 to €2,708 million for the three-month period ended March 31, 2019. Cost of sales grew more than revenue, which was due to an adverse impact of volumes on fixed cost and a less profitable product mix in the Automotive OEM Division, adverse pricing impacts and increased product costs in the Automotive Aftermarket Division and higher raw material prices in the Industrial Division. These effects were only partially offset by a favorable impact of pricing, revenue mix and economies of scale in the Industrial Division.

Gross Profit

The following table shows the gross profit of each of our divisions for the three-month periods ended March 31, 2018 and 2019 and the period-to-period changes in these profits:

	For the three-month period ended March 31,		
	2018	**2019**	**Change**
	(unaudited) **(in € million, unless otherwise stated)**		**(unaudited)** **(in %)**
Automotive OEM			
Gross profit	**552**	**482**	***(12.7)***
Gross profit margin (in %)	*24.2*	*21.1*	-
Automotive Aftermarket			
Gross profit	**159**	**149**	***(6.6)***
Gross profit margin (in %)	*35.6*	*33.7*	-
Industrial			
Gross profit	**249**	**282**	***13.6***
Gross profit margin (in %)	*30.2*	*31.6*	-
Total			
Gross profit	**960**	**913**	***(4.8)***
Gross profit margin (in %)	*27.0*	*25.2*	-

Our gross profit decreased from €960 million for the three-month period ended March 31, 2018 by €47 million, or 4.8%, to €913 million for the three-month period ended March 31, 2019. During that period, the gross profit margin decreased from 27.0% by 1.8 percentage points to 25.2% primarily due to the decrease in gross profit in the Automotive OEM and Automotive Aftermarket Divisions.

The Automotive OEM Division's gross profit decreased from €552 million for the three-month period ended March 31, 2018 by €70 million, or 12.7%, to €482 million for the three-month period ended March 31, 2019. During the same period, the Automotive OEM Division's profit margin decreased from 24.2% by 3.1 percentage points to 21.1%, mainly due to the adverse impact of volumes on fixed costs, especially in China, and a less profitable revenue mix. In addition, the Division could not increase production efficiency sufficiently to offset the adverse impact of pricing, personnel expenses and raw materials costs.

The Automotive Aftermarket Division's gross profit decreased from €159 million for the three-month period ended March 31, 2018 by €10 million, or 6.6%, to €149 million for the three-month period ended March 31, 2019. During the same period, the Automotive Aftermarket Division's profit margin decreased from 35.6% by 1.9 percentage points to 33.7% due to the impact of increased pricing pressure and increased product costs.

The Industrial Division's gross profit increased from €249 million for the three-month period ended March 31, 2018 by €33 million, or 13.6%, to €282 million for the three-month period ended March 31, 2019. During the same period, the Industrial Division's profit margin increased from 30.2% by 1.4 percentage points to 31.6% primarily due to the favorable impact of pricing, the revenue mix and increased economies of scale, which were partially offset by higher raw material prices.

R&D Expenses

R&D expenses increased from €224 million in the three-month period ended March 31, 2018 by €6 million, or 2.5%, to €229 million in the three-month period ended March 31, 2019.

In the three-month period ended March 31, 2019, R&D expenses comprised 6.3% of our revenue (in the three-month period ended March 31, 2018: 6.3%).

Selling Expenses

Selling expenses increased from €242 million in the three-month period ended March 31, 2018 by €11 million, or 4.3%, to €253 million in the three-month period ended March 31, 2019. This increase was primarily due to higher revenue-related freight and logistics expenses and the start-up of several distribution centers and the establishment of a new digital sales channel in the Automotive Aftermarket Division in the Greater China region.

In the three-month period ended March 31, 2019, selling expenses comprised 7.0% of our revenue (in the three-month period ended March 31, 2018: 6.8%).

Administrative Expenses

Administrative expenses increased from €119 million in the three-month period ended March 31, 2018 by €21 million, or 17.2%, to €140 million in the three-month period ended March 31, 2019. This increase was primarily due to higher personnel expenses and increased expenses due to the implementation of our "Agenda 4 plus One" program, which is aimed at implementing our "Mobility for tomorrow" strategic concept (see "*Business—Strategy—"Mobility for tomorrow" Strategic Concept*")

In the three-month period ended March 31, 2019, administrative expenses comprised 3.9% of our revenue (in the three-month period ended March 31, 2018: 3.4%).

Other Income and Other Expenses

Other income increased from €26 million during the three-month period ended March 31, 2018 by €2 million, or 7.8%, to €28 million during the three-month period ended March 31, 2019. In the three-month period ended March 31, 2019, other income included the refund of a fine of €13 million paid in 2015 in connection with antitrust proceedings in Korea. Other expenses increased by €80 million, from €10 million during the three-month period ended March 31, 2018 to €90 million during the three-month period ended March 31, 2019. Other expenses in the three-month period ended March 31, 2019 included restructuring expenses of €55 million related to RACE in the Automotive OEM Division. 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 three-month periods ended March 31, 2018 and 2019 and the period-to-period changes in these EBIT contributions:

	For the three-month period ended March 31,		
	2018	**2019**	**Change**
	(unaudited) (in € million, unless otherwise stated)		**(unaudited) (in %)**
Automotive OEM			
EBIT	**218**	**59**	***(73.1)***
EBIT margin (in %)	*9.6*	*2.6*	-
Automotive Aftermarket			
EBIT	**81**	**64**	***(21.6)***
EBIT margin (in %)	*18.1*	*14.4*	-
Industrial			
EBIT	**92**	**108**	***16.7***
EBIT margin (in %)	*11.2*	*12.0*	-
Total			
EBIT	**391**	**230**	***(41.2)***
EBIT margin (in %)	*11.0*	*6.3*	-

Our EBIT decreased from €391 million during the three-month period ended March 31, 2018 by €161 million, or 41.2%, to €230 million during the three-month period ended March 31, 2019. Our EBIT margin decreased by 4.7 percentage points, from 11.0% to 6.3%. EBIT in the three-month period ended March 31, 2019 was adversely affected by special items in the amount of €42 million. These included €55 million in restructuring expenses related to RACE in the Automotive OEM Division, which was partially offset by income from the full refund of a penalty of €13 million that was paid by the Industrial Division in 2015 following the completion of a compliance case by the relevant authorities. There were no special items in three-month period ended March 31, 2018. Accordingly, EBIT before special items, or Adjusted EBIT, declined by €119 million, or 30.4%, to €272 million in the three-month period ended March 31, 2019 (prior year period: €391 million) and the EBIT margin before special items decreased by 3.5 percentage points to 7.5% in the three-month period ended March 31, 2019 (prior year period: 11.0%). The decline in EBIT margin before special items was primarily due to the decline in gross margin as well as the increases in selling and administrative expenses described above.

The Automotive OEM Division's EBIT decreased from €218 million in the three-month period ended March 31, 2018 by €159 million, or 73.1%, to €59 million during the three-month period ended March 31, 2019. The Automotive OEM Division's EBIT margin decreased by 7.0 percentage points from 9.6% to 2.6%. EBIT of the Automotive OEM Division in the three-month period ended March 31, 2018 was adversely affected by €55 million in restructuring expenses related to RACE, while there were no special items in the three-month period ended March 31, 2018. Accordingly, EBIT before special items declined by €105 million, or 48.0%, to €113 million in the three-month period ended March 31, 2019 (prior year period: €218 million) and the EBIT margin before special items decreased by 4.6 percentage points to 5.0% in the three-month period ended March 31, 2019 (prior year period: 9.6%). The decline in EBIT margin before special items was primarily due to the decline in gross margin as well as increases in selling and administrative expenses.

The Automotive Aftermarket Division's EBIT decreased from €81 million in the three-month period ended March 31, 2018 by €17 million, or 21.6%, to €64 million during the three-month period ended March 31, 2019. The Automotive Aftermarket Division's EBIT margin decreased by 3.7 percentage points, from 18.1% to 14.4%. There were no special items in the three-month period ended March 31, 2019 or the three-month period ended March 31, 2018. The decline in EBIT margin was primarily

due to the decline in gross margin as well as the increases in selling and administrative expenses described above as well as an adverse impact of transactions denominated in foreign currency.

The Industrial Division's EBIT increased from €92 million during the three-month period ended March 31, 2018 by €16 million, or 16.7%, to €108 million for the three-month period ended March 31, 2019. The Industrial Division's EBIT margin increased by 0.8 percentage points from 11.2% to 12.0%, mainly driven by the positive impact of income from the full refund of a penalty of €13 million that was paid by the Industrial Division in 2015 following the completion of a compliance case by the relevant authorities. There were no special items in in three-month period ended March 31, 2018. Accordingly, EBIT before special items increased by €3 million, or 2.9%, to €95 million in the three-month period ended March 31, 2019 (prior year period: €92 million), and the EBIT margin before special items decreased by 0.6 percentage points to 10.6% in the three-month period ended March 31, 2019 (prior year period: 11.2%). The decline in EBIT margin before special items was primarily due to the disproportionately high increases in selling and administrative expenses described above as well as an adverse impact of transactions denominated in foreign currency.

Financial Result

The following table shows our financial result for the three-month periods ended March 31, 2018 and 2019 and the period-to-period changes:

	For the three-month period ended March 31,		
	2018	**2019**	**Change**
	(audited) (in € million)		**(unaudited) (in %)**
Interest expense on financial debt[(1)]	(22)	(25)	*(13.6)*
Gains and losses on derivatives and foreign exchange	(4)	(12)	-
Fair value changes on embedded derivatives	(19)	10	-
Interest income and expense on pensions and partial retirement obligations	(10)	(10)	*0.0*
Other	1	(1)	-
Financial result	**(54)**	**(38)**	***29.6***

(1) Including transaction costs and prepayment penalties.

The Schaeffler Group's financial result improved from a net financial expense of €54 million during the three-month period ended March 31, 2018 by €16 million, or 29.6%, to a net financial expense of €38 million during the three-month period ended March 31, 2019.

Interest expense on financial debt amounted to €25 million in the three-month period ended March 31, 2019 (prior year period: €22 million). The slight increase in interest expense resulted primarily from additional refinancing expenses, particularly a prepayment penalty of €6 million incurred in connection with the Schaeffler Group Notes Redemption**.**

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to €12 million in the three-month period ended March 31, 2019 (prior year period: €4 million). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net gains of €10 million in the three-month period ended March 31, 2019 (prior year period: losses of €19 million). These include fair value gains on the remaining prepayment option, partially offset by losses on the derecognition of prepayment options in connection with the Schaeffler Group Refinancing in March 2019.

Income Taxes

Income taxes for the first three months of 2019 amounted to €47 million (prior year period: €95 million). The decrease of €48 million resulted primarily from a decrease in the effective tax rate from 28.1% to 25.2%, which was primarily attributable to a change in the composition of taxable income between countries with higher and lower tax rates.

Net Income attributable to Shareholders of the Parent Company

For the reasons set forth above, net income after non-controlling interests decreased from €238 million during the three-month period ended March 31, 2018 by €101 million, or 42.4% to €137 million during the three-month period ended March 31, 2019.

Comparison of 2017 with 2018

	For the year ended December 31,		
	2017	**2018***	**Change**
	(audited) **(in € million)**		**(audited)** **(in %)**
Revenue	**14,021**	**14,241**	***1.6***
Cost of sales	(10,175)	(10,558)	*3.8*
Gross profit	**3,846**	**3,683**	***(4.2)***
Research and development expenses	(846)	(847)	*0.1*
Selling expenses	(970)	(1,004)	*3.5*
Administrative expenses	(443)	(488)	*10.2*
Other income	82	87	*6.1*
Other expenses	(141)	(77)	*(45.4)*
EBIT	**1,528**	**1,354**	***(11.4)***
Financial income	108	66	*(38.9)*
Financial expenses	(300)	(221)	*(26.3)*
Financial result	**(192)**	**(155)**	***(19.3)***
EBT	**1,336**	**1,195**	***(10.6)***
Income taxes	(339)	(300)	*(11.5)*
Net income	**997**	**895**	***(10.2)***
Attributable to shareholders of the parent company	980	881	*(10.1)*
Attributable to non-controlling interests	17	14	*(17.6)*

* The consolidated income statement information for 2018 is affected by the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments with effect from January 1, 2018. In accordance with the transition provisions of the aforementioned standards we have determined and recorded the cumulative impact of adopting IFRS 9 and IFRS 15 as an adjustment to shareholders' equity as of January 1, 2018. As a result, no comparative information is restated and as such the consolidated income statement information for 2016 and 2017 is not fully comparable to the consolidated income statement information for 2018. See note 1.5 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

Revenue

The following table shows the revenue contributions of each of our divisions for 2017 and 2018 and the year-to-year changes in these revenue contributions:

	For the year ended December 31,		
	2017	2018	Change
	(audited) (in € million)		(unaudited) (in %)
Automotive OEM	8,991	8,997	*0.1*
Automotive Aftermarket	1,880	1,859	*(1.1)*
Industrial	3,150	3,385	*7.5*
Total	**14,021**	**14,241**	***1.6***

Consolidated revenue increased from €14,021 million in 2017 by €220 million, or 1.6%, to €14,241 million in 2018. Excluding the impact of foreign currency translation, consolidated revenue increased by 3.9% in 2018. €69 million of the total revenue increase was attributable to the impact of the adoption of IFRS 15 with effect from January 1, 2018. The increase in consolidated revenue is primarily attributable to the Industrial Division, which was able to continue its significant growth in 2018, primarily driven by the industrial distribution business, while the Automotive OEM and Automotive Aftermarket Divisions exhibited slower growth than in the prior year. In the Automotive OEM Division, this development was mainly attributable to market driven lower demand in the Europe and Greater China regions in the second half of 2018. Excluding the impact of currency translation, the Automotive OEM Division's revenue increased by 2.1% in 2018. In the Automotive Aftermarket Division, following a solid first six months overall, revenue decreased in the third quarter, resulting in an overall revenue decline in 2018, primarily due to lower demand in the Europe and Americas regions, although it increased by 2.2%, excluding the impact of currency translation.

Automotive OEM Division

The Automotive OEM Division's revenue increased only slightly, by €6 million, or 0.1%, from €8.991 million in 2017 to €8.997 million in 2018. Excluding the impact of foreign currency translation, revenue in the Automotive OEM Division increased by 2.1%. The Automotive OEM Division's revenue growth was particularly affected by the persistently challenging environment in the automotive sector in the second half of 2018. This trend was driven by lower growth in demand in the Greater China region, primarily due to subdued consumer sentiment given the trade conflict with the U.S. and stricter lending practices, and in the Europe region, mainly due to production delays attributable to the introduction of the WLTP. However, compared to the average growth rate of regional production volumes for passenger cars and light commercial vehicles, the Automotive OEM Division's revenue grew faster than the market in all regions.

Revenue for the Europe region increased only slightly by 0.2%, or 0.9% excluding the impact of foreign currency translation in 2018, while the region's vehicle production declined by an average of 0.5% in 2018. The low rate of revenue growth was primarily attributable to production delays resulting from the introduction of the WLTP, in the second half of 2018. In the Americas region, revenue increased by 0.3% in 2018, due to the adverse impact of foreign currency translation. Excluding the impact of foreign currency translation, revenue increased by 5.6%. This growth rate put the division significantly ahead of regional automobile production, which declined by 0.1%, and made it the Automotive OEM Division's main growth driver in 2018. In the Greater China region revenue decreased by 0.9%. Excluding the impact of foreign currency translation, revenue increased by 1.2%, while the region's vehicle production dropped by 3.8%. The weaker revenue growth was due, in particular, to lower demand in the second half of 2018 as a result of consumers being cautious given the trade conflict with the U.S. and stricter lending practices. The Asia/Pacific region, reported

revenue growth of 0.6% (2.3% excluding the impact of foreign currency translation), while the vehicle production rose by 1.0%.

The Engine Systems BD's revenue decreased slightly, by 0.1%, in 2018. Excluding the impact of currency translation, revenue increased by 2.1%. This increase was primarily driven by an increase in sales of our thermal management module product. The Transmission Systems BD's revenue decreased by 0.8% in 2018. Excluding the impact of currency translation, revenue increased by 1.4%, driven primarily by higher volumes of components for automated transmissions, in particular torque converters. The new E-Mobility BD's revenue increased by 16.8%, or 18.1% excluding the impact of currency translation in 2018, with all product lines contributing to this growth. The Chassis Systems BD's revenue decreased by 1.7% in 2018, primarily due to lower demand in the Greater China region. Excluding the impact of currency translation, however, the Chassis Systems BD's revenue rose slightly, by 0.1%.

Automotive Aftermarket Division

The Automotive Aftermarket Division's revenue decreased by €21 million, or 1.1%, from €1,880 million in 2017 to €1,859 million in 2018. Excluding the impact of foreign currency translation, revenue in the Automotive Aftermarket Division increased by 2.2%. This development was driven by the lower demand of a few major customers in the Europe and Americas regions, particularly in the third quarter of 2018, following solid growth in the first half of the year. In the Europe region, the Automotive Aftermarket Division's revenue increased by 1.3% (2.5% excluding the impact of foreign currency translation). Following the encouraging revenue trend in the first half of 2018, revenue declined in the second half of 2018, excluding the impact of currency translation, primarily due to lower revenue from a few major customers, partly driven by increasing consolidation in the European vehicle aftermarket. In the Americas region, the Automotive Aftermarket Division's revenue declined considerably by 15.6%, mainly due to a substantial adverse impact of currency translation (excluding the impact of foreign currency translation, revenue decreased by 5.2%) and non-recurring additional requirements of an OES customer in the prior year. In the Greater China region revenue grew by 33.3%, or 36.5% excluding the impact of foreign currency translation, primarily attributable to higher demand from OES customers. In the Asia/Pacific region, revenue grew by 11.1%, or 12.5% excluding the impact of foreign currency translation, mainly due to growth in the Independent Aftermarket revenue in the sub-region Southeast Asia as well as higher demand from OES customers.

Industrial Division

The Industrial Division's revenue increased by €235 million, or 7.5%, from €3,150 million in 2017 to €3,385 million in 2018. Excluding the impact of foreign currency translation, revenue in the Industrial Division increased by 10.1%. This increase was mainly attributable to the industrial distribution business. Also the raw materials, power transmission and offroad sector clusters generated double-digit revenue growth and therefore contributed considerably to the Industrial Division's revenue growth in 2018. All market regions of the Industrial Division increased their revenue, with the Greater China region reporting the highest growth rate. Revenue in our Europe region increased by 5.7%, or 7.3% excluding the impact of foreign currency translation, primarily due to higher sales volumes in the industrial distribution business. The railway sector cluster grew its revenue at double-digit rates, excluding the impact of currency translation. Revenue also rose, excluding the impact of currency translation, in the power transmission, offroad, industrial automation, two wheelers and raw materials sector cluster, while the aerospace sector cluster's revenue was flat with the prior year. In the wind sector cluster's revenue dropped. Revenue in the Americas region increased by 3.7%, or 9.7% excluding the impact of foreign currency translation. This increase was largely driven by the industrial distribution business and the power transmission, raw materials and aerospace sector clusters. The offroad, industrial automation, two-wheelers and railway sector clusters also

generated revenue growth, excluding the impact of currency translation, while the wind sector cluster experienced a considerable decline in demand. In the Greater China region revenue increased by 21.8%, or 25.4% excluding the impact of foreign currency translation, for 2018. Except for the two-wheelers sector cluster, all sector clusters as well as the industrial distribution business generated double-digit revenue growth, excluding the impact of foreign currency translation. Particularly the considerable increase in volumes in the wind, raw materials, railway and power transmission sector clusters contributed to the Greater China region's revenue growth. Revenue in our Asia/Pacific region increased by 3.0%, or 5.6% excluding the impact of foreign currency translation, due to higher sales volumes. Except for the aerospace and raw materials sector clusters, all sector clusters and the industrial distribution business grew their revenue, with the industrial distribution business and the offroad sector cluster being the main drivers of the Asia Pacific region's revenue growth.

Regions

The regional distribution (by customer location) of our revenue in 2017 and 2018 and the year-to-year changes are shown below:

	For the year ended December 31,		
	2017	**2018**	**Change**
	(audited)		**(unaudited)**
	(in € million)		**(in %)**
Europe	7,183	7,313	*1.8*
Americas	2,910	2,874	*(1.2)*
Greater China	2,456	2,561	*4.3*
Asia/Pacific	1,472	1,493	*1.4*
Total	**14,021**	**14,241**	***1.6***

Revenue increased in three of the four regions in 2018 (although the revenue decline in the Americas region was attributable to a considerable adverse impact of currency translation), with the Greater China region reporting the highest growth rate, mainly attributable to higher demand in the Automotive Aftermarket and Industrial Divisions.

Our Europe region increased its revenue by 1.8%, or 2.9% excluding the impact of foreign currency translation, primarily impacted by the industrial distribution business. The Automotive OEM Division had lower revenue growth, primarily as a result of production delays attributable to the introduction of the WLTP in the second half of the year. Weak revenue development in the Automotive Aftermarket Division had a partially offsetting effect. In the Americas region revenue declined by 1.2%, due to the adverse impact of foreign currency translation. Excluding the impact of foreign currency translation, revenue increased by 4.9%, primarily due to revenue growth in the Automotive OEM and the Industrial Divisions. The Greater China region grew its revenue by 4.3%, or 6.7% excluding the impact of foreign currency translation. Revenue in the Asia/Pacific region increased only slightly by 1.4%, due to the adverse impact of currency translation. Excluding the impact of foreign currency translation, revenue increased by 3.3%, mainly due to an increase in revenue in the Automotive Aftermarket Division which was primarily driven by growth in the Independent Aftermarket revenue in the sub-region Southeast Asia as well as additional requirements of OES customers.

Cost of Sales

The following table shows the cost of sales of each of our divisions for 2017 and 2018 and the year-to-year changes in these costs:

	For the year ended December 31,		
	2017	**2018**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Automotive OEM	(6,711)	(6,975)	*3.9*
Automotive Aftermarket	(1,206)	(1,217)	*0.9*
Industrial	(2,258)	(2,366)	*4.8*
Total	**(10,175)**	**(10,558)**	***3.8***

Cost of sales increased from €10,175 million in 2017 by €383 million, or 3.8%, to €10,558 million in 2018. Cost of sales grew more than revenue, which was primarily due to lower sales volumes and the associated lower capacity utilization and higher labor cost and raw material prices in the Automotive OEM business as well as due to lower sales prices and the negative currency impact in the Automotive Aftermarket Division. The adoption of IFRS 15 resulted in an increase of cost of sales of €113 million in 2018.

Gross Profit

The following table shows the gross profit contributions of each of our divisions for 2017 and 2018 and the year-to-year changes in these gross profit contributions:

	For the year ended December 31,		
	2017	**2018**	**Change**
	(audited) **(in € million, unless otherwise stated)**		**(unaudited)** **(in %)**
Automotive OEM			
Gross profit	**2,280**	**2,022**	***(11.3)***
Gross profit margin (in %) (unaudited)	*25.4*	*22.5*	-
Automotive Aftermarket			
Gross profit	**674**	**642**	***(4.7)***
Gross profit margin (in %) (unaudited)	*35.9*	*34.5*	-
Industrial			
Gross profit	**892**	**1,019**	***14.2***
Gross profit margin (in %) (unaudited)	*28.3*	*30.1*	-
Total			
Gross profit	**3,846**	**3,683**	***(4.2)***
Gross profit margin (in %) (unaudited)	*27.4*	*25.9*	-

Gross profit declined from €3,846 million in 2017 by €163 million, or 4.2%, to €3,683 million in 2018. The gross profit margin decreased from 27.4% in 2017 by 1.5 percentage points to 25.9% in 2018. The decline was mainly attributable to the decrease in gross profit of the Automotive OEM and the Automotive Aftermarket Divisions.

The gross profit of the Automotive OEM Division declined from €2,280 million in 2017 by €258 million, or 11.3%, to €2,022 million in 2018. The gross profit margin decreased from 25.4% in 2017 by 2.9 percentage points to 22.5% in 2018, primarily due to a disproportionately high increase in production cost. The decline was partly due to revenue falling short of plan and the resulting decrease in utilization of production capacity, combined with compensating measures that were not yet extensive enough given the rapid decline in sales. In addition, the division could not increase production efficiency sufficiently to offset the adverse impact of pricing and costs. Furthermore, the delayed ramp-up of a few major projects in China resulted in project-related fixed costs adversely

affecting the margin. Revenue was also affected by an adverse impact of currency translation. Additionally, the initial application of IFRS 15 in 2018, has resulted in, among other things, a change in the presentation of certain development services, as the new reporting standard requires them to be classified within gross margin. This change in presentation had an adverse effect on the margin trend compared to the prior year, but decreased research and development expenses in return.

The gross profit of the Automotive Aftermarket Division decreased from €674 million in 2017 by €32 million, or 4.7%, to €642 million in 2018. The gross profit margin declined from 35.9% in 2017 by 1.4 percentage points to 34.5% in 2018. The favorable impact of economies of scale and revenue mix did not fully offset the adverse impact of lower sales prices and negative currency translation effects.

The gross profit of the Industrial Division increased from €892 million in 2017 by €127 million, or 14.2%, to €1,019 million in 2018. The gross profit margin increased from 28.3% in 2017 by 1.8 percentage points to 30.1% in 2018, primarily since the favorable impact of sales prices, revenue mix and economies of scale outweighed the adverse impact of currency translation, higher raw materials prices and inflation-related cost increases.

R&D Expenses

R&D expenses remained stable at €847 million in 2018 (€846 million in 2017). The first-time application of IFRS 15 in 2018, which led, among other things, to a change in the presentation of certain development services, which under the new standard must be accounted for under gross profit, had a positive impact on the development of the research and development expenses. Without the IFRS 15 impact, R&D expenses would have increased by €58 million. This increase mainly related to R&D expenses in our Automotive OEM Division. In 2018, R&D expenses comprised 5.9% of our revenue (in 2017: 6.0%).

Selling Expenses

Selling expenses increased from €970 million in 2017 by €34 million, or 3.5%, to €1,004 million in 2018. This increase was primarily due to higher revenue-related freight and logistics expenses and the start-up of several distribution centers in the Automotive Aftermarket Division.

Administrative Expenses

Administrative expenses increased from €443 million in 2017 by €45 million, or 10.2%, to €488 million in 2018. This increase was primarily due to the implementation of our “Agenda 4 plus One” program, which is aimed at implementing our “Mobility for tomorrow” strategic concept (see “*Business—Strategy—“Mobility for tomorrow” Strategic Concept*”), while in the Industrial Division the cost reduction measures of the program “CORE” more than offset cost increases, particularly in personnel expenses, as well as group overheads. Administrative expenses as a percentage of revenue increased from 3.2% in 2017 by 0.2 percentage points to 3.4% in 2018.

Other Income and Other Expenses

The following table shows our other income for 2017 and 2018 and the year-to-year changes:

	For the year ended December 31,		
	2017	2018	Change
	(audited) (in € million)		(unaudited) (in %)
Gains on reversal of provisions	38	35	*(7.9)*
Miscellaneous income	44	52	*18.2*
Total	**82**	**87**	***6.1***

The following table shows our other expenses for 2017 and 2018 and the year-to-year changes:

	For the year ended December 31,		
	2017	2018	Change
	(audited) (in € million)		(unaudited) (in %)
Exchange losses	35	6	*(82.9)*
Miscellaneous expenses	106	71	*(33.0)*
Total	**141**	**77**	***45.4***

Foreign exchange losses consist largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2018, netting foreign exchange gains and losses resulted in a net exchange loss of €6 million (prior year: €35 million). Miscellaneous expenses included €26 million (prior year: €0 million) in expenditures related to the reorganization of the BCT unit and its integration into the Automotive OEM and Industrial Divisions. In addition, €22 million (prior year: €0 million in expenses were attributable to the reorganization of our business activities in the United Kingdom. The prior year included €39 million in restructuring expenses incurred to set up a shared service center in Europe.

EBIT

The following table shows the contributions to EBIT of each of our divisions for 2017 and 2018 and the year-to-year changes in these EBIT contributions:

	For the year ended December 31,		
	2017	2018	Change
	(audited) (in € million, unless otherwise stated)		(unaudited) (in %)
Automotive OEM			
EBIT	**951**	**682**	***28.3***
EBIT margin (in %)	*10.6*	*7.6*	-
Automotive Aftermarket			
EBIT	**333**	**319**	***4.2***
EBIT margin (in %)	*17.7*	*17.2*	-
Industrial			
EBIT	**244**	**353**	***44.7***
EBIT margin (in %)	*7.7*	*10.4*	-
Total			
EBIT	**1,528**	**1,354**	***11.4***
EBIT margin (in %)	*10.9*	*9.5*	-

EBIT decreased from €1,528 million in 2017 by €174 million, or 11.4%, to €1,354 million in 2018. As a result, the EBIT margin decreased from 10.9% in 2017 by 1.4 percentage points to 9.5% in 2018. EBIT in 2018 was adversely affected by special items in the amount of €27 million. These included €48 million in restructuring expenses related to the BCT Reorganization and the reorganization of the business activities in the United Kingdom, which were partially offset by income from the reversal of a provision of €21 million following the completion of an investigation of a compliance case by the relevant authorities. The adoption of IFRS 15 in 2018 had a positive impact of €14 million on EBIT. Special items in 2017 included restructuring expenses for the establishment of a shared service center in Europe in the amount of €39 million as well as the recognition of a provision of €17 million for legal cases. Accordingly, EBIT before special items, or Adjusted EBIT, declined to €1,381 million (prior year: €1,584 million) in 2018, and the EBIT margin before special items decreased to 9.7% (prior year: 11.3%). The decline in gross margin described above, partly due to the adverse impact of currency translation, and higher functional costs were partially offset by gains on transactions denominated in foreign currency.

The Automotive OEM Division's total EBIT decreased from €951 million in 2017 by €269 million, or 28.3%, to €682 million in 2018. The EBIT margin decreased from 10.6% in 2017 by 3 percentage points to 7.6% in 2018. Special items recognized by the Automotive OEM Division in 2018 decreased EBIT by a total of €11 million. This included €24 million in restructuring expenses related to the BCT Reorganization and the reorganization of the business activities in the United Kingdom. Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of €13 million. In 2017, the Automotive OEM Division recognized restructuring expenses to set up a shared service center in Europe amounting to €25 million. These expenses were partially offset by €3 million in reversal of provisions for legal cases in 2017. Accordingly, EBIT before special items decreased to €693 million (prior year: €973 million), and the EBIT margin before special items fell considerably to 7.7% (prior year: 10.8%). The decrease in EBIT was primarily due to the disproportionately high increase in production cost. The adverse impact of currency translation on gross profit was partially offset by gains on transactions denominated in foreign currency.

The Automotive Aftermarket Division's total EBIT decreased from €333 million in 2017 by €14 million, or 4.2%, to €319 million in 2018. The EBIT margin decreased from 17.7% in 2017 by 0.5 percentage points to 17.2% in 2018. EBIT in 2018 was increased by €3 million in special items. These included income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities. This income was partially offset by the Automotive Aftermarket Division's share of restructuring expenses recognized for the reorganization of our business activities in the United Kingdom. In 2017, the division recognized €5 million in restructuring expenses incurred to set up a shared service center in Europe. EBIT in 2017 also included €20 million in special items for legal cases resulting from provisions for claims for damages. As a result, EBIT before special items decreased to €316 million (prior year: €358 million), and the EBIT margin before special items fell to 17.0% (prior year: 19.0%). The decrease in margin is attributable to the decline in gross profit as well as to increased functional costs. The adverse impact of currency translation on gross profit was partially offset by gains on transactions denominated in foreign currency and non-recurring non-operating items.

The Industrial Division's total EBIT increased from €244 million in 2017 by €109 million, or 44.7%, to €353 million in 2018. The EBIT margin increased from 7.7% in 2017 by 2.7 percentage points to 10.4% in 2018. EBIT for 2018, was affected by special items amounting to €19 million. This included €24 million in restructuring expenses related to the BCT Reorganization and the reorganization of our business activities in the United Kingdom. Income from the reversal of a provision following the completion of an investigation of a compliance case by the relevant authorities had an offsetting effect on EBIT of €5 million. In 2017, the Industrial Division recognized its share of restructuring expenses incurred to set up a shared service center in Europe amounting to €9 million. As a result,

EBIT before special items increased by €119 million, or 47.0% to €372 million (prior year: €253 million). The division's EBIT margin before special items improved by 3.0 percentage points to 11.0% (prior year: 8.0%). Along with the higher gross profit, the improved margin was mainly attributable to the improvements in the functional cost structure as a result of the "CORE" program. In addition, gains on transactions denominated in foreign currency had an offsetting effect on the adverse impact of currency translation on gross profit.

Financial Result

The following table shows our financial results for 2017 and 2018 and the year-to-year changes:

	For the year ended December 31,		
	2017	**2018**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Interest expense on financial debt[1]	(123)	(99)	*(19.5)*
Gains and losses on derivatives and foreign exchange	(17)	(1)	*(94.1)*
Fair value changes on embedded derivatives	(14)	(43)	*207.1*
Interest income and expense on pensions and partial retirement obligations	(38)	(40)	*(5.3)*
Other	0	28	-
Financial result	**(192)**	**(155)**	***(19.3)***

(1) Including transaction costs and prepayment penalties.

Our financial result improved from a net financial expense of €192 million in 2017 by €37 million, or 19.3%, to a net financial expense of €155 million in 2018. In 2018, financial result comprised financial income of €66 million (prior year: €108 million) and financial expenses of €221 million (prior year: €300 million).

In 2018, interest expense on financial debt in the amount of €99 million (previous year: €123 million) was recognized. The decrease in interest expense on financial debt was despite an increase in financial debt from €3,068 million as of December 31, 2017 to €3,348 million as of December 31, 2018, and was largely due to the impact of prepayment penalties. In addition, the prior year included prepayment penalties of €13 million relating to the early redemption of certain Schaeffler Group notes and €5 million amortization of transaction costs incurred in 2017, which did not occur in 2018.

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to €1 million (previous year: €17 million). These included the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of €43 million (previous year: €14 million).

In 2018, pensions and partial retirement obligations gave rise to net interest expenses of €40 million (prior year: €38 million).

Other items generated net income of €28 million in 2018 (prior year: €0).

Income Taxes

The following table shows our income tax expenses for 2017 and 2018 and the year-to-year changes:

	For the year ended December 31,		
	2017	**2018**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Current income taxes	329	302	*(8.2)*
Deferred income taxes	10	(2)	-
Income taxes	**339**	**(300)**	**-**

Income taxes decreased from €339 million in 2017 by €39 million, or 11.5%, to €300 million in 2018, consisting of current tax benefit of €302 million (prior year: €329 million) and deferred tax expense of €2 million (prior year: deferred tax benefit of €10 million).

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during 2017 and 2018. Trade tax is levied by municipalities.

The average domestic tax rate was 28.6% in 2018 (prior year: 28.6%). 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 12.7% (prior year: 12.7%). 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.

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 €980 million in 2017 by €99 million, or 10.1%, to €881 million in 2018.

Comparison of 2016 with 2017

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million)**		**(audited)** **(in%)**
Revenue	**13,338**	**14,021**	***5.1***
Cost of sales	(9,552)	(10,175)	*6.5*
Gross profit	**3,786**	**3,846**	***1.6***
Research and development expenses	(751)	(846)	*12.6*
Selling expenses	(915)	(970)	*6.0*
Administrative expenses	(428)	(443)	*3.5*
Other income	41	82	*100*
Other expenses	(177)	(141)	*(20.3)*
EBIT	**1,556**	**1,528**	***(1.8)***
Financial income	220	108	*(50.9)*
Financial expenses	(561)	(300)	*(46.5)*
Financial result	**(341)**	**(192)**	***(43.7)***
Income from equity-accounted investees	0	0	-
EBT	**1,215**	**1,336**	***10.0***
Income taxes	(343)	(339)	*(1.2)*
Net income	**872**	**997**	***14.3***
Attributable to shareholders of the parent company	859	980	*14.1*
Attributable to non-controlling interests	13	17	*30.8*

Revenue

The following table shows the revenue contributions of each of our divisions for 2016 and 2017 and the year-to-year changes in these revenue contributions:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in%)**
Automotive	10,338	10,869	*5.1*
Industrial	3,000	3,152	*5.1*
Total	**13,338**	**14,021**	***5.1***

Consolidated revenue increased from €13,338 million in 2016 by €683 million, or 5.1%, to €14,021 million in 2017. Excluding the impact of foreign currency translation, consolidated revenue increased by 5.9%. Both the Automotive Division and the Industrial Division contributed to this growth in revenue in 2018.

Automotive Division

The Automotive Division's revenue increased from €10,338 million in 2016 by €531 million, or 5.1%, to €10,869 million in 2017. Excluding the impact of foreign currency translation, revenue in the Automotive Division increased by 5.9%. Overall, revenue trends varied widely across market regions in 2017. The Europe region reported slight revenue growth of 1.4%, or 1.3% excluding the impact of foreign currency translation, less than the average regional growth in production volumes which rose by 3.9%. The Americas region reported 4.1% in additional revenue, or 4.9% excluding the impact of foreign currency translation, and was growing faster than regional vehicle production, which declined by 0.9%. Revenue of the Automotive Division in the Greater China region increased significantly, by 18.4%, or 22.9% excluding the impact of foreign currency translation. The regional vehicle production increased by 2.6%, especially due to product ramp-ups in the Automotive OEM business. Reasons for the Asia/Pacific region's revenue increase of 4.8%, or 5.8% excluding the impact of foreign currency translation included product ramp-ups. The region's vehicle production rose by 2.1%.

The Engine Systems BD generated revenue growth of 5.3%, or 6.7% excluding the impact of foreign currency translation in 2017, largely driven by the valve train product groups, mainly fully variable valve train systems (primarily Multiair). The camshaft phasing units product group also saw significant revenue increases, especially for electric phasing systems. In addition, the innovative thermal management module, which is required in both internal combustion engines and future mobility concepts, also performed very well. The Transmission Systems BD's revenue rose by 6.3%, or 7.4% excluding the impact of foreign currency translation, with revenue from components for automated transmissions, such as torque converters and dual clutches, generating double-digit growth rates. Revenue in the dual-mass flywheel product group was up significantly as well. The Transmission Systems BD's growth was primarily driven by product ramp-ups in the Greater China region. The Chassis Systems BD generated revenue growth of 3.6%, or 4.2% excluding the impact of foreign currency translation, mainly based on the solid growth in revenue from wheel bearings in the Greater China region. The Automotive Aftermarket BD increased revenue by 3.4% or 3.2% excluding the impact of foreign currency translation in 2017, mainly due to increased requirements in the independent aftermarket in the Americas region.

Industrial Division

The Industrial Division's revenue increased from €3,000 million in 2016 by €152 million, or 5.1%, to €3,152 million in 2017. Excluding the impact of foreign currency translation, revenue in the Industrial Division increased by 5.7%. This growth was mainly driven by significant increases in the power transmission, offroad and raw materials sector clusters, all three of which reported double-digit growth rates. The industrial automation and industrial distribution business also made significant contributions to the division's growth, while revenue in the aerospace and railway sector clusters grew slightly. The two-wheelers and wind sector clusters, however, experienced declining revenue.

In the Europe region, revenue rose by 1.8%, or 1.7%, excluding the impact of foreign currency translation, mainly due to higher sales volumes in the industrial distribution business. The raw materials, offroad, power transmission and industrial automation sector clusters also reported considerably higher revenue. Revenue in the wind, aerospace and railway sector clusters, however, declined relative to 2016. The two-wheelers sector cluster was flat relative to 2016. The Americas region reported a considerable increase in revenue of 2.5%, or 3.3% excluding the impact of foreign currency translation. This trend was primarily driven by double-digit revenue growth rates in the raw materials, offroad and power transmission sector clusters. The aerospace sector cluster and the industrial distribution business generated revenue growth as well. The railway, wind, two-wheelers and industrial automation sector clusters experienced declining revenue in 2017 compared to 2016. The Greater China region reported significant growth of 24.9%, or 29.3% excluding the impact of foreign currency translation, for 2017, with all significant sector clusters reporting double-digit growth rates. The region's revenue growth was bolstered significantly by considerable increases in demand in the power transmission, wind, industrial automation, railway and raw materials sector clusters. The industrial distribution business' revenue was in line with the prior year. Revenue in our Asia/Pacific region increased by 4.5%, or 4.9% excluding the impact of foreign currency translation, driven, in particular, by the aerospace, offroad and power transmission sector clusters. The railway, industrial automation and two-wheelers sector clusters, and the industrial distribution business generated revenue growth as well. The significant decrease in demand in the raw materials sector cluster had an adverse influence on the region's revenue trend.

Regions

The regional distribution (by customer location) of our revenue in 2016 and 2017 and the year-to-year changes are shown below:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Europe	7,077	7,183	*1.5*
Americas	2,803	2,910	*3.8*
Greater China	2,053	2,456	*19.6*
Asia/Pacific	1,405	1,472	*4.8*
Total	**13,338**	**14,021**	***5.1***

Revenue increased in each of the four regions, with the Greater China region reporting particularly strong growth of 19.6%, or 24.1% excluding the impact of foreign currency translation, with both divisions contributing to this revenue growth. While the Automotive Division's revenue growth in the Greater China region was mainly due to product ramp-ups, the Industrial Division revenue growth was strongest in the power transmission, wind, industrial automation, railway and raw materials sector clusters.

In the Europe region revenue was up 1.5%, or 1.4% excluding the impact of foreign currency translation, with both divisions reporting similar growth rates. The Americas region reported revenue

growth of 3.8%, or 4.6% excluding the impact of foreign currency translation. Along with the Automotive Division, the Industrial Division's business also made a positive impact, growing again after declining the prior year, primarily driven by the raw materials, offroad, and power transmission sector clusters. Revenue growth in the Asia/Pacific region amounted to 4.8%, or 5.6% excluding the impact of foreign currency translation, with both divisions contributing to this revenue growth.

Cost of Sales

The following table shows the cost of sales of each of our divisions for 2016 and 2017 and the year-to-year changes in these costs:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Automotive	(7,389)	(7,915)	*7.1*
Industrial	(2,163)	(2,260)	*4.5*
Total	**(9,552)**	**(10,175)**	***6.5***

Cost of sales increased from €9,552 million in 2016 by €623 million, or 6.5%, to €10,175 million in 2017.

Gross Profit

The following table shows the gross profit contributions of each of our divisions for 2016 and 2017 and the year-to-year changes in these gross profit contributions:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million, unless otherwise stated)**		**(unaudited)** **(in %)**
Automotive			
Gross profit	**2,949**	**2,954**	***0.2***
Gross profit margin (in %) (unaudited)	*28.5*	*27.2*	-
Industrial			
Gross profit	**837**	**892**	***6.6***
Gross profit margin (in %) (unaudited)	*27.9*	*28.3*	-
Total			
Gross profit	**3,786**	**3,846**	***1.6***
Gross profit margin (in %) (unaudited)	*28.4*	*27.4*	-

Gross profit increased from €3,786 million in 2016 by €60 million, or 1.6%, to €3,846 million in 2017. The gross profit margin declined from 28.4% in 2016 by 1.0 percentage points to 27.4% in 2017.

The gross profit of the Automotive Division increased slightly from €2,949 million in 2016 by €5 million, or 0.2%, to €2,954 million in 2017. However, the gross profit margin decreased by 1.3 percentage points, from 28.5% in 2016 to 27.2% in 2017, mainly due to adverse pricing effects, which could not be compensated by corresponding production cost optimization measures and currency translation effects.

The gross profit of the Industrial Division increased from €837 million in 2016 by €55 million, or 6.6%, to €892 million in 2017. The gross profit margin increased by 0.4 percentage points, from 27.9% in 2016 to 28.3% in 2017, as the division was able to offset price reductions and cost increases, primarily from collectively bargained wage and salary increases, with operational improvements in costs and economies of scale.

R&D Expenses

R&D expenses significantly increased from €751 million in 2016 by €95 million, or 12.6%, to €846 million in 2017. This increase was primarily due to a focused expansion of the headcount in connection with the strategic alignment of our R&D development capacities in order to lay the foundation for future growth. In the Automotive Division, R&D expenses largely were attributable to activities in the field of E-Mobility as well as projects aimed at further optimizing the drive train based on an internal combustion engine.

In 2017, R&D expenses comprised 6.0% of our revenue (in 2016: 5.6%).

Selling Expenses

Selling expenses increased from €915 million in 2016 by €55 million, or 6.0%, to €970 million in 2017 mainly due to increased logistics expenses driven by rising volumes, due, among other things, to the significant expansion of the business in the Greater China region.

Administrative Expenses

Administrative expenses increased from €428 million in 2016 by €15 million, or 3.5%, to €443 million in 2017. Administrative expenses as a percentage of revenue remained flat at 3.2% in 2017. Higher administrative expenses in the Automotive Division were primarily related to logistics costs related to growing our business in the Greater China region, while in the Industrial Division the cost reduction measures of the program “CORE” more than offset inflation-related cost increases, particularly in personnel expenses, as well as group overheads.

Other Income and Other Expenses

The following table shows our other income for 2016 and 2017 and the year-to-year changes:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited)		**(unaudited)**
	(in € million)		**(in %)**
Gains on reversal of provisions	13	38	*192.3*
Miscellaneous income	28	44	*57.1*
Total	**41**	**82**	***100.0***

Other income increased from €41 million in 2016 by €41 million, or 100%, to €82 million in 2017. The change resulted primarily from an increase of gains on reversal of provisions attributable to legal cases.

The following table shows our other expenses for 2016 and 2017 and the year-to-year changes:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited)		**(unaudited)**
	(in € million)		**(in %)**
Exchange losses	9	35	*288.9*
Miscellaneous expenses	168	106	*(36.9)*
Total	**177**	**141**	***(20.3)***

Other expenses decreased from €177 million in 2016 by €36 million, or 20.3%, to €141 million in 2017, mainly due to a decrease in miscellaneous expenses. Major miscellaneous expenses in 2017 included restructuring expenses of €39 million incurred to set up a shared service center in Europe, and expenses of €16 million attributable to provisions for potential third-party claims in connection

with antitrust proceedings and other compliance cases. Other expenses in 2016 included restructuring expenses of €45 million related to efficiency measures aimed at revitalizing the Industrial Division under our "CORE" program. Foreign exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2017, netting foreign exchange gains and losses resulted in a net exchange loss of €35 million (2016: €9 million).

EBIT

The following table shows the contributions to EBIT of each of our divisions for 2016 and 2017 and the year-to-year changes in these EBIT contributions:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) (in € million, unless otherwise stated)		**(unaudited) (in %)**
Automotive			
EBIT	**1,373**	**1,283**	***(6.6)***
EBIT margin (in %)	*13.3*	*11.8*	-
Industrial			
EBIT	**183**	**245**	***33.9***
EBIT margin (in %)	*6.1*	*7.8*	-
Total			
EBIT	**1,556**	**1,528**	***(1.8)***
EBIT margin (in %)	*11.7*	*10.9*	-

EBIT decreased from €1,556 million in 2016 by €28 million, or 1.8%, to €1,528 million in 2017. As a result, the EBIT margin decreased from 11.7% in 2016 by 0.8 percentage points to 10.9% in 2017. In 2017 EBIT was adversely affected by €56 million in special items, which included €17 million for provisions for claims for damages and €39 million in restructuring expenses incurred to set up a shared service center in Europe in 2017. Special items in 2016 amounted to €144 million, including €86 million in provisions for claims for damages in antitrust proceedings and other compliance cases, restructuring expenses of €45 million in connection with the "CORE" program, as well as other special items of €13 million from streamlining the production portfolio. EBIT before special items, or Adjusted EBIT, declined by €116 million, or 6.8%, from €1,700 million to €1,584 million in 2017, and the EBIT margin before special items declined by 1.4 percentage points, from 12.7% in 2016 to 11.3% in 2017. The decline was primarily due to the decrease in gross profit margin, as described above, and the significantly expanded R&D activities, mainly in the Automotive Division. The EBIT margin was also adversely affected by currency translation effects.

The Automotive Division's total EBIT decreased from €1,373 million in 2016 by €90 million, or 6.6%, to €1,283 million in 2017. The EBIT margin decreased from 13.3% in 2016 by 1.5 percentage points to 11.8% in 2017. In 2017, the division's EBIT was adversely affected by €47 million in special items, including €17 million in special items for legal cases resulting from provisions for claims for damages. In addition, the division recognized restructuring expenses incurred to set up a shared service center in Europe amounting to €30 million in 2017. Special items in 2016 amounted to €108 million, which included €82 million for provisions for claims for damages in antitrust cases and for other compliance cases and €13 million in expenses relating to the Automotive Division in connection with the second wave of the program "CORE" (consolidation of shared functions and plant structures) were recognized in the prior year. Additionally, EBIT in 2016 was adversely affected by other special items of €13 million resulting from streamlining the production portfolio. EBIT before special items declined to €1,330 million (prior year: €1,481 million) in 2017, and the EBIT margin before special items fell to 12.2% (prior year: 14.3%). Apart from the lower gross margin, reasons for the decline include rising R&D costs, to a significant extent due to the expansion of R&D activities relating to E-

Mobility and other expenses. The EBIT margin was also affected by an adverse impact of currency translation.

The Industrial Division's total EBIT increased from €183 million in 2016 by €62 million, or 33.9%, to €245 million in 2017. The EBIT margin increased from 6.1% in 2016 by 1.7 percentage points to 7.8% in 2017. EBIT in 2017 was adversely affected by €9 million in special items representing the Industrial Division's share of restructuring expenses incurred to set up a shared service center in Europe. In 2016, EBIT was adversely affected by €36 million in special items, including €32 million in restructuring expenses in connection with the "CORE" program. In addition, the division had recognized €4 million in expenses for legal cases in 2016. Accordingly, EBIT before special items improved to €254 million (prior year: €219 million) in 2017, and the EBIT margin before special items increased to 8.1% (prior year: 7.3%). The increase was the result of an increase in gross profit as described above and the impact of cost and efficiency measures implemented as part of the program "CORE." However, currency translation had an adverse effect on the division's EBIT margin.

Financial Result

The following table shows our financial results for 2016 and 2017 and the year-to-year changes:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited) **(in € million)**		**(unaudited)** **(in %)**
Interest expense on financial debt	(286)	(123)	*(57.0)*
Interest income on shareholder loans	49	0	*(100.0)*
Gains and losses on derivatives and foreign exchange	(33)	(17)	*(48.5)*
Fair value changes on embedded derivatives	(30)	(14)	*(53.3)*
Interest income and expense on pensions and partial retirement obligations	(45)	(38)	*(15.6)*
Other	4	0	*(100.0)*
Financial result	**(341)**	**(192)**	***43.7***

Our financial result improved significantly from a net financial expense of €341 million in 2016 by €149 million, or 43.7%, to a net financial expense of €192 million in 2017. In 2017, the financial result comprised financial income of €108 million (prior year: €220 million) and financial expenses of €300 million (prior year: €561 million).

In 2017, interest expense on financial debt of €123 million (prior year: €286 million) included prepayment penalties of €13 million (prior year: €48 million) and deferred transaction costs derecognized of €5 million (prior year: €31 million). The significant decrease in interest expense on financial debt was largely attributable to the prepayment of financial debt in 2016 from the proceeds received from the prepayment of loans that Schaeffler AG had provided to the Issuer. With the prepayment of the loans by the Issuer, we also ceased accruing interest income on loans to shareholders, which had amounted to €49 million in 2016.

Net foreign exchange losses on financial assets and liabilities and net losses on derivatives amounted to €17 million in 2017 (prior year: €33 million). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps. Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in losses of €14 million in 2017 (prior year: €30 million).

In 2017, pensions and partial retirement obligations gave rise to net interest expenses of €38 million (prior year: €45 million).

Other items generated net expenses of €0 million in 2017 (prior year: €4 million).

Income Taxes

The following table shows our income tax expenses for 2016 and 2017 and the year-to-year changes:

	For the year ended December 31,		
	2016	**2017**	**Change**
	(audited)		**(unaudited)**
	(in € million)		**(in %)**
Current income taxes	345	329	*4.6*
Deferred income taxes	(2)	10	-
Income taxes	**343**	**339**	*(1.2)*

Income taxes decreased from €343 million in 2016 by €4 million, or 1.2%, to €339 million in 2017, consisting of current tax benefit of €329 million (prior year: €345 million) and deferred tax benefit of €10 million (prior year: deferred tax expenses of €2 million).

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during 2016 and 2017. Trade tax is levied by municipalities.

The average domestic tax rate was 28.6% in 2017 (prior year: 28.6%). 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 12.7% (prior year: 12.7%). 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.

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 €859 million in 2016 by €121 million, or 14.1%, to €980 million in 2017.

Liquidity and Capital Resources

For 2016, 2017, 2018 as well as for the three-month periods ended March 31, 2018 and 2019, our principal source of liquidity was cash generated from operating activities. Our liquidity requirements arise primarily from the need to fund our working capital requirements and capital expenditures, to make interest and principal payments on our indebtedness and to make dividend payments to our shareholders. As of March 31, 2019 (and before giving effect to the Schaeffler Group Notes Redemption), we had cash and cash equivalents totaling €2,071 million as well as a revolving credit line under the Schaeffler Group Syndicated Facilities Agreement of €1,500 million, of which €20 million was utilized as of March 31, 2019, primarily in the form of letters of credit. Additionally, we entered into the Schaeffler Group Investment Facility of €250 million, under which €184 million were utilized as of March 31, 2019, to finance certain capital expenditure investments, and we have certain committed lines of credit available to us. We also entered into an asset-backed commercial paper program (the "**Schaeffler Group ABCP Program**") under which we securitize certain trade receivables. 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, depending on our financing needs and market conditions.

Cash Flows

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 three-month period ended March 31,	
	2016	**2017**	**2018**	**2018**	**2019**
	(audited) (in € million)			**(unaudited) (in € million)**	
Operating Activities					
EBIT	1,556	1,528	1,354	391	230
Interest paid	(279)	(121)	(94)	(28)	(37)
Interest received	98	10	15	3	4
Income taxes paid	(327)	(345)	(355)	(89)	(57)
Depreciation, amortization and impairments	737	767	821	196	242
(Gains) losses on disposal of assets	4	2	(3)	(2)	(1)
Changes in:					
Inventories	(88)	(206)	(166)	(159)	(117)
Trade receivables	(205)	(86)	135	(132)	(241)
Trade payables	271	261	63	79	62
Provisions for pensions and similar obligations	(29)	31	(28)	1	2
Other assets, liabilities and provisions	138	(63)	(136)	(23)	67
Cash flow from operating activities[(1)]	**1,876**	**1,778**	**1,606**	**237**	**154**
Investing activities					
Proceeds from disposals of property, plant and equipment	4	9	13	1	2
Capital expenditures on intangible assets	(29)	(32)	(14)	(3)	(2)
Capital expenditures on property, plant and equipment	(1,117)	(1,241)	(1,218)	(303)	(371)
Acquisition of subsidiaries	0	(47)	(163)	(2)	(65)
Proceeds from disposal of subsidiaries	0	20	1	0	0
Other investing activities	1	1	(3)	(1)	(4)
Cash flow used in investing activities	**(1,141)**	**(1,290)**	**(1,384)**	**(308)**	**(440)**
Financing activities					
Dividends paid to shareholders and non-controlling interests	(329)	(330)	(363)	0	0
Receipts from loans and bonds	1,000	440	404	56	2,190
Repayments of loans	(2,910)	(940)	(152)	(1)	(635)
Repayments of lease liabilities	-	-	-	0	(14)
Other financing activities	1,773	0	0	0	0
Cash flow provided by (used in) financing activities	**(466)**	**(830)**	**(111)**	**55**	**1,541**
Net increase (decrease) in cash and cash equivalents	**269**	**(342)**	**111**	**(16)**	**1,255**
Effects of foreign exchange rate changes on cash and cash equivalents	3	(31)	(8)	(10)	15
Cash and cash equivalents as at beginning of period	799	1,071	698	698	801
Cash and cash equivalents as at end of period	**1,071**	**698**	**801**	**672**	**2,071**

* The consolidated statement of cash flow information for the three-month period ended March 31, 2019 is affected by the adoption of IFRS 16: Leases with effect from January 1, 2019. In accordance with the transition provisions of the aforementioned standard, no comparative information is restated and as such the consolidated statement of cash flow information for the three-month period ended March 31, 2018 and for 2016, 2017, 2018 is not fully comparable to the consolidated statement of cash flow information for the three-month period ended March 31, 2019. See the notes to the Unaudited Condensed Consolidated Interim Financial Statements included elsewhere in this Listing Memorandum.

Cash Flow from Operating Activities

Cash flows from operating activities decreased from €237 million for the three-month period ended March 31, 2018 by €83 million, or 35.0%, to €154 million for the three-month period ended March 31, 2019, primarily due to the decline in EBIT in the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018. Our working capital needs also increased, resulting in operating cash outflows of €296 million in the three-month period ended

March 31, 2019 compared to €212 million in the three-month period ended March 31, 2018, as a result of a higher increase in trade receivables, which was only partly offset by a lower increase in inventories.

Cash flows from operating activities decreased by €172 million, or 9.7%, from €1,778 million in 2017 to €1,606 million in 2018. The decrease was primarily due to the decline in EBIT in 2018 as compared to 2017. This was only partly offset by a positive development in changes in working capital, which resulted in total inflows of €32 million in 2018, compared to an outflow of €31 million in 2017. The improvement in working capital was attributable to both the reduction in trade receivables, which was largely due to an increase of the volume of our Schaeffler Group ABCP Program, and the increase in trade payables, mainly as a result of more favorable payment terms with our suppliers, which together more than offset the increase in inventories. Sales of receivables, largely under our Schaeffler Group ABCP Program, the funding amount under which was increased from €150 million to €200 million in 2018, resulted in a cash inflow of €50 million in 2018, compared to €150 million in 2017.

Cash flows from operating activities decreased by €98 million, or 5.2%, from €1,876 million in 2016 to €1,778 million in 2017. Operating cash flows in 2017 were adversely affected by cash outflows relating to legal cases and restructurings. Additionally, operating cash flows in 2016 had included interest received on a loan receivable by Schaeffler AG from the Issuer, which was repaid in full in 2016, so that no further interest was received in 2017. Higher working capital requirements, particularly a significant increase in inventories, led to a slightly higher cash outflow of €31 million in 2017, as compared to €22 million in 2016. Higher working capital needs were partially offset by a reduction in trade receivables under our newly established Schaeffler Group ABCP Program, which resulted in a cash inflow of €150 million in 2017.

Cash Flows from Investing Activities

Cash outflow for investing activities increased from €308 million during the three-month period ended March 31, 2018 by €132 million, or 42.9%, to €440 million during the three-month period ended March 31, 2019. Of these outflows, capital expenditures on intangible assets and property, plant and equipment and intangible assets amounted to €373 million in the three-month period ended March 31, 2018 as compared to €306 million in the three-month period ended March 31, 2018 (see "—*Capital Expenditures*"). Cash outflow for the acquisition of subsidiaries in the three-month period ended March 31, 2019 was €65 million related to the acquisition of Elmotec Statomat Holding GmbH, a manufacturer of production machinery for the high-volume construction of electric motors that we acquired as of January 31, 2019.

Cash outflow for investing activities was €1,384 million in 2018, €1,290 million in 2017 and €1,141 million in 2016. Of these outflows, capital expenditures on intangible assets and property, plant and equipment and intangible assets amounted to €1,232 million in 2018, €1,273 million in 2017 and €1,146 million in 2016 (see "—*Capital Expenditures*").

Cash outflow for the acquisition of subsidiaries in 2018 was €163 million, €161 million of which related to the establishment of the joint venture Schaeffler Paravan Technologie GmbH & Co. KG and the remainder to the payment of a second tranche of the purchase price for the acquisition of autinity systems GmbH. Proceeds from the disposal of subsidiaries in 2018 amounted to €1 million and related to the disposal of PStec Automation. In 2017, cash outflows for the acquisition of subsidiaries of €47 million related to the acquisitions of Compact Dynamics GmbH and autinity Systems GmbH and were partially offset by a cash inflow of €20 million attributable to the disposal of Schaeffler Motorenelemente AG & Co. KG and the fine blanking activities in Switzerland. In 2016, there were no cash out-or inflows from the acquisition or disposal of subsidiaries.

Cash Flows from Financing Activities

Cash inflow for financing activities increased by €1,486 million, from €55 million during the three-month period ended March 31, 2018 to €1,541 million during the three-month period ended March 31, 2019. The increase is primarily due to cash inflows of €2,190 million from the proceeds of the New Schaeffler Group Notes, a portion of which we used to prepay €500 million of the Schaeffler Group Term Facility and to repay €160 million outstanding under the Schaeffler Group Revolving Facility. Cash inflows also included €37 million resulting from the termination of cross-currency swaps in connection with the Schaeffler Group Refinancing. Cash inflows of €12 million resulting from the repayment of loans by subsidiaries. For the first time, cash flow from financing activities for the three-month period ended March 31, 2019 reflected principal repayments on lease liabilities in accordance with IFRS 16 (resulting in a cash outflow of €14 million).

Cash outflow for financing activities was €111 million in 2018, €830 million in 2017 and €466 million in 2016. Of these outflows, €363 million, €330 million and €329 million related to dividends in 2018, 2017 and 2016, respectively.

In 2018, drawings under the Schaeffler Group Revolving Facility and a bilateral loan provided cash in the amount of €310 million, of which we repaid €150 million in the same year. We also drew an additional €94 million under the Schaeffler Group Investment Facility to finance long-term logistics projects.

In 2017, we used €587 million in cash to redeem a USD bond and to terminate the related cross-currency derivatives. This was refinanced by drawing €350 million under the Schaeffler Group Syndicated Facilities Agreement, which was repaid in full by the end of that year. Furthermore, we entered into the Schaeffler Group Investment Facility of €250 million in 2017 to finance long-term logistics projects and made initial drawings of €90 million thereunder.

In 2016, we received cash of €1,773 million from the prepayment in full of a loan receivable by Schaeffler AG from the Issuer and used these funds to redeem bonds with an aggregate principal amount of €1,756 million. We also drew €1,000 million under the Schaeffler Group Term Facility to repay two remaining institutional term loans in an aggregate amount of €418 million and to redeem bonds in an aggregate principal amount of €600 million. A total of €136 million in cash was used for additional repayments and to terminate related cross-currency derivatives.

Capital Expenditures

As our growth strategy is mainly based on investments in new products and technologies as well as in expanding the group's global production network, we believe that capital expenditures are a key factor driving our growth. At the same time, we focus on the efficient allocation and use of our capital.

The following table sets out a breakdown of our capital expenditures on property, plant and equipment and intangible assets by region for 2016, 2017 and 2018 and the three-month periods ended March 31, 2018 and 2019.

	For the year ended December 31,			For the three-month period ended March 31,	
	2016	**2017**	**2018**	**2018**	**2019**
		(audited) **(in € million)**		**(unaudited)** **(in € million)**	
Europe	657	772	707	191	225
Americas	209	172	159	34	53
Greater China	234	277	305	69	75
Asia/Pacific	46	52	61	12	20
Total capital expenditures	**1,146**	**1,273**	**1,232**	**306**	**373**

In the three month-period ended March 31, 2019, capital expenditures on property, plant and equipment and intangible assets amounted to €373 million and related primarily to the Europe region as well as the Greater China region. In Europe, we invested in our "Agenda 4 plus One" initiatives, "IT 2020" and the state-of-the-art assembly and packaging center of the Automotive Aftermarket Division known as "Aftermarket Kitting Operation" (the "**AKO**"). We also purchased property in Herzogenaurach, Germany. In addition, we also made significant investments in IT infrastructure, logistics infrastructure and machinery for product start-ups.

In 2018, we made capital expenditures on property, plant and equipment and intangible assets of €1,232 million, largely related to the Europe and Greater China regions. We primarily invested in strategically aligning our logistics activities, expanding capacity and in equipment and machinery for product start-ups, in order to strengthen our competitive position. We completed our "European Distribution Center" ("**EDC**") project for our Industrial Division and started construction of the AKO, a state-of-the-art assembly and packaging center of the Automotive Aftermarket Division. In addition, we invested significant funds in expanding capacity across Europe, particularly in the Engine and Transmission Systems BDs and in the standard rolling bearing business, the Americas and Greater China. We also made significant investments in electric mobility, particularly in equipment and machinery for product start-ups of electric axles in Herzogenaurach, Germany and hybrid transmissions in Bühl.

In 2017, capital expenditures on property, plant and equipment and intangible assets amounted to €1,273 million. More than 60.6% of these capital expenditures related to the Europe region, where we made significant investments in the central distribution center "EDC Central" in Kitzingen, Germany, which forms part of the EDC project. We also invested in equipment and machinery for new product start-ups and capacity expansions across our regions.

In 2016, capital expenditures on property, plant and equipment and intangible assets amounted to €1,146 million and primarily related to capacity expansions and investments in equipment and machinery for product start-ups.

As part of our efficiency measures, including RACE, we plan to limit the Automotive OEM Division's R&D expenses to 8.0 to 8.5% of its revenue in 2019 and 2020 and to restrict its capital expenditures to €900 million per year in 2019 and 2020.

Financial Debt

Sources of Financing

As of March 31, 2019, our financial debt amounted to €4,876 million (€3,442 million non-current financial debt and €1,434 million current financial debt, including the Redeemed Schaeffler Group Notes which we redeemed on May 15, 2019). The main sources of financing made available to us are the Schaeffler Group Syndicated Facilities and the Schaeffler Group Notes as described below.

Schaeffler Group Syndicated Facilities

Schaeffler AG is party to a €2,000 million syndicated term loan and revolving credit facilities agreement (as amended from time to time, the "**Schaeffler Group Syndicated Facilities Agreement**" and the credit facility made available thereunder, the "**Schaeffler Group Syndicated Facilities**"). Following the repayment of €500 million of the term loan facility in March 2019, the Schaeffler Group Syndicated Facilities consist of:

- a €500 million term loan facility (the "**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 September 30, 2023; and
- a €1,500 million revolving credit facility (the "**Schaeffler Group Revolving Facility**" and, together with the Schaeffler Group Term Facility, the "**Schaeffler Group Syndicated 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 September 30, 2023.

As of March 31, 2019, the Schaeffler Group Term Facility was fully drawn and €20 million were utilized under the Schaeffler Group Revolving Facility, primarily in the form of letters of credit. The Schaeffler Group Syndicated Facilities are unsecured and not guaranteed by any of Schaeffler AG's subsidiaries. For a description of the Schaeffler Group Syndicated Facilities Agreement, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Syndicated Facilities Agreement."*

Schaeffler Group Investment Facility

On December 15, 2017, Schaeffler entered into a €250 million term loan facility agreement (as amended from time to time, the "**Schaeffler Group Investment Facility Agreement**" and the term loan facility made available thereunder, the "**Schaeffler Group Investment Facility**"). The Schaeffler Group Investment Facility is available to finance certain capital expenditure investments. Accrued interest on the Schaeffler Group Investment Facility is payable in cash and the facility matures (subject to an uncommitted extension option for an extension of the final maturity date by one year) on December 15, 2022. As of March 31, 2019, €184 million were drawn under the Schaeffler Group Investment Facility. The Schaeffler Group Investment Facility is unsecured and not guaranteed by any of Schaeffler AG's subsidiaries. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Investment Facility Agreement.*"

Schaeffler Group Notes

As of March 31, 2019, the Schaeffler Group had the following notes outstanding (the "**Schaeffler Group Notes**"):

- €400 million in aggregate principal amount of 2.50% senior notes due 2020 (the "**2015/2020 Schaeffler Group Notes**"), €500 million in aggregate principal amount of 3.50% senior notes due 2022 (the "**2014/2022 Schaeffler Group Notes**"), $600 million in aggregate principal amount of 4.75% senior notes due 2023 (the "**2015/2023 Schaeffler Group Notes**"), and €600 million in aggregate principal amount of 3.25% senior notes due 2025 (the "**2015/2025 Schaeffler Group**

Notes"), each issued by Schaeffler Finance B.V. in 2014 or 2015 and guaranteed by Schaeffler AG, and

- €2,200 million in aggregate principal amount of senior notes €750 million of 1.125% senior notes due 2022, €800 million of 1.875% senior notes due 2024 and €650 million of 2.875% senior notes due 2027, issued by Schaeffler AG under its debt issuance program on March 26, 2019 (the "**New Schaeffler Group Notes**").

On May 15, 2019, Schaeffler AG used a portion of the net proceeds from the issuance of the New Schaeffler Group Notes to redeem (the "**Schaeffler Group Notes Redemption**") the 2015/2020 Schaeffler Group Notes, the 2014/2022 Schaeffler Group Notes and the 2015/2023 Schaeffler Group Notes in full. Following the Schaeffler Group Notes Redemption, the New Schaeffler Group Notes and the 2015/2025 Schaeffler Group Notes remain outstanding. For a more detailed description of the Schaeffler Group Notes, see "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Notes.*"

Schaeffler Group Asset-backed Commercial Paper Program

On November 30, 2017, the Schaeffler Group established an asset-backed commercial paper program (as amended and restated from time to time, the "**Schaeffler Group ABCP Program**"), under which we securitize certain trade receivables. On November 29, 2018, we amended the Schaeffler Group ABCP Program to extend its maturity to November 29, 2019. Under the program, two Schaeffler Group companies sell trade receivables on a revolving basis to a special purpose vehicle in an asset-backed commercial paper program. The maximum amount permitted to be outstanding under the Schaeffler Group ABCP Program at any one time is €200 million. As of March 31, 2019, trade receivables with a carrying amount of €183 million net of retained credit risk had been sold under the Schaeffler Group ABCP Program. Under the Schaeffler Group ABCP Program, the purchase price for sold assets corresponds to the nominal amount of the receivable sold less certain discounts. See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Asset-backed Commercial Paper Program.*"

Other lines of credit

The other sources of financing comprise lines of credit with certain banks or other financial institutions. As of March 31, 2019, we had committed lines of credit in the equivalent of approximately €136 million, mainly in the U.S. and China, of which €119 million was unutilized (utilized lines of credit were primarily in the form of letters of credit).

Overview of Financial Debt and Maturity Profile

As of March 31, 2019, our financial debt amounted to €4,876 million. Financial debt of €1,434 million had a term of up to one year, all of which related to the redeemed Schaeffler Group Notes that we redeemed on May 15, 2019, and financial debt of €3,442 million had a term of more than one year.

The following table summarizes the principal payments we were obligated to make as of March 31, 2019 under current and non-current debt obligations after giving *pro forma* effect to the Schaeffler Group Notes Redemption. See "*Capitalization.*"

							Payments due by period
	Total	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**
				(unaudited) (in € million)			
Bonds	**2,800**	**-**	**-**	**-**	**750**	**-**	**2,050**
Loans	**684**	**-**	**-**	**-**	**184**	**500**	**-**
Schaeffler Group Syndicated Facilities	500	-	-	-	-	500	-
Schaeffler Group Investment Facility	184	-	-	-	184	-	-
***Pro forma* financial debt (current and non-current)**	**3,484**	**-**	**-**	**-**	**934**	**500**	**2,050**

Contractual and Other Obligations

Contractual Obligations

The following table sets forth our contractual obligations and commitments as of March 31, 2019 (except as otherwise indicated) after giving *pro forma* effect to the Schaeffler Group Notes Redemption (amounts shown are book values, except as otherwise stated):

			Payments due by period
	Total	**Up to 1 year**	**more than 1 year**
		(unaudited) (in € million)	
Pro forma financial debt (current and non-current)[(1)]	3,484	-	3,484
Leasing liabilities	209	59	151
Trade payables	1,980	1,980	-
Refund liabilities	193	-	193
Other non-derivative financial liabilities	429	401	28
Non-derivative financial liabilities	**6,296**	**2,440**	**3,856**
Derivative financial liabilities	**101**	**99**	**2**
Total	**6,397**	**2,539**	**3,858**

(1) Values reflect principal amounts.

Non-recognized contingent liabilities and other obligations

As of March 31, 2019, we had contingent liabilities of €80 million. Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other products, particularly for the automotive and certain industrial sectors, including certain Schaeffler Group companies, in relation to possible agreements and practices violating antitrust laws. Some of the investigations are ongoing and we face the risk of potential penalties from antitrust authorities. Certain Schaeffler Group companies are also defendants in civil lawsuits seeking damages in relation to alleged antitrust violations and there is a risk that additional third parties may claim damages in the future. We have recognized provisions for a portion of these investigations and potential claims for damages. These proceedings may lead to increased expenses in future periods, which could materially affect our results. 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."

Open commitments under fixed contracts to purchase property, plant and equipment amounted to €429 million as of March 31, 2019.

Pension Obligations

The following table sets forth our pension provisions as of December 31, 2018:

					As of December 31, 2018
	Germany	United States	United Kingdom	Other	Total
	(unaudited) (in € million, unless otherwise stated)				
Present value of defined benefit obligations[1]	2,246	194	190	234	2,864
Plan assets	178	184	228	147	737
Funded status (in %)	***7.9***	***94.8***	***120.0***	***62.8***	***25.7***
Statement of financial position					
Provisions for pensions (liabilities net of related plan assets)	(2,068)	(13)	0	(92)	(2,173)
Pension assets (plan assets net of related liabilities)	0	3	38	5	46
Net balance sheet obligations	**(2,068)**	**(10)**	**38**	**(87)**	**(2,127)**

(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 December 31, 2018, 94.8% of pension obligations in the U.S. and 120% 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.

As of December 31, 2018, the net provision for pensions and similar obligations in the statement of financial position comprises a defined benefit obligation of €2,864 million and a market value of plan assets of €737 million. This is presented in the statement of financial position as a provision for pensions and similar obligations of €2,173 million. Some overfunded plans lead to plan assets of €46 million recognized in other assets in the statement of financial position.

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 30% and 40% 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 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 24, 2019, the shareholders of Schaeffler AG agreed to pay out a dividend for 2018 consisting of an ordinary dividend of €0.55 per non-voting share and €0.54 per voting share, for a total dividend pay-out of €361 million. The dividends were paid on April 29, 2019.

Dividends paid in 2018 for 2017 consisted of an ordinary dividend of €0.55 per non-voting share and €0.54 per voting share, for a total dividend pay-out of €361 million. Dividends paid in 2017 for 2016 consisted of an ordinary dividend of €0.50 per non-voting share and €0.49 per voting share, and a one-time special dividend of €0.15 per share, for a total dividend pay-out of €328 million.

Off-Balance Sheet Arrangements

Our Schaeffler Group ABCP Program provides for the revolving sale of trade receivables to a special purpose entity. The special purpose entity obtains its funding primarily from the capital markets. The receivables are sold on a revolving basis at their face value less certain discounts. We have concluded that we do not control the special purpose entity and, therefore, do not consolidate it. The sold receivables and the related liabilities are recognized to the extent of the credit risk retained (continuing involvement). See "*Description of Other Indebtedness—Indebtedness of the Schaeffler Group—Schaeffler Group Asset-backed Commercial Paper Program*" and note 5.2 to the Audited Consolidated Financial Statements 2018 included elsewhere in this Listing Memorandum.

Except as described above, 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 is the risk that we will incur a financial loss as a result of a default by a customer or business partner. Credit risk arising on trade receivables is managed by continuously monitoring customers' financial status, creditworthiness and payment history. Additional measures we use to manage credit risk include efficient collection procedures and the use of commercial credit insurance.

Interest Rate Risk

Due to the Schaeffler Group Term Facility and the Schaeffler Group Investment Facility, the Schaeffler Group is, in principle, subject to an interest rate risk relating to fluctuations in the EURIBOR. 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, 2018:

	As of December 31, 2018			
	USD	**CNY**	**RON**	**PLN**
	(audited) (in € million)			
Estimated currency risk from operations	848	613	(244)	172
Forward exchange contracts	(653)	(511)	177	(130)
Remaining currency risk from operations	**195**	**102**	**(67)**	**42**

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 Listing 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 OEM

We offer products and services to customers in the automotive sector. These include OEMs and their suppliers (Tier 1 and Tier 2). Products range from components and systems for the engine (such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems and the thermal management module) to components and systems for the transmission (such as continuously variable automatic transmissions, torque converters and torsional vibration dampers) to E-Mobility solutions (such as hybrid modules, electric axle drives and electromechanical actuators) to chassis components (such as wheel bearings, ball screw drives and mechatronic systems for active chassis). 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 OEM industry designs, develops, manufactures and sells light vehicles and commercial vehicles. The light vehicle segment consists of passenger cars, vans and light trucks (all weighing less than six tons), while the heavy and medium vehicle segment is generally defined as the market for vehicles with a weight of more than six tons. In 2018, approximately 94.2 million light vehicles were produced globally (*source*: IHS Markit (April 2019)).

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, Valeo S.A., Delphi Technologies Plc. 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.

Growth Drivers

In the OEM market, revenue of automotive suppliers is primarily driven by global light vehicle production volume and the content per vehicle for the components and systems produced by such suppliers. 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, reduced CO_2 emissions and E-Mobility****:* 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. Moreover, the emergence of hybrid and electric propulsion systems represents a fundamental change to established vehicle technology. Given our general R&D activities to further advance the drive train and the transmission of internal combustion engines as well as our wide-ranging and growing competence in solutions for hybrid and full-electric propulsion systems, we are well positioned to further drive and benefit from this trend.
- ***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.*, fully variable valve control systems) and solutions that improve driving experience, for example, through noise and vibration control (*e.g.*, dual mass flywheels, balancer shaft dampers and crankshaft dampers).
- ***Autonomous driving****:* An additional growing market will be autonomous driving, which, along with increased driving comfort, will also improve road safety. Experts refer to five levels of vehicle automation, beginning with level 0 with a "driver only" – the driver steers and drives completely without support from driver assistance systems – through to level 5, in which the vehicle is completely driverless, *i.e.* moves autonomously. The Schaeffler Group established the joint venture Schaeffler Paravan Technologie GmbH & Co KG, giving it access to the "Drive-by-Wire"-Technology Space Drive, a key technology for autonomous driving. Space Drive is the only system of its kind to be licensed for on-road use in multiple countries worldwide, while at the same time having the potential for technical and commercial viability in large-series automobiles production.
- ***Shared mobility and connectivity****:* Consumers, especially in urban centers, are increasingly seeking alternative mobility concepts to vehicle ownership, such as, for example, mobility on demand, mobility as a service or ride sharing. Such shared mobility concepts are linked, to a certain degree, to the connectivity of vehicles. Connected cars are those that have access to the Internet and a variety of sensors, and that are able to send and receive signals, sense the physical environment around them and interact with other vehicles or entities. Increasing vehicle connectivity to smartphones, clouds, physical infrastructure and other vehicles, is another market trend that affects both OEM and suppliers.

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. 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.

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 2016-2023 period, as well as compound annual growth rates (“**CAGR**”) in production for 2016-2018 and 2019-2023:

	Production of light vehicles								CAGR	
	2016	**2017**	**2018**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2016-2018**	**2019E-23E**
	(units in millions)								(in %)	
Europe	28	29	29	28	28	30	30	31	*1.8*	*2.5*
Americas	20	20	20	20	20	21	21	21	*(0.5)*	*1.6*
Greater China................	27	28	27	27	28	29	31	32	*(0.6)*	*4.0*
Asia/Pacific	18	18	18	18	18	18	18	18	*1.6*	*0.4*
Total	**93**	**95**	**94**	**93**	**95**	**98**	**100**	**102**	***0.6***	***2.4***

(*Source*: Company estimates based on IHS Markit (April 2019))

Overall, the automotive industry developed positively from 2016 to 2018. Global production of passenger cars and light commercial vehicles grew at a CAGR of 0.6%. In 2018, total global production amounted to 94 million.

From 2019 to 2023, growth in light vehicle production is expected to be led primarily by the Greater China region (CAGR of 4.0%) and the Europe region (CAGR of 2.5%). The Americas region is expected to grow with a CAGR of 1.6% from 2019 to 2023, while in the Asia/Pacific region, light vehicle production is expected to remain at a stable level (CAGR of 0.4%). In total, global light vehicle production volume is expected to grow at a CAGR of 2.4% from 2019 to 2023.

Automotive Aftermarket

We offer products and services to customers in the automotive aftermarket sector. Products and services are sold via two distribution channels: The original equipment service ("**OES**") and the open (independent) spare parts market, known as the Independent Aftermarket ("**IAM**"). The OES comprises the automobile OEMs' spare parts business, which is, supplying original spare parts and services to branded repair shops, *i.e.*, those that are authorized by automobile OEMs. IAM supplies independent repair shops that are not tied to any vehicle brand with spare parts and services via the various distribution levels. In addition to the traditional component business consisting of replacing parts, the Schaeffler Group develops and distributes repair sets and kits custom-assembled to help make vehicle repairs simple, efficient and professional.

The automotive aftermarket supplies automotive products through a wide-ranging network of external distribution partners.

Definition, Size and Structure

In addition to sales to OEMs for the OEMs' own spare parts businesses, 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.

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 aftermarket business benefits from the annual growth of vehicle populations as well as from the rising average age and increasing complexity of vehicles. In 2018, the global vehicle population, measured as the number of passenger cars and light commercial vehicles up to 3.5 tons in weight, amounted to approximately 1.4 billion units (*source*: IHS Markit (February 2019)) and the average vehicle age was approximately 9.7 years (*source*: IHS Markit (February 2019)). Especially in emerging markets like China, there is significant potential for growth in the automotive aftermarket business, given the increase in vehicle population over the past years that is expected to continue also in the coming years. 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. The Automotive Aftermarket Division considers itself very well positioned within this market, as demonstrated by the numerous awards and certifications our products and services have received. At the same time, the Automotive Aftermarket Division is preparing for future challenges, especially those arising from the move toward new drive technologies.

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. Increasingly complex vehicle applications and the large number of new vehicle models are constantly confronting repair shop staff with challenging repair situations. Therefore, suppliers to the automotive aftermarket offer numerous services and repair solutions. Service hotlines, training seminars as well as installation guides or videos, and tools tailor-made for professional repairs support repair shops in their daily work.

Industrial

Our Industrial Division is a market and technology leader for rotary and linear movements as well as services for a wide range of industrial sectors. 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 goods and services ranging from high-volume standard products to individual specialized solutions and from mechanical components through to mechatronic systems and digital services. The common denominator of these products and services is the technological expertise and the know-how covering the customer's entire system. 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.

According to our own assessment based on our own and publicly available data, we estimate that in 2018 the global market for bearings, related services and actuators (excluding bearings for the automotive industry and slewing bearings) was worth approximately €33 billion, of which Europe accounted for €12 billion, Greater China for €9 billion, the Americas for €7 billion and Asia/Pacific for €6 billion. The industrial bearings market is highly consolidated. We are one of the major global Tier 1 suppliers, along with SKF AB, NSK Ltd., NTN Corp., THK, Hiwin Corporation and The Timken Co. All major bearings producers supply bearings to OEMs and their suppliers 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 complex mechanical and mechatronic systems and Industry 4.0 products and services such as condition monitoring or predictive maintenance. Customers need intelligent solutions and cost savings throughout the lifecycle of their systems, which opens up new growth areas for the Schaeffler Group.

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 and worldwide customer relations. In the industrial distribution sector, 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 Trends

The main trends that are shaping the industrial sector in general and the bearings market in particular are:

Key Technology Trends

- ***Industry 4.0***: Industry 4.0 includes all aspects of developing mechatronic products, digital services, sector-specific solution packages, as well as new data based business models. Numerous Industry 4.0 products and solution packages in various project stages are already in use by our customers today. These include, for instance, rolling bearings equipped with sensors, cloud-based monitoring of accessory units such as electric, complete solutions for monitoring and lubricating machines, as well as all-digital services for predicting the service life of rolling bearings industrial power transmissions.
- ***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.
- ***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.

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 industrial production is expected to be led by Asia/Pacific and especially the rapidly expanding market in Greater China, which has grown with a CAGR of 9.1% from 2008 to 2018 (*source*: Oxford Economics (March 2019)).
- ***New applications****:* Examples of new applications are high-speed trains, condition monitoring for various applications (such as railways, production machinery, wind turbines or power transmission), hydro power generation, intelligent bearings for agriculture machinery and transportation industries.

Historical and Forecast Development

In the period from 2008 to 2018, global industrial production grew by a CAGR of 2.9%. During this period, industrial production in the Greater China region increased with a CAGR of 9.1%, industrial production in the Asia/Pacific region grew by a CAGR of 1.7% and industrial production in Europe and the Americas grew by CAGRs of 1.7% and 0.8%, respectively (*source:* Oxford Economics (March 2019)).

For the period from 2019 to 2023, we expect the global bearing market to grow by a CAGR of 2.6% (*source*: Oxford Economics (March 2019)).

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 divisions.

Automotive OEM Division

Our key competitors in the Automotive Division are (in alphabetical order): Aisin Seiki Co. Ltd, BorgWarner Inc., Continental AG, Delphi Technologies Plc, Denso Corp., Eaton Corporation plc, EXEDY Corp., Magna International Inc., JTEKT Corp., NSK Ltd., NTN Corp., Valeo SA and ZF Friedrichshafen AG. Schaeffler AG also competes with a range of vehicle manufacturers for example in electric mobility applications.

Automotive Aftermarket Division

Our key competitors in the Automotive Aftermarket Division are (in alphabetical order): Delphi Technologies Plc, ElringKlinger AG, Federal Mogul (Tenneco Inc.), Gates Industrial Corporation plc, SKF AB, Valeo SA and ZF Friedrichshafen AG. Schaeffler AG also competes with a range of vehicle manufacturers in the automotive aftermarket.

Industrial Division

Our key competitors in the Industrial Division are (in alphabetical order): Hiwin Corporation, IKO NIPPON THOMPSON CO., LTD., NSK Ltd., NTN Corp., MinebeaMitsumi Inc., SKF AB, The Timken Co., THK Co. Ltd.

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 Listing 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 April 30, 2019, Schaeffler AG had a market capitalization (including voting and non-voting shares) of €5,042 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 €28,687 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 addition, in January 2019 the Issuer acquired a 25.0% interest in P A R A V A N GmbH, a developer and manufacturer of solutions for customizing vehicles for the disabled. In 2018, the Issuer received aggregate dividends in the amount of €594 million, comprising €270 million from Schaeffler AG and €324 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 approximately 92,000 employees and a network of manufacturing locations, R&D facilities and distribution companies in approximately 170 locations in 50 countries (as of March 31, 2019). Our 73 manufacturing locations form the foundation of our operations.

In 2018, we had consolidated revenues of €14.2 billion (€3.6 billion in the three-month period ended March 31, 2019) and Adjusted EBITDA of €2.2 billion in 2018 (€509 million in the three-month period ended March 31, 2019). For an explanation of the components of Adjusted EBITDA and a reconciliation of net income to Adjusted EBITDA, see "*Summary Financial Information—Other Financial and Operating Data—Summary Financial Information of Schaeffler AG (IFRS)—Schaeffler AG.*" We believe that we are among the top three manufacturers in each of our core sectors worldwide and we have a large presence in a number of growth markets, such as China (the Greater China region accounted for 16.2% of our consolidated revenue during the three-month period ended

March 31, 2019 and 13.8% of our employees as of March 31, 2019) 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, systems solutions and service offering position us well for future growth.

We operate through three divisions: Automotive OEM, Automotive Aftermarket and Industrial. Prior to January 1, 2018, the business constituting the Automotive OEM and Automotive Aftermarket Divisions formed part of a single Automotive Division. The new division was created to reflect the increased significance of the Automotive Aftermarket business to the Schaeffler Group.

- ***Automotive OEM Division:*** Our Automotive OEM Division generated approximately 63.2% of our consolidated revenue and approximately 50.2% of our Adjusted EBIT in 2018 (63.1% and 41.5%, respectively, in the three-month period ended March 31, 2019). We supply more than 19,000 products to all major automotive OEMs as well as approximately 1,200 automotive suppliers globally through our Automotive OEM Division. We develop and manufacture state-of-the-art products for engines, transmissions, electric mobility ("**E-Mobility**") 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 compliant 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.
- ***Automotive Aftermarket Division***: Our Automotive Aftermarket Division accounted for approximately 13.1% of our consolidated revenue and approximately 22.9% of our Adjusted EBIT in 2018 (12.2% and 23.5%, respectively, in the three-month period ended March 31, 2019). As a result of the significant growth of our automotive aftermarket business, effective January 1, 2018, we made the Automotive Aftermarket Division a third reporting segment. Our Automotive Aftermarket Division provides an extensive aftermarket offering which includes the distribution of spare parts and services to approximately 2,200 customers globally. Customers mainly include almost all major international and national trading companies. In addition to the traditional component business consisting of replacing parts, our Automotive Aftermarket Division develops and distributes repair sets and custom assembled kits to help make vehicle repairs simple, efficient and professional. The Automotive Aftermarket Division uses two distribution channels, the original equipment service ("**OES**"), which supplies original spare parts and services to automobile OEM or branded repair shops, and the open (independent) spare parts market or independent aftermarket ("**IAM**"), which supplies spare parts to independent repair shops that are not affiliated with any particular automobile OEM. The Automotive Aftermarket Division is largely supplied from the Automotive OEM Division's manufacturing locations. Our Automotive Aftermarket Division provides essential sales support functions and generate attractive margins as well as stable and recurring revenues.
- ***Industrial Division:*** Our Industrial Division accounted for approximately 23.8% of our consolidated revenue and approximately 26.9% of our Adjusted EBIT in 2018 (24.7% and 34.9%, respectively, in the three-month period ended March 31, 2019). We supply approximately 59,000 products to customers in a variety of different industrial sectors. The product portfolio of the Industrial Division includes a wide range of rolling and plain bearings, linear and direct drive technologies as well as services such as maintenance products and monitoring systems. The market focus is increasingly on smart products and connected components that increase machine and plant efficiency. We believe that customers require intelligent solutions and optimized lifecycle costs, which opens up new growth areas for the Industrial Division. Our strategic business field Industry

4.0 (“**Industry 4.0**”) is aimed at developing these areas, which we consider to be significant growth opportunities for our business. Industry 4.0 combines the entire industry-specific business with mechatronic systems and digital services as well as the required related components. We complement our business with an extensive aftermarket offering, which includes the distribution of spare parts and services to customers worldwide.

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 (51.4% of our consolidated revenue in 2018 and 51.0% in the three-month period ended March 31, 2019) and the Americas (20.2% of our consolidated revenue in 2018 and 22.5% in the three-month period ended March 31, 2019), our business in the Greater China and Asia/Pacific regions, which accounted for 18.0% and 10.5%, respectively, of our consolidated revenue in 2018 and 16.2% and 10.3%, respectively, in the three-month period ended March 31, 2019, has contributed significantly to our overall growth in recent years. Following our integrated “as regional as possible” approach, we have built a global manufacturing footprint with each of our plants having a strong regional foothold. As of March 31, 2019, we operated 46 plants in Europe, 14 in the Americas, eight 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 OEM Division is a leader in the engine, transmission and chassis systems sectors, with top positions, in particular, in engine valve train components, dual mass flywheels and ball screw drives for electrical power steering. We believe our Automotive Aftermarket Division is very well positioned within the market, particularly in the Europe and Americas regions. 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 “Quality for Tomorrow” and “MOVE” (“*Mehr Ohne Verschwendung*” or “more without waste”) and our comprehensive quality culture “Fit for Quality”, 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 8,000 R&D staff at 20 R&D centers and additional R&D locations in a total of 24 countries, is illustrated by the continuous increase in the number of our patent applications in recent years. With 2,417 patent registrations in 2018, we ranked second among Germany's most innovative companies according to the German Patent and Trademark Office (*Deutsches Patent- und Markenamt, DPMA*). In total, as of March 31, 2019, we held around 26,700 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 OEMs such as Volvo, Ford, Nissan, Toyota and General Motors and a total of 65 quality awards in 2018.

Strong Long-Term Growth Track Record Driven by Global Expansion and Increased Product Content and Well Positioned for Growth Opportunities resulting from structural change in our key markets

Key megatrends in our core markets are the trends urbanization, globalization, digitalization and climate change. In particular, European legislation limiting CO_2 emissions cause 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 megatrends to date has contributed to strong long-term growth across our portfolio, with our Automotive OEM and Automotive Aftermarket Divisions' sales volumes having increased at significantly greater rates than underlying automotive production since 2015. In 2018, despite adverse market conditions, the Automotive OEM Division outperformed global production volumes for passenger cars and light commercial vehicles, which declined by 1.1% during the reporting period, and achieved revenue growth of 2.1% for 2018, excluding the impact of currency translation. In addition, our Automotive Aftermarket Division's revenue has grown at a CAGR of 2.8% since 2015 driven by our growth in our market share in Europe and the U.S.

Our track record of outperforming market growth 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 we supply. Given the leading market positions we hold, our technological leadership and our focus on and investment in innovation, we believe that we are well placed to benefit from the structural megatrends in the markets that we serve and to transform our portfolio over time from a components supplier to a complete systems supplier helping to shape mobility for tomorrow across the areas driving growth of eco-friendly drives, urban mobility, interurban mobility, and optimized energy chain. In the automotive sector, efficient internal combustion engines, automated transmissions, diversity in E-Mobility, autonomous driving, interconnectedness and new mobility solutions are expected to be the main drivers of future growth. In the industrial sectors, we believe that mechatronics, digitalization and industrial automation will drive future growth. See "*Industry—Automotive OEM—Historical and Forecast Market Development*" and "*Industry—Industrial –Historical and Forecast Development.*" We believe that in many of these areas we are a frontrunner and we have recently made investments in these areas through joint ventures or selective acquisitions. For example, we gained access to a key technology for autonomous driving through the establishment of the joint venture Schaeffler Paravan Technologie GmbH & Co. KG ("**Schaeffler Paravan**") which acquired the drive-by-wire steering technology ("**SPACE DRIVE**"). SPACE DRIVE is the only autonomous driving system to be licensed for on-road use in multiple countries worldwide and also has the potential for technical and commercial viability in large-series automobile production. In May 2019, we agreed to acquire a company that helped to develop SPACE DRIVE, XTRONIC GmbH ("**XTRONIC**") in a transaction that is expected to close in June 2019. XTRONIC develops customer-specific software and electronics

solutions for the automotive industry in a range of areas, including automated driving applications, electric mobility, functional safety, as well as methods, tools and test systems. In addition, we gained significant expertise in the field of electric motor construction and production in 2019 when we acquired Elmotec Statomat Holding GmbH ("**Elmotec Statomat**"), which possesses unique expertise in the field of winding technology and is one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors.

As a result, we believe that we are well-positioned to maintain strong market growth and profitability in the future and to benefit from the trends in our strategically important markets, see "*—Strategy—Strategic Objectives—Focus on Innovative Components and Systems to drive Global Industry Trends*" below.

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 expand, for example, our existing facilities in Bühl, Germany. As a result of our global presence, which has enabled us to locate plants and other facilities in close proximity to our customers and to benefit from relatively inexpensive just-in-time logistics, we believe we are very well positioned in our key growth markets, in particular in the Greater China region, where we have been present for decades, strong growth in the number of vehicle registrations is expected and the proportion of the worldwide vehicle population is expected to reach one-fifth by 2023.

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), divided by the respective number of light vehicles produced per year) with a CAGR of approximately 4.0% from 2010 to 2018. 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.

We believe that our manufacturing facilities and processes are among the most efficient in the industry. We focus on lean manufacturing and continuous improvement and are seen as a reliable partner with a high level of value added for our customers. 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 most 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 20 R&D 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 73 plants in 22 countries which are characterized by a high level of vertical integration. Moreover, our integrated "as regional as possible" 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.

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 8,000 R&D staff at 20 R&D centers and additional R&D locations in a total of 24 countries 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 8.8% of our consolidated revenue. These capital expenditures were primarily made for strategically aligning our logistics activities and expanding capacity and for equipment and machinery for product start-ups in order to ensure future growth and customer proximity. In addition to capital expenditures, we have also made selective acquisitions to further strengthen our production and product spectrum and to expand our technological expertise. For example, in 2019, we acquired Elmotec Statomat, one of the world's leading manufacturers of production machinery for the high-volume construction of electric motors, which possesses unique expertise in the field of winding technology, and expanded the Automotive OEM Division's technological and industrialization expertise in the field of electric motor construction. Similarly, on average over 2016, 2017 and 2018, we spent approximately 5.8% 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 expenses increasing from €751 million in 2016 to €847 million in 2018.

Attractive and Resilient Business Portfolio Delivering 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 OEM and Automotive Aftermarket Divisions, we sell approximately 64,000 products and system solutions to OEMs and the aftermarket sector. Within our Industrial Division, we serve customers in a variety of different sectors, selling approximately 59,000 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 sector as well as leading industrial OEMs. As of March 31, 2019, we sold our products to all major automotive manufacturers as well as approximately 1,200 automotive suppliers and 7,800 industrial customers in approximately 150 countries worldwide. In 2018, the Automotive OEM Division's top ten customers represented 62.0% of its revenues, the Automotive Aftermarket's top ten customers represented 31.6% of its revenues and the Industrial Division's top ten customers represented 16.7% of its revenues. We believe this diversification mitigates counterparty risk and is broader than that of most 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 2018, aftermarket revenue from products, repair solutions, replacement parts and custom repair sets and kits represented 13.0% 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 our regions and product segments, our broad and high-quality product offering, our technology and innovation leadership and our proximity to and entrenchment with our customers, we have been able to preserve cash in downturns while maintaining profitability through effective management of working capital and capital expenditures as well as cost reductions. In 2018, our Automotive Aftermarket Division achieved €316 million of Adjusted EBIT and an Adjusted EBIT margin of 17.0%. The Adjusted EBIT margin of the Schaeffler Group amounted to 9.7% in 2018. Additionally, over the last three years we have achieved an average Adjusted EBITDA margin of 16.9% at the Schaeffler Group level. As a result, we generated on average cash flow from operating activities of €1.8 billion per year during that same period.

Strong Management Combining Deep Industrial Expertise

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 economic downturn in connection with the global financial crisis, and of implementing efficiency and cost reduction measures, such as in our Industrial Division, which helped improve the Adjusted EBIT margin of the Industrial Division from 7.3% in 2016 to 11.0% in 2018. The successful "CORE" realignment program improved the efficiency and competitive position of our Industrial Division by realigning its structure towards stronger customer orientation and streamlining its leadership structure. 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 and Schaeffler AG's IPO and listing on the Frankfurt Stock Exchange in October 2015. As a result of the success of our management team, Schaeffler AG achieved investment grade credit ratings from each of Moody's (Baa3 on September 7, 2016), Fitch (BBB- on April 5, 2017) and S&P (BBB- on August 30, 2018).

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. We identify key trends early on, invest in researching and developing new forward-looking products and set new standards in technology.

“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 are operationalized in the “Agenda 4 plus One,” which documents our 20 flagship initiatives through to 2020 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. The “Agenda 4 plus One” is proceeding on schedule, with 20 initiatives in the implementation phase. Selected initiatives, such as the efficiency program “CORE”, have progressed sufficiently to be transferred to line functions and other initiatives are expected to similarly mature. As a result, the “Agenda 4 plus One” will be reduced to fewer initiatives.

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 drive systems with no or low levels of CO_2 emissions, making them environmentally friendly and able to meet increasingly stringent regulatory requirements. In the automotive sector, this means that we work simultaneously to further optimize conventional combustions engines and to develop drive system solutions for vehicles with hybrid drive trains and all-electric vehicles. In addition, innovative products for the field of E-Mobility, such as hybrid modules and transmissions, the electric axle drive or the wheel hub motor “E-Wheel Drive”, play an increasingly important role in achieving lower CO_2 emission targets and opportunities for our future growth. The same logic can be applied to modern industrial drive systems, where we benefit from our wealth of knowledge in the automotive field that allows us to utilize synergies.

Urban Mobility

As a result of the noticeably 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. Cities like Moscow, Tokyo or Shanghai experience a daily traffic volume in which fast, efficient and flexible movement is almost impossible.

This trend calls for new mobility solutions, whether in micro-mobility or by designing more efficient public transit systems.

In order to identify the needs and chances of urban mobility in the 21st century, we established an R&D center for urbanization in Singapore in 2018. The densely populated island state is regarded as a living lab for urban mobility. In addition, the acquisition of the SPACE DRIVE drive-by-wire steering technology by our joint venture Schaeffler Paravan is a major step towards the development of innovative mechatronic chassis systems through to the "rolling chassis," which merge the powertrain with the chassis. We are developing our urban concept vehicle, the "**Schaeffler Mover**," that is a technological demonstrator for future autonomous vehicles. The Schaeffler Mover's technological platform has an adaptable design that allows the flexible implementation of different vehicle bodies ranging from a robo-taxi to an autonomous delivery vehicle. The Schaeffler Mover is our innovative answer to the challenge of meeting the mobility requirements of people in rapidly growing metropolitan areas.

Interurban Mobility

The term interurban mobility refers to interconnecting global centers. As globalization progresses, traffic, particularly rail traffic, but also air traffic, will increase significantly worldwide over the years to come and will require a large degree of flexibility. Providing modern and efficient mobility solutions presents a key challenge to the railway and aerospace sectors. The same key challenge applies to companies in the off-highway sector, including agricultural technology. 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 and we are developing new product and service concepts and innovative business models for the use of rolling bearing solutions such as online condition monitoring solutions for the railway sector.

Energy Chain

The continuing need for the cleanest energy possible is common to each of our focus areas. 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. We work with partners in the energy sector to assist in the development of renewable energy production, focusing on wind power, hydropower and solar power. We also see opportunities for expanding our range of products and services for conventional energy generation. There is both potential and need for improvements in all segments of the energy chain, from production, transport and conversion through to energy consumption. To capitalize on these trends, we offer a comprehensive portfolio of products in the field of renewable energy, from bearing solutions for wind turbines and an all-digital service for predicting the service life of rolling bearings in wind power transmissions through to solutions for solar and water power, as well as technological and systems expertise for a variety of drive types, including fuel cells and synthetic fuels.

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 mainly comprises organic growth through investments based on our existing technological expertise and innovative edge and expanding our global production network while increasing our focus on the efficient allocation of our capital. Maintaining an adequate debt-to-Adjusted 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 and are generally focused on acquisitions related to the future-oriented trends of E-Mobility, Industry 4.0 and digitalization.

Leverage our Quality and Technology Leadership

Our objective is to offer our customers a comprehensive “best-in-class” product and system solutions 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 to performance ratios.

Digitalization provides significant opportunities for our global production system and we have developed a comprehensive approach to digitalizing our production. Our goal is to improve performance and efficiency by refining our production processes to be sensor driven, interconnected and data based, to utilize artificial intelligence, as applicable, and to reduce and simplify manual interfaces by providing individual and tailored information to our employees for special production steps. To achieve this, we are adding sensors, actuators and controllers, including the relevant software, to our components and we have developed a system that helps prepare for investment decisions by providing an overview of the spare capacity of all of our significant machines. This increases transparency for machine utilization and provides valuable information for determining appropriate improvement measures and increasing overall equipment effectiveness.

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.

To further enhance our E-Mobility BD products and services, we plan to focus our R&D efforts over the coming years particularly on electric motors, electrics, electronics, software and drive systems and to increase the proportion of our R&D spend in these strategic areas. We are also shifting R&D spending from hardware design to mechatronics and software driven solutions. In addition, we are developing solutions covering the entire energy chain, from energy generation to storage and consumption. We entered into a development and cooperation agreement to develop organic redox flow batteries. We believe that this new technology, that is largely based on renewable resources

and can be scaled to nearly any size, has the potential to play an essential role in shaping the charging infrastructure of E-mobility and in establishing a sustainable energy infrastructure.

Focus on Growth

We continue to expand our presence in growth markets, particularly in the Greater China region which has become a growth driver for all of our divisions. The especially dynamic trends in the Greater China region in recent years means it is important for us to further expand not only our E-Mobility BD in the Greater China region, but also our local presence, and to consistently raise the degree of localization. Approximately 24.8% of all additions to intangible assets and property, plant and equipment in 2018 were made in the Greater China region. We expect the share of our Automotive OEM Division's sales with local Chinese OEMs to continue 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 "as regional as possible" approach, we are opening or expanding local plants. For example, we established an additional E-Mobility competency center in China for developing systems and components for new drive technologies and the future products dedicated hybrid transmissions with two electric motors and integrated power electronics. We are also continually expanding our local production capacity in China. In 2018, we expanded our plant in Nanjing, China to meet increasing demand for rolling bearings for industrial applications and engine components.

Following the significant growth of our Automotive Aftermarket Division's business in the Europe and America regions, we are also aiming to grow our Automotive Aftermarket Division's business in the high-volume markets in the Greater China and Asia/Pacific regions, with the aim to create and expand our product portfolio of intelligently packaged repair solutions, products and services that are tailored to the specific needs of each of these markets.

Focus on Attractive Business Areas

As part of our global growth strategy, we are also expanding our existing systems and components expertise in the field of mechanical products and industrialization with essential competencies in the fields of electrical engineering, electronics and software development, enabling us to offer our customers an even greater range of products, system solutions and services. We believe it is vitally important that we continue to expand our existing systems expertise. For example, digital business models for predicting the operating life of rolling bearings and the ability to develop and manufacture complex electrical drive systems such as electric axles. In the field of E-Mobility, the electric axle combines mechanics with electrical engineering and information technology and represents an attractive system for tomorrow's urban mobility. Drive-by-wire technology provides us access to a key technology for developing our Chassis Systems BD into a chassis system integrator and allows us to gain a technological foothold in the autonomous car market. 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.

Increase Profitability by Implementing an Efficiency and Portfolio Optimization Program in our Automotive OEM Division and a Continuous Improvement Program in our Industrial Division

In 2019, we began implementing our efficiency and portfolio optimization program "Regroup Automotive for Higher Margin and Capital Efficiency" or "**RACE**" for our Automotive OEM Division. RACE is designed to structurally improve the Automotive OEM Division's competitiveness and to sustainably increase efficiency and optimize its product and service portfolio. RACE aims to address margin pressure in certain product areas and to improve the profitability of the Automotive OEM Division. RACE focuses on six earning levers affecting all four BDs of the Automotive OEM Division as well as internal and external corporate functions: (1) optimizing the European footprint, (2)

optimizing the business portfolio, (3) consistently reducing overhead costs, (4) R&D efficiency, (5) capital efficiency and (6) sustainably improving order intake. Our ambition is to sustainably increase the Automotive OEM Division's Adjusted EBIT margin to in the high single digits.

We are targeting completion of RACE in three to four years and plan to implement it in three stages. In the first stage, which we aim to complete over the next 18 to 24 months, we plan to further consolidate the Automotive OEM Division's European plant network, to limit R&D expenses to 8.0 to 8.5% of the Automotive OEM Division's revenue in 2019 and 2020 and to restrict capital expenditures to €900 million per year in 2019 and 2020. We also target an increase of order intake in the E-Mobility and Chassis Systems BDs to €1.5 to €2.0 billion over the next three years. We further intend to dispose of certain non-core activities of the Engine Systems and Transmission Systems BDs and to reinvest the proceeds into strategic growth areas. Overall, we currently expect these measures to affect five European production sites and result in a reduction of 900 positions, including approximately 700 positions in Germany. In addition, we have implemented a company wide hiring freeze for all overhead and indirect functions, except in certain high growth areas.

Following the successful completion of the realignment program "CORE" in the Industrial Division as at the end of 2018, we have initiated the continuous improvement program "Fast Industrial Transformation" or "**FIT.**" FIT is aimed at securing the positive results of the "CORE" program and leveraging efficiencies to more proactively secure the future profitability of the Industrial Division.

We believe that the RACE and FIT programs will help us to strengthen our Automotive OEM and Industrial Divisions and position them for lasting profitable growth.

Our History

In 1946, brothers Dr. Wilhelm Schaeffler and Dr. Georg Schaeffler founded Industrie GmbH in Herzogenaurach, Germany. LuK (*Lamellen- und Kupplungsbau*) GmbH was founded in 1965 in Bühl, Germany (in cooperation with Industrie-Nadellager ("**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 50.0% 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. In 2014, the then existing Schaeffler group and its shareholders completed the final stage of a multi-year corporate reorganization that had been initiated in 2012 and was designed to establish a clean structure separating ownership of Schaeffler Group from ownership in Continental AG.

Following its capital markets 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 One," which documents our 20 flagship initiatives through to 2020, focusing on five key elements: customer focus, operational excellence, financial flexibility, leadership and talent management as well as long-term competitiveness and value creation.

Schaeffler AG's non-voting shares have been listed on the Frankfurt Stock Exchange since 2015 under the ticker symbol SHA. 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.

Our Divisions

We operate through three divisions, the Automotive OEM Division, the Automotive Aftermarket Division and the Industrial Division. Until December 31, 2017, our business was divided into two divisions, the Automotive Division and the Industrial Division. In order to shape our future in a fast-changing market and competitive environment, the Automotive Aftermarket was separated from the Automotive Division and set up as a third stand-alone division as of January 1, 2018.

Automotive OEM Division

As of March 31, 2019, our Automotive OEM Division offered approximately 19,000 products and system solutions for engines, transmissions, hybrid and electrical drives and chassis. 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 OEM Division accounted for 63.2% of our consolidated revenue and 50.2% of our Adjusted EBIT in 2018 and for 63.1% of our consolidated revenue and 41.5% of Adjusted EBIT in the three-month period ended March 31, 2019.

Customers

As of March 31, 2019, we supplied our products and system solutions to all major global automobile OEMs as well as approximately 1,200 automotive suppliers in the areas of passenger cars as well as light, medium and heavy-duty trucks.

Customers are serviced and supplied by our worldwide sales organizations and production sites in all regions.

Products

The Automotive OEM Division comprises four business divisions ("**BDs**"), with a distinctive product and service portfolio: (i) Engine Systems, (ii) Transmission Systems, (iii) E-Mobility and (iv) Chassis Systems. During 2018, our Automotive OEM Division generated approximately 31.1% of its revenues with bearings-related products, while 69.9% of its revenues were generated with non-bearings-related products.

Engine Systems

Our "**Engine Systems BD**" develops and provides components and systems for engines and focuses on precision components and systems for the drive unit of vehicles. The product portfolio includes products such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems and the thermal management module. 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 and extending maintenance intervals and service life. The Engine Systems BD accounted for approximately 30.9% of the Automotive OEM Division's revenues during 2018 (30.6% during the three-month period ended March 31, 2019).

Transmission Systems

Our "**Transmission Systems BD**" develops and provides innovative components and systems for transmissions. The product portfolio is evolving as automatic transmissions are becoming more and more important and are replacing the conventional manual transmissions. Applications for electrified drive concepts complement our range of transmissions for the future. The Transmission Systems BD also possesses extensive expertise in the field of torsional vibration dampers in the drive train. The Transmission Systems BD accounted for approximately 46.3% of the Automotive OEM Division's revenues during 2018 (45.3% during the three-month period ended March 31, 2019).

E-Mobility

Through our "**E-Mobility BD**", we provide solutions across the full range of electrification options from 48 volt hybrids and plug-in hybrids to all-electric vehicles. The product portfolio includes hybrid modules, electric axle drives, electromechanical actuators, the innovative Schaeffler MultiDrive hybrid transmission, and we are also working towards including electric motors and electric solutions for the entire drive train in our product portfolio. The E-Mobility BD accounted for approximately 5.4% of the Automotive OEM Division's revenues during 2018 (6.3% during the three-month period ended March 31, 2019).

Chassis Systems

Our "**Chassis System BD**" develops and provides components and systems for chassis. The broad product portfolio of our Chassis System BD covers bearing solutions for various chassis applications. In addition to our bearing solutions, we have particularly focused on complete mechatronic systems, for active chassis applications and, in the future, for steering systems. A mechatronic system unites the principles of mechanics, electronics and computing. Our chassis products are aimed at higher safety and comfort, while at the same time meeting our customers' expectations with regard to cost-efficiency, durability, design and fitting. Our product portfolio is supplemented by bearings for accessory units and special applications for commercial vehicles. The Chassis System BD accounted for approximately 17.3% of the Automotive OEM Division's revenues during 2018 (17.8% during the three-month period ended March 31, 2019).

Sales

In 2018, the Automotive OEM Division's top ten customers represented approximately 62.0% 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.

Automotive Aftermarket Division

Our Automotive Aftermarket Division operates under the brands INA, FAG, LuK and RepXpert and is responsible for our global spare vehicle parts business. Products and repair solutions are distributed globally under these four product brands. The product range covers applications in clutch and release systems, engine and transmission applications and chassis applications. In addition, our Automotive Aftermarket Division 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 for performing repairs.

Our Automotive Aftermarket Division accounted for approximately 13.1% of our consolidated revenue and 22.9% of Adjusted EBIT in 2018 and for 12.2% of our consolidated revenue and 23.5% of Adjusted EBIT in the three-month period ended March 31, 2019.

The Automotive Aftermarket Division is primarily managed based on regions due to its broad customer base and business structure. The Europe, Americas, Greater China and Asia/Pacific regions operate as profit centers responsible for the Automotive Aftermarket business in their respective markets.

The Europe region accounted for 74.9% of the Automotive Aftermarket Division's revenues during 2018 (72.8% during the three-month period ended March 31, 2019). The Americas region accounted for 18.3% of the Automotive Aftermarket Division's revenues during 2018 (20.0% during the three-month period ended March 31, 2019). The Greater China region accounted for 4.1% of the Automotive Aftermarket Division's revenues during 2018 (4.5% during the three-month period ended March 31, 2019). The Asia/Pacific region accounted for 2.7% of the Automotive Aftermarket Division's revenues during 2018 (2.5% during the three-month period ended March 31, 2019).

Following the significant growth of our Automotive Aftermarket Division's business in the Europe and America regions, we are also aiming to grow our Automotive Aftermarket Division's business in the high-volume markets in the Greater China and Asia/Pacific regions. Following the motto "as regional as possible," regional structures are being established or strengthened on the basis of a global infrastructure in order to get closer to the customer. Significant activities include establishing local sales teams, technological customer support, and dedicated development and logistics centers in the Greater China and Asia/Pacific regions. We aim to create and expand our product portfolio of intelligently packaged repair solutions, products and services that are tailored to the specific needs of each of these markets.

Customers

As of March 31, 2019, we supplied our aftermarket products and system solutions to approximately 2,200 automotive customers. Customers of the Automotive Aftermarket Division mainly include almost all major international and national trading companies (Tier 2 and Tier 3 suppliers) who supply our products to other distribution levels, including authorized repair shops. Automotive Aftermarket Division customers also include independent repair shops in the areas of passenger cars as well as light, medium and heavy-duty trucks.

Products

The comprehensive product range of our Automotive Aftermarket Division includes products and repair solutions in OEM quality for clutch and release systems as well as engine, transmission and chassis applications. All components are optimally tuned to work together and allow for fast and professional replacement. Product lifetimes vary significantly from product to product. In addition to the traditional component business consisting of replacement parts, the Automotive Aftermarket Division develops and distributes custom repair sets and kits to help make vehicle repairs simple, efficient and professional. The Automotive Aftermarket Division is largely supplied by the plants of the Automotive OEM division. Our products and repair solutions are distributed using the four product brands (i) LuK, (ii) INA, (iii) FAG and (iv) RepXpert. Under the LUK brand, we provide intelligent repair solutions for drive trains, including clutches, vibration damping or transmission components. Under the INA brand, we offer a broad spectrum of products for key engine systems, including for the valve train, timing drive, front end auxiliary drive and cooling systems. Under the FAG brand we offer chassis technology in the spare parts market for every aspect of the wheel drive, axle and wheel suspension, stabilizers, steering systems and engine and transmission mounts. Under the service brand RepXpert, we offer numerous services covering every aspect of our products and repair solutions to help repair shop staff to address increasingly complex vehicle applications and the large number of new vehicle models. These services include service hotlines, training seminars as well as installation guides or videos and tools tailor-made for professional repair. During 2018, our Automotive Aftermarket Division generated approximately 16.3% of its revenues with bearings-related products, while 83.7% of its revenues were generated with non-bearings-related products.

Sales

In 2018, the Automotive Aftermarket Division’s top ten customers represented approximately 31.6% of its revenues. The Automotive Aftermarket Division uses two distribution channels within each of the four regions: the original equipment service (“**OES**”), which accounted for approximately 16.6% of the Automotive Aftermarket Division’s revenues in 2018, and the open (independent) spare parts market or independent aftermarket (“**IAM**”), which accounted for the remaining 83.6% of the Automotive Aftermarket Division’s revenues in 2018. The OES distribution channel supplies original spare parts and services to automobile OEM or branded repair shops. The IAM distribution channel supplies spare parts to independent repair shops that are not affiliated with any particular automobile OEM. Within IAM, there are two types of business, a traditional components business consisting of replacement parts and the development and distribution of repair sets and custom-assembled kits to help make vehicle repairs simple, efficient and professional. The Automotive Aftermarket Division utilizes tools such as a global product and service platform and a returns portal. It is also continuing to develop its e-commerce activities and relies on the close integration of marketing, distribution and services. Also, in addition to its own services, the Automotive Aftermarket Division has co-founded important service initiatives with industry partners, a significant contribution to keeping repair shops and distributors well informed digitally.

Industrial Division

As of March 31, 2019, the Industrial Division offered approximately 59,000 components and system solutions for rotary and linear movements as well as services for a wide range of industrial sectors under the INA and FAG brands. The Industrial Division offers goods and services ranging from high-volume standard products to individual specialized solutions and from mechanical components through to mechatronic systems and digital services including a wide range of rolling and plain bearing, linear and direct drive technologies as well as services such as maintenance products and monitoring systems. The common denominator of these products and services is the technological expertise and the know-how covering the customer’s entire system. During 2018, our Industrial

Division generated approximately 86.3% of its revenues with bearings-related products, while 13.7% of its revenues were generated with non-bearings-related products.

The Industrial Division accounted for 23.8% of our consolidated revenue and 26.9% of our Adjusted EBIT in 2018 and 24.7% of our consolidated revenue and 34.9% of our Adjusted EBIT in the three-month period ended March 31, 2019.

Since January 1, 2016, the Industrial Division has been primarily managed based on regions due to its broad customer base 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 56.3% of the Industrial Division's revenues during 2018 (56.0% during the three-month period ended March 31, 2019). The Americas region accounted for 17.6% of the Industrial Division's revenues during 2018 (18.1% during the three-month period ended March 31, 2019). The Greater China region accounted for 17.0% of the Industrial Division's revenues during 2018 (17.3% during the three-month period ended March 31, 2019). The Asia/Pacific region accounted for 9.1% of the Industrial Division's revenues during 2018 (8.6% during the three-month period ended March 31, 2019).

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: industrial automation, power transmissions, wind, offroad, aerospace, raw materials, railway and two-wheelers. The alignment along sectors has proven invaluable for the Industrial Division's customers. The structure of the Industrial Division allows it to utilize targeted responses for its customers, many of whom have a regional focus and specific local needs, and it also fosters customer loyalty. The distribution business complements the Industrial Division's business.

The *Industrial Automation* sector provides solutions along with condition monitoring systems 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 *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 *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 *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 *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 along with condition monitoring systems.

The *Raw Materials* sector provides solutions along with condition monitoring systems 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 *Railway* sector provides solutions along with condition monitoring systems 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 *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 splitting customized product engineering between premium and affordable market segments.

Industrial Distribution

Our industrial distribution business 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.

Industry 4.0

We have established the strategic business field Industry 4.0, whose key task is to develop mechatronic products, digital services, sector-specific solution packages and new data based business models. The skills at the core of all Industry 4.0 solutions are our mechanical expertise and systems know-how that are used to develop models and interpret operating data in order to generate essential added value for the customer. Industry 4.0 provides our customers with individualized products and services and we offer several platform designs for comprehensively improving systems in the drive train, in machine tools, for predictive maintenance and for condition monitoring. We are able to compile data from our customers' sensors, electronics, actuators, bearings and other drive components. We then analyze this data both to increase the efficiency of our internal operations and to develop innovative services and products for our customers.

Numerous Industry 4.0 products and solution packages in various project stages are already in use by customers today. These include, for instance, cloud based monitoring of accessory units such as electric motors that report their condition to the cloud, a complete solution for monitoring and lubricating machines that are critical to the operations of a drinking water supply association, as well as an all-digital service for predicting the service life of rolling bearings in wind power transmissions. Also, we developed rolling bearings equipped with sensors called "**VarioSense**." VarioSense makes multiple sensor signals available at once for machine and process monitoring in a single compact unit and thus makes Industry 4.0 solutions possible. The sensors record various physical values in the machine, which can then be used for controlling drives, monitoring processes, or calculating remaining useful life. The next step will be using this experience to further expand the range of platform-based products we offer, allowing the Industrial Division to respond to customer needs quickly and flexibly. Along with condition monitoring systems that can detect initial damage early on and predictive maintenance systems designed to precisely predict a likely failure, we are also developing systems for the more efficient operation of machines via increased productivity or performance.

Our Industrial Division aims to generate 10% of its revenue from Industry 4.0 products by 2022.

Sales

In 2018, the Industrial Division's top ten customers represented approximately 16.7% 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. The common denominator of our products and services are the technological expertise and the know-how covering the customer's entire system.

As part of the realignment of our logistics systems, we opened our new European Distribution Center (the "**EDC**"), in Kitzingen, Germany in June 2008. The EDC is the distribution hub that will distribute the Industrial Division's products to the European market. This project is designed to make the Industrial Division's entire supply chain more cost efficient, quicker and more flexible. We plan to connect all of our European plants to the EDC and to supply all customers of the Industrial Division in Europe exclusively from the EDC.

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 activities include corporate R&D as well as the application-oriented development activities of each of the Automotive OEM Division, the Automotive Aftermarket Division and the Industrial Division.

Our R&D expenses amounted to €847 million in 2018 (without the impact of the adoption of IFRS 15 R&D expenses in 2018 would have been €905 million) and €846 million in 2017, or approximately 5.9% and 6.0% of our consolidated revenue in 2018 and 2017, respectively.

As of March 31, 2019, we employed approximately 8,000 R&D staff in 20 R&D centers and additional R&D locations in a total of 24 countries. Key R&D center locations outside Germany are in 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 at 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.

Corporate R&D

Our corporate R&D efforts, which are incremental to those of our Automotive OEM, Automotive Aftermarket and Industrial Divisions, are focused on contributing significantly to our technological leadership and optimally positioning our technology department for current and future challenges by developing long-term sustainable customer and market specific technical solutions and promoting interdisciplinary knowledge transfer. One focus of our corporate R&D activities is on covering the entire energy chain – from energy generation, mainly from renewable energy sources, through to the storage and consumption of energy. In light of this, in 2018, we entered into a development cooperation with CMBlu Projekt AG, one of the leading companies in the field of organic flow batteries, to develop organic redox flow batteries to marketability and manufacture them. This new technology is largely based on renewable resources and can be scaled to nearly any size. Hence, the technology has the potential to play an essential role in shaping the charging infrastructure in the field of E-Mobility as well as in establishing a sustainable energy infrastructure.

Another focus of our corporate R&D activities is on urban mobility concepts. In this context, we are developing our urban concept vehicle, the "**Schaeffler Mover**" that is a technological demonstrator for future autonomous vehicles. The drive and chassis components are installed in a compact assembly unit termed the "**Schaeffler Intelligent Corner Module**" in all four wheels and includes the SPACE DRIVE drive-by-wire steering technology. The Schaeffler Intelligent Corner Module enables a high degree of vehicle maneuverability while offering a high level of comfort for passengers. The Schaeffler Mover's technological platform has an adaptable design that allows the flexible implementation of different vehicle bodies ranging from a robo-taxi to an autonomous delivery vehicle. The Schaeffler Mover is our innovative answer to the challenge of meeting the mobility requirements of people in rapidly growing metropolitan areas. We are also developing solutions for micro-mobility with our micro-mobile, the "**Bio-Hybrid**", which sits somewhere between an e-bike and an electric car in terms of size and range, and can be used for people or cargo transport. The development of our Schaeffler Mover, Bio-Hybrid and E-Board are further evidence of our strong innovative ability in this area.

Part of our Corporate R&D efforts is also our collaboration with universities, which focus in particular on the development of future-oriented technologies, such as E-Mobility, automated driving and digitalization. We have formed collaborations with universities in the form of our initiative "Schaeffler Hub for Advanced Research" or "**SHARE**" under the unique "Company on Campus" concept help to ensure the consistent development of future-oriented technologies. For example, at the Karlsruhe Institute for Technology, Germany (SHARE at KIT), the collaboration concentrates on E-mobility with a special focus on automated driving. In the publicly subsidized "Omnisteer" and "SmartLoad" projects, research teams are working on new steering concepts for autonomous vehicles and on improving actuator resilience.

R&D relating to the Automotive OEM Division

Our R&D efforts in relation to the OEM business of the Automotive OEM 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, particularly E-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 grams per kilometer 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. The proportion of electric drives, particularly hybrids, is rising steadily and we expect that by 2030, 30% of all newly produced cars will be powered by an all electric drive train and a further 40% will be equipped with a hybrid drive. 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 E-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. In order to establish ourselves as an E-Mobility systems supplier in the long term, we are continuously expanding our product portfolio with a particular focus on electric motors. In addition to the acquisitions of Elmotec Statomat in 2019 and Compact Dynamics GmbH, a development specialist in the field of innovative electric drive concepts, in 2016, which brought us additional expertise in the development and manufacturing of electric drives, we have developed new products internally. For example, we developed an electric axel system that entered volume production in 2018 and a particularly compact and light-weight single-speed transmission concept with a parallel axis design. We also developed a system for hybrid modules that allows the recuperation of braking energy, electric driving at low speeds and assists in fuel-saving sailing, which means the vehicle rolls freely with the internal combustion engine switched off and decoupled from the drive train.

To further strengthen our automotive R&D expertise, we plan to increase our R&D headcount, primarily related to the E-Mobility BD, at our Automotive OEM Division's headquarters in Bühl, Germany.

R&D relating to the Automotive Aftermarket Division

R&D activities in the Automotive Aftermarket Division are focused on the specific requirements of customers in the service and replacement parts business. Our comprehensive understanding of our products and solutions enable the Automotive Aftermarket Division to offer solutions for entire systems. Our product specialists, consisting of engineers and master mechanics, create intelligent repair solutions to address our customers' needs. Our R&D activities in the Automotive Aftermarket Division have developed our repair sets and kits that include all the replacement parts required for a complete repair and that are designed to make vehicle repairs simple, efficient and professional.

R&D relating to the Industrial Division

We consider digitalization to be a key driver of development for the Industrial Division. With Industry 4.0, we have been focusing on the development and the implementation of intelligent networking between product development, logistics, customers and suppliers. We believe that this will allow for a largely autonomous production and optimized plant operation in the future.

In this context, in 2017, we introduced the platform "**Schaeffler Smart EcoSystem**", which combines and logically structures all of our activities relating to digitalization, including mechatronics development, sensor development, IT and software. The platform forms the basis for integrating smart components and systems, proven visualization and analysis tools and digital services. This project will offer our customers hardware, software and IT infrastructure that includes every stage of digital added value, from mechatronic components and sensors, through cloud services for data analysis and visualization, to solutions such as applications that allow real-time intervention on machines or systems on site and robots.

Digitalization will mean fewer on-site visits to the customer, advance planning of maintenance work and increased machine efficiency and availability for customers. For example, our digital service, the "**Condition Analyzer System**" helps improve plant monitoring. The Condition Analyzer System incorporates our many years of bearing and vibration analysis expertise directly into the underlying algorithms and can reliably prevent mechanical failures using pattern detection.

Under Industry 4.0, we have also established a "RoboLab" in Yokohama, Japan with the goal of creating a smart factory. The knowledge developed there will be fed into a pilot project with a customer in Asia to optimize its production. At the "RoboLab", collaborative robots known as "cobots" are used to provide support in assembly, mobile robot platforms are used for load transport

and wireless sensor networks are installed decentrally on machines and systems for big data applications.

Our Industrial Division also concentrates on advancing its portfolio of high-performance components. 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.

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 March 31, 2019, we held around 26,700 patents and patent applications. In 2018, we registered 2,417 new patents, placing us second among Germany's most innovative companies according to the German Patent and Trademark Office (*Deutsches Patent- und Markenamt, DPMA*).

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 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.*"

Digitalization

The digitalization megatrend presents new challenges, but also offers enormous opportunities. Digitalization is changing existing processes in R&D, purchasing, manufacturing, logistics, distribution as well as in our human resources and finance functions.

To address these challenges and opportunities and with the goal of transforming our Group into a digitalized company, we have been implementing the "Digital Agenda" as one of the 20 initiatives of our "Agenda 4 plus One." The "Digital Agenda" is centrally managed by our "**Coordination Office Digitalization.**" This department actively tackles and helps to shape concepts of the future such as Industry 4.0, internet of things, big data analytics, cloud analytics and new business models. The "Digital Agenda" comprises the four building blocks of products and services, machines and processes, analyses and simulations and user experience and customer value.

The "Digital Agenda" focuses on improving internal production processes as well as providing innovative solutions to our customers. The goal for our internal production processes is to become more efficiently structured, to use existing data more extensively and to interlink production sites and machines. Customer solutions will include the extension of existing business models as well as the exploitation of new business models. For example, as part of the "Digital Agenda" we are working on the digitalization of our supply chain management. Digitalization creates transparency gains that include the ability to track products, to create and send warning messages regarding imminent delays in the supply chain and to provide data-driven support for decision-makers. We are also adding sensors, actuators and controllers, including the relevant software, to our components. They will facilitate collecting and processing data on machine or plant condition and behavior in the

future. The data collected will be used to data analytics and machine learning to generate performance improvements across our Group.

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. In 2018, we successfully completed the rollout and implementation of the requirements of the new certification standards IATF 16949:2016 (automotive sector), the ISO/TS 22163 (particular requirements for application of ISO 9001:2015 in the rail sector) and the SAE AS 9100D:2016-09-20 (aviation, space and defense). These certifications played a role in us receiving 65 quality awards in 2018, such as the "General Motors Supplier Quality Excellence Award" and the Honda Motor Co. Ltd.'s "Best in Quality Award."

Our benchmark is consistently ensuring top quality and product safety across all applications. The approach is derived from the "Agenda 4 plus One" initiative "Quality for Tomorrow." We aim for products and processes that are free of defects and errors. In order to achieve this we have set three priorities: (1) continuous improvement of our core business, (2) constant improvement of our management system and of the processes and (3) the preventative quality assurance measures in product development. We expect the "Quality for Tomorrow" initiative to be completed and the insight gained from its pilot projects to be rolled out by the end of 2020.

We have continued to develop and reinforce the interaction of error prevention and error detection activities. We also have our longstanding program, "Fit for Quality," that implemented a systematic approach to achieving the highest quality with the objective of "zero defects." "Zero defects" stands for process stabilization and continuous improvement and facilitates the early detection and elimination of weaknesses. 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. Now that "Fit for Quality" is well established, the focus is on developing it from being a quality improvement program to representing a comprehensive quality culture. The guiding principles of the program, known as "Fit for Quality Axioms", follow the standards of quality-oriented leadership, systematic planning and training, the consistent use of methodologies and procedures, error detection, review of processes and measures, as well as the transfer of good solutions to other areas. The Axioms are communicated under the "FIT for Quality Academy" training scheme which is available to plants in all regions.

Our comprehensive quality management system is based on a central management handbook containing regulations and prescribed processes applicable group-wide and comprehensive quality training schemes that have been implemented worldwide. Compliance with and monitoring of these requirements are subject to regular audits and reviews, which are designed to 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.

In addition, we strengthened our quality management organization in 2018 by expanding the Global Key Account Management organization was expanded to include the function of quality officer ("**GKAM-Q**") in the Automotive OEM Division. As a result, every major customer has a designated contact person for quality issues dealing with the customer's concerns in accordance with the "one face to the customer" principle. Furthermore, we are defining overarching standards for quality at the interface with the customer and have established a new GKAM-Q steering committee that meets on a regular basis to guide these activities. Similarly, the Industrial Division has begun to establish or expand specific structures and processes related to quality in relation to its key customers.

Additionally, in accordance with the strategic direction, we are establishing and integrating an Industry 4.0 quality organization as part of the 4.0 business field.

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.

We are taking a comprehensive approach to digitalizing our production technologies to increase their efficiency. We are refining our production processes to be sensor driven, interconnected and data based, to utilize artificial intelligence, as applicable, and to reduce and simplify manual interfaces by providing individual and tailored information to our employees for a special production step. An example of digitalization in manufacturing is additive manufacturing. The manufacturing technique colloquially referred to as 3D printing refers to numerous technologies that directly involve manufacturing components starting from a digital 3D product model, without the need for drawings, manufacturing programs or tools. As a result, additive manufacturing provides the basis required to successfully implement a fully digital process chain from the product model through to the finished component. We have already created the basis for successfully implementing additive manufacturing in our manufacturing system and are working to become a reliable and flexible supplier of additive manufactured products.

Property, Plant and Equipment

As of March 31, 2019, we operated 73 manufacturing plants in 22 countries worldwide, the vast majority of which are owned by us. Following the disbanding of our Bearing & Components Technologies ("**BCT**") unit, which previously acted as an internal supplier, its functions were integrated into the Automotive OEM Division and the Industrial Division in 2018 and our plants were assigned to the Automotive OEM and Industrial Divisions; 53 plants are producing for the Automotive OEM Division and 20 plants are producing for the Industrial Division. Large plants that were producing for both divisions were divided up and aggregated in "campus locations." A key feature of these campus locations will be the existence of several plants at one location with shared use of support functions such as human resources, logistics, or location planning functions. The Automotive Aftermarket Division is largely supplied by the Automotive OEM Division's manufacturing locations.

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)
Automotive OEM Division	
Herzogenaurach, Germany	381.4
Sorocaba, Brazil	130.5
Kysucké Nove Mesto, Slovakia	140.1
Taicang, China	151.6
Bühl, Germany	89.8
Skalica, Slovakia	129.9
Homburg, Germany (2 plants)	84.5
Industrial Division	
Schweinfurt, Germany	316.3
Braşov, Romania	152.4
Kitzingen, Germany (EDC)	148.0
Homburg, Germany (1 plant)	16.4

Purchasing of Raw Materials and Energy Resources

Steel is the principal raw material used in many of our products. We also use iron and aluminum casting and non-ferrous metals. 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 5.2% and approximately 32.0%, respectively, of total purchases in the three-month period ended March 31, 2019.

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 rings produced thereof 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 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.*"

Since 2009, we have cooperated with Continental AG with respect to purchasing. We believe that both companies strengthen their market and negotiation position 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. See "*Certain Relationships and Related Party Transactions—Transactions of the Schaeffler Group—Joint Procurement Cooperation Agreement.*"

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 2018, we generated 51.4% of our consolidated revenue in Europe, 20.2% in the Americas, 18.0% in Greater China and 10.5% in Asia/Pacific. In the three-month period ended March 31, 2019, we generated 51.0% of our consolidated revenue in Europe, 22.5% in the Americas, 16.2% in Greater China and 10.3% in Asia/Pacific. Following our integrated "as regional as possible" approach, we have built a global manufacturing footprint with each of our plants having a strong regional foothold. As of March 31, 2019, we operated 46 plants in Europe, 14 in the Americas, eight in Greater China and five in Asia/Pacific.

Employees

The following table shows the headcount as of December 31, 2016, 2017 and 2018 and as of March 31, 2019, in our functional areas:

Number of Employees	As of December 31,			As of March 31,
	2016	2017	2018	2019
	(unaudited)			
Production	68,713	71,684	73,537	72,817
Research and Development	7,304	7,790	7,991	7,898
Selling	6,494	6,417	6,599	6,641
General Administration	4,151	4,260	4,351	4,481
Total	**86,662**	**90,151**	**92,478**	**91,837**

Our headcount rose by 2.6% to 92,478 during 2018 and decreased by 0.7% to 91,837 during the three-month period ended March 31, 2019.

The following table shows the headcount as of December 31, 2016, 2017 and 2018 and as of March 31, 2019 for each of the regions in which we operate:

Region	As of December 31,			As of March 31,
	2016	2017	2018	2019
	(unaudited)			
Europe	60,127	61,554	63,165	63,013
Americas	12,480	13,056	13,138	13,000
Greater China	11,255	12,537	12,976	12,661
Asia/Pacific	2,800	3,004	3,199	3,163
Total	**86,662**	**90,151**	**92,478**	**91,837**

The number of employees of the Schaeffler Group as of the date of this Listing Memorandum does not differ significantly from the number of employees as of March 31, 2019.

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, some central works councils *(Gesamtbetriebsräte)* at the level of a Schaeffler Group company, for example, there is a central works council for Schaeffler Technologies AG & Co. KG, 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 central works council which could apply to future personnel measures for operational reasons at certain German entities of the Schaeffler Group in Germany. The applicability of the framework social plan at other German entities of the Schaeffler Group, depends on negotiations with the competent local works council for the individual German entity of the Schaeffler Group concerned. 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.

On April 16, 2018, the Board of Managing Directors, the Schaeffler Group works council, Schaeffler Technologies AG & Co. KG central works council and the IG Metall trade union signed a future accord (the "**Future Accord**") with the intention of managing and driving the on-going development and transformation of the Schaeffler Group and its response to key future trends, with particular regard to E-Mobility, Industry 4.0 and digitalization, jointly and collaboratively, in the best interests of the Company and the employees. Under the Future Accord, a joint steering committee was established and consists of equal numbers of representatives from the parties to the Future Accord and functions as a coordinating and information sharing body with a view towards reaching agreement on relevant key issues. A core objective of the Future Accord is employee up-skilling and on-going training and professional development as well as strengthening the commercial viability of our European locations. In principle, the Future Accord prohibits layoffs.

When facing organizational changes, the steering committee may only consider layoffs after it determines that all measures to avoid layoffs have been exhausted. The Future Accord also provides that, in accordance with the "One Schaeffler" program philosophy to work with IG Metall to ensure that all employees that are not currently covered by the collective bargaining agreement with IG Metall enjoy working conditions comparable to those who are covered. Under the Future Accord, we have agreed to make a €50 million investment fund available over a 5 year period. The purpose of the fund is to foster innovation and actively harness the innovative capacity of our employees, achieve sustainable value creation, strengthen our locations in Germany and safeguard jobs over the long term.

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 December 31, 2018, our total pension obligations (defined benefit obligation) amounted to €2,864 million. As of December 31, 2018, our net pension obligations for defined benefit pension plans (defined benefit obligation less pension plan assets, funded status) amounted to €2,127 million.

Our defined benefit pension plans in Germany are not externally funded due to the applicable insolvency law protection system under German law (section 7 et seq. of the German Company Pensions Act (*Betriebsrentengesetz*). 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.*"

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 management system 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. Also see "*Risk Factors—Legal, Regulatory and Tax Risks—Our compliance management system 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 EU and United States, have been investigating several manufacturers of bearings and other products, particularly for the automotive and other industrial sectors, including us, with respect to possible agreements and concerted practices violating antitrust laws. We have been cooperating with antitrust authorities in the context of these investigations, and a number of these investigations and subsequent proceedings have resulted in fines imposed against us in the past. We are currently still subject to ongoing antitrust investigations or proceedings in some jurisdictions:

Certain of our subsidiaries have received questionnaires from the Competition Commission of India (the "**CCI**") in 2015 and 2016 regarding the bearings market. Our subsidiaries have responded to these questionnaires and to subsequent inquiries. We are not aware of the specific allegations made by the CCI against our subsidiaries. An internal investigation initiated by us has not resulted in findings of violations of Indian antitrust laws related to the questions received from the CCI. We expect the CCI to decide on the outcome of these investigations as early as 2019. Should any fines be imposed against our subsidiaries, we intend to defend against them.

The Brazilian antitrust authority, CADE, has initiated a preliminary investigation against our Brazilian subsidiary, Schaeffler Brasil Ltda., regarding an alleged exchange of information in violation of Brazilian antitrust laws. We intend to defend ourselves in any proceedings resulting from that preliminary investigation.

In 2011, the U.S. Department of Justice served a grand jury subpoena on Schaeffler Group USA Inc. In 2012, Schaeffler Group USA Inc. submitted documents and information to the U.S. Department of Justice. As Schaeffler Group USA Inc. has not received a response since, we believe that it is unlikely that proceedings will be reactivated against our subsidiary.

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 where applicable. In addition, we have been, are and may in the future be exposed to substantial follow-on civil damage claims from both direct and indirect purchasers of affected products. As a result of the decision by the European Commission in the bearings cartel in 2014, several customers have approached us to pursue damage claims or have brought claims against us. Most of these claims have been settled in the meantime, although some proceedings are still pending.

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. We have since settled all of the class action lawsuits filed in the United States, although individual plaintiffs have opted out of these settlements and some of them have filed claims for damages against certain of our subsidiaries or threatened to file such claims. In addition, in March 2017, an insurance company filed a claim against Schaeffler Group USA Inc. and other automotive suppliers, alleging inflated prices of replacement parts and seeking unspecified damages. We intend to defend ourselves against this claim.

The class action lawsuits filed in Canada are still pending and have not been certified so far. We intend to defend ourselves against these claims.

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.

See also "*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.

On November 29, 2018, the OEM Opel issued a notification through the EU's rapid alert system "RAPEX" (the "**Opel Alert**"). The alert alleged that in its Astra K model (model years 2016-2018), particles coming from the clutch slave cylinder sealing might contaminate the brake master cylinder, which may cause a reduction in braking power. We delivered the clutch slave cylinder, including the sealing, to Opel. To our knowledge, as of the date of this Listing Memorandum, a root cause investigation is not yet completed. However, it is possible that Opel may seek to hold us liable for this issue. As of the date of this Listing Memorandum, Opel has not submitted a claim to us related to the Opel Alert. With the exception of the Opel Alert, 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, with the exception of the matter described above, 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 EU member states 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. We maintain site-specific registers listing all applicable regulations with respect to environmental and regulatory requirements at every production site worldwide which is regularly reviewed and updated by internal and external advisors.

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 2016/2284/EU of the European Parliament ("**EU Parliament**") and of the Council of December 14, 2016) 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 EU 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 European Commission (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 EU Commission in 2001, was published in July 2017 in a revised version. An EU 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 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, BImSchG*), 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 EU Parliament and of the Council of April 21, 2004 and Directive 2008/112/EC of the EU 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.

Waste from Production Processes

As of December 12, 2010, Directive 2008/98/EC of the EU Parliament and of the Council of November 19, 2008, as last amended by Directive (EU) 2018/851 of the EU Parliament and of the Council of May 30, 2018 (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. The EU Commission presented a new circular economy strategy on December 2, 2015 (the "**Circular Economy Action Plan**"), in particular, covering waste. This strategy plan sets out a concrete EU mandate to support the transition towards a circular economy. Implementing the Circular Economy Action Plan, in January 2018 the EU Commission adopted measures including (i) EU Strategy for Plastics, (ii) a communication on options to address the interface between chemical, product and waste legislation, (iii) a Monitoring Framework on progress towards a circular economy at EU and national level and (iv) a Report on Critical Raw Materials and the circular economy.

On July 4, 2018, the revised legislative framework on waste entered into force amending, *inter alia*, the Waste Framework Directive. It sets clear targets for reduction of waste and establishes a long-term path for waste management and recycling. I*nter alia*, minimum requirements were established for extended producer responsibility schemes to ensure that producers of products bear financial responsibility for the management of the waste stage of a product's life cycle.

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 at five manufacturing sites in Germany and at additional manufacturing sites such as in France, Brazil and the United States. We estimate the total costs for such measures in Germany at approximately €1.0 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 EU 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 EU Commission via a so-called obsolete proposal on May 21, 2014. A new proposal has not been submitted yet. On February 13, 2012, the EU 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 Program to 2020 of November 20, 2013 (Decision No. 1386/2013/EU of the EU Parliament and of the Council), which entered into force in January 2014, the EU institutions and the EU 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 EU Parliament and of the Council of October 23, 2000, as last amended by EU 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 EU Parliament and of 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 EU Parliament and of the Council of December 12, 2006, as last amended by the EU 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 EU Parliament and of 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 took longer than supposed. On January 14, 2017, almost two years after the implementation deadline, the German law transposing the Seveso-III Directive entered into force. In particular, this included amendments of the German Federal Emission Control Act (*Bundes-Immissionsschutzgesetz, BImSchG*) and the German Environmental Impact Assessment Act (*Gesetz über die Umweltverträglichkeitsprüfung, UVPG*). I*nter alia*, new permit, notification and information requirements have been introduced.

Directive 2004/35/EC of the EU 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 EU 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.

In May 2018, the EU Commission published a legislative proposal for a regulation on the alignment of reporting policy (COM(2018) 381 final) and thereby amending, *inter alia*, the ELD. An evaluation of the ELD published in June 2017 had found that the availability of information can be further improved. Thus, with respect to ELD, the focus should be on ensuring the electronic or online availability of information and on ensuring that the information meets relevant EU standards and is easy to use, of sufficient quality and comparable. Final adoption of the regulation is still outstanding.

Chemicals and Hazardous Substances

REACH

"**REACH**" is the Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (Regulation (EC) No 1907/2006 of the EU Parliament and of the Council of December 18, 2006, as last amended by EU Commission Regulation (EU) No 2018/2005 of December 17, 2018). 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 EU Parliament and of the Council of September 24, 2008 on the inland transport of dangerous goods, as last amended by EU Commission Directive (EU) 2018/1846 of November 23, 2018, 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.

Directive 2007/46/EC of the EU Parliament and of the Council of September 5, 2007 (last amended by EU Commission Regulation (EU) 2019/318 of February 19, 2019) 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 53 parties and 147 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 June 21, 2016 to June 24, 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, electronic stability control, tire pressure monitoring systems and tire installation, the WP.29 adopted four new UNECE regulations.

The most recent draft UN Regulation relates to Advanced Emergency Braking Systems ("**AEBS**") for cars which is planned to be submitted to the WP.29 for consideration and formal adoption at its June 2019 session. The regulation will lay down the technical requirements for the approval of "vehicle-to-vehicle" and "vehicle-to-pedestrian" AEBS fitted on cars. Such systems employ sensors to monitor the proximity of the vehicle or pedestrian in front and detect situations where the relative speed and distance between the two vehicles or between the vehicle and pedestrian suggest that a collision is imminent.

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 EU 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 EU Parliament and of the Council of July 13, 2009 (last amended by EU 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 EU Parliament and of the Council of April 29, 2015.

The provisions of Regulation (EU) No 168/2013 of the EU 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.

Moreover, in 2017, the EU Commission adopted further Regulations (EU) 2017/1151, (EU) 2017/1154 and (EU) 2017/1347 of July 13, 2017 to amend Directive 2007/46/EC, concerning type-approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information. The Regulations ensure that, from September 1, 2017, new car models pass new and more reliable emissions tests under real driving conditions. The EU Commission Regulation (EU) 2017/2400 of December 12, 2017 amends Directive 2007/46/EC by defining the determination of the CO2 emissions and fuel consumption of heavy-duty vehicles.

However, from September 1, 2020 a new system of EU regulation on automotive type-approval will be applicable. On May 30, 2018, the Council adopted a regulation to reform the type-approval and market surveillance system for motor vehicles in the EU. The Regulation (EU) 2018/858 on the approval and market surveillance of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles, amending Regulations (EC) No 715/2007 and (EC) No 595/2009 and repealing Directive 2007/46/EC has been published and will be applicable from September 1, 2020. Its aim is to achieve a high level of safety and environmental performance of vehicles and to address the main shortcomings identified in the existing type-approval system. The harmonized implementation of the new rules across the EU is supposed to help reducing differences in interpretation and application by national type-approval authorities and technical services. In addition, the new system should help enabling the detection of non-compliance cases at an early stage. The Regulation replaces the current legal framework set out in Directive 2007/46/EC. However, most elements of Directive 2007/46/EC are carried over in the new Regulation. In particular, changes will affect three areas: (i) the quality of testing that allows a car to be placed on the market through improved technical services; (ii) market surveillance to control the conformity of cars already available on the market, with the possibility for EU member states and the EU Commission to carry out spot-checks on vehicles in order to detect failures at an early stage; and (iii) the establishment of a forum for the exchange of information on enforcement, made up of representatives of national approval and market surveillance authorities.

In view of Brexit, on June 4, 2018 the EU Commission presented a proposal for a Regulation on type-approval legislation in the context of the United Kingdom's withdrawal from the EU. The regulation (EU) 2019/26 of the EU Parliament and of the Council of January 8, 2019 complementing Union type-approval legislation with regard to the withdrawal of the United Kingdom from the Union entered into force on the third day following its publication in the Official Journal of the EU on January 8, 2019. The regulation enables manufacturers of motor vehicles, systems, components and separate technical units holding a UK type-approval to obtain a Union type-approval (*i.e.,* a type-approval granted by an approval authority of one of the EU27), provided that the application for the Union type-approval is made before the UK's withdrawal from the EU. The draft regulation sets out the conditions for obtaining a Union type-approval and its effects on the placing on the market, registration or entry into service of such vehicles, systems, components and separate technical units. It also states that the authority issuing the Union type-approval will assume responsibility for in-service conformity, repair and maintenance information and potential recalls also for vehicles,

systems, components and separate technical units put on the market on the basis of the UK type-approval.

As part of "CARS 2020," an action plan of the EU Commission for a competitive and sustainable automotive industry in Europe of November 8, 2012 (COM (2012) 636 final) (the "**CARS 2020 Action Plan**") 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 38 parties and 20 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", UN GTR No. 8 "Electronic stability control systems" and GTR No. 20 "Electric Vehicle Safety (EVS)."

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 in accordance with the regulatory requirements applicable to the products 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 EU Parliament and of the Council of April 16, 2014 (last amended by EU Commission Delegated Regulation (EU) 2017/1576 of June 26, 2017) ("**Regulation (EU) No 540/2014**") 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. The recent amendments implemented by Regulation (EU) 2017/1576 were intended to

improve the accuracy of acoustic vehicle alerting system ("**AVAS**") requirements on type and volume of emitted sound, sound generation method, pause switch and stationary sound.

Furthermore, under Regulation (EU) No 540/2014 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 EU Commission shall carry out and publish a detailed study on sound level limits by July 1, 2021. In addition, manufacturers shall install AVAS in new hybrid electric and pure electric vehicles by July 1, 2021.

Pollutant Emissions

With regard to carbon dioxide emissions of new passenger cars, Regulation (EC) No 443/2009 of the EU Parliament and of the Council of April 23, 2009 (last amended by EU Commission Delegated Regulation (EU) 2018/649 of January 23, 2018) ("**Regulation 443/2009**") limits the average carbon dioxide emissions of the new car fleet in the EU from 2012, at 130 grams of carbon dioxide per kilometer by means of improvement in vehicle engine technology. From 2020 onwards, Regulation 443/2009 sets a target of 95 grams of carbon dioxide per kilometer 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 EU Parliament and of the Council of May 11, 2011, as last amended by EU Commission Delegated Regulation (EU) 2017/1499 of June 2, 2017, limits the average emissions of the fleet of new vehicles in the EU at 175 grams of carbon dioxide per kilometer. From 2020 onwards, a target of 147 grams of carbon dioxide per kilometer 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.

On December 17, 2018, representatives of the EU Commission, the EU Parliament and the Council agreed on a compromise according to the carbon dioxide emissions limits for the period beyond 2020. Based on this compromise, the limit for new passenger cars will be 81 grams of carbon dioxide per kilometer by 2025 and 59 grams of carbon dioxide per kilometer by 2030. For light commercial vehicles the limit will be 125 grams of carbon dioxide per kilometer by 2025 and 101 grams of carbon dioxide per kilometer by 2030. In order to implement the new limits, Regulation 443/2009 and Regulation (EU) No 510/211 will be repealed with effect from January 1, 2020 by Regulation (EU) 2019/631 of the EU Parliament and of the Council of April 17, 2019.

During the past decades, the EU Commission has led EU efforts to progressively reduce emissions of air pollutants from passenger vehicles. This included the further development of emissions testing. Until September 2017, a laboratory test was used to measure emissions during the approval process that takes place before the passenger vehicle could be placed on the market. Considering that air pollutants emissions measured in real world conditions, or on the road, substantially exceeded emissions measured in laboratory testing, the EU Commission strengthened the emissions testing regime, *inter alia*, by introducing the testing in real driving procedure in 2016, the Real Driving Emissions Procedure (the "**RDE**"). The RDE measures particular emissions as well as nitrogen oxide and other air pollutants from vehicles on the road.

By Commission Regulation (EU) 2017/1151 of June 1, 2017, a new regulatory test procedure implementing the "Worldwide Harmonized Light Vehicles Test Procedure" (the "**WLTP**") was introduced into EU legislation. The WLTP is a globally harmonized test procedure for measuring carbon dioxide emissions and fuel consumption from cars and vans. It is carried out on the test bench and replaced the former New European Driving Cycle (NEDC) which no longer adequately reflected current driving conditions and vehicle technologies. Since September 1, 2017, new car models have to pass both the RDE and the WLTP before they can be driven on European roads. On September 1, 2018, both tests became mandatory for all new cars and all light duty vehicles sold after this date must be certified in accordance with WLTP. Shortly after the introduction of the WLTP, the EU Commission Regulation (EU) 2017/1151 was amended by EU Commission Regulation (EU) 2018/1832 of November 5, 2018 ("**WLTP 2nd Act**") for the purpose of improving the emission type approval tests and procedures for light passenger and commercial vehicles. Since January 1, 2019, new measurements have to be carried out in accordance with the provisions of this regulation. With the WLTP 2nd Act, the EU Commission adopted all changes to the global WLTP framework that have been decided upon at the United Nations level by way of the Global Technical Regulation No. 15 Amendment 4 and, moreover, added several provisions valid only in Europe. All vehicles newly approved in the EU must fulfill the requirements of the new procedure by September 2019.

With respect to carbon dioxide emissions from heavy-duty vehicles and trucks, currently there are no limits. On February 19, 2019, for the first time the EU negotiators have agreed to reduce carbon dioxide emissions from trucks and buses by 15% by 2025 and 30% by 2030. However, this agreement still requires the final formal approval. The 2030 target is also subject to a review in 2022.

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 EU Parliament and of the Council of June 20, 2007, as last amended by Regulation (EU) 2018/858 of the EU Parliament and of the Council of May 30, 2018) and (ii) trucks and buses (Regulation (EC) No 595/2009 of the EU Parliament and of the Council of June 18, 2009 (last amended as well by Regulation (EU) 2018/858 of the EU Parliament and of the Council of May 30, 2018)). Under these regulations, both categories of vehicles must comply with specific emissions thresholds. Furthermore, Regulation (EU) No 168/2013 of the EU Parliament and of the Council of January 15, 2013 (last amended by Regulation (EU) 2019/129 of the EU Parliament and of the Council of January 16, 2019) 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.

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 EU 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 EU Parliament and of the Council of September 9, 2015, requires the EU 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 EU member state. These legal requirements necessitate the use of modern components. The last amendment involved the limitation of the contribution of biofuels and bio liquids produced from food and the increase of the minimum greenhouse gas saving threshold for biofuels and bio liquids produced in new installations.

In the interests of clarity and due to further amendments that were to be made to Directive 2009/28/EC, the EU Parliament and the Council decided to recast the directive. It will be repealed with effect from July 1, 2021 by the Directive (EU) 2018/2001 of the EU Parliament and of the Council

of December 11, 2018 on the promotion of the use of energy from renewable sources, which entered into force on December 22, 2018.

As part of the CARS 2020 Action Plan, the EU 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. 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 in accordance with the regulatory requirements applicable to the products of our customers.

Directive 2000/53/EC of the EU Parliament and of the Council of September 18, 2000, last amended by Directive 2018/849/EU of the EU Parliament and of the Council of May 30, 2018 ("**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.

The EU Commission has a legal obligation to review Directive 2000/53/EC by December 31, 2020 which may result in a legislative proposal. Currently, the EU Commission is carrying out an evaluation of the directive to identify good and bad practices in its implementation and assess whether it has met its objectives. The EU Commission's adoption is planned for the end of 2019.

Product Safety and Liability

Product Safety

We have to comply with requirements for product safety as well as specific applicable provisions (*e.g.*, standards for automotive products).

Directive 2001/95/EC of the EU Parliament and of the Council of December 3, 2001 (last amended by Regulation (EC) No 765/2008 of the EU Parliament and of the Council of July 9, 2008) 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. Appointed national authorities are responsible for market surveillance. They check whether products available on the market are safe, ensure product safety legislation and rules are applied by manufacturers and business chains and apply sanctions when necessary. Moreover, national authorities notify the EU Commission by using RAPEX, an information system for the rapid exchange of information between the EU member states and the EU Commission on measures and action taken in relation to products posing a serious risk to the health and safety of consumers.

A draft regulation on consumer product safety (the "**CPSR Proposal**") intended to replace Directive 2001/95/EC and imposing more obligations on manufacturers (*e.g.*, as regards documentation) was in the legislative process (see proposal of the EU Commission COM (2013) 78 final of February 13, 2013). Furthermore, a draft regulation on market surveillance of products amending Directive 2001/95/EC and closing gaps in market surveillance (Product Safety and Market Surveillance Package) was adopted (see proposal of the EU Commission COM (2013) 75 final of February 13, 2013). The proposed regulation was conceived to revise and streamline the rules on market surveillance of the General Product Safety Directive 2001/95/EC, Regulation (EC) 765/2008 and many sector-specific pieces of Union harmonization legislation into a single legal instrument that would apply horizontally across all sectors. The EU Parliament approved the two proposals with amendments on first reading on April 15, 2014. The EU Commission partially agreed to the amendments on first reading in the EU Parliament on July 9, 2014. However, the legislative process was stalled due to a disagreement between EU 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 an EU member state, manufacturers and importers may refer to the EU or to a particular EU member state. After EU member states have repeatedly failed to reach a common approach in the Council, the EU Commission concluded that any progress would be "highly unlikely." Nevertheless, the EU Commission has decided not to withdraw the proposal COM (2013) 75, considering that it could be brought into line with new legislative developments, should the political deadlock end.

However, in a resolution of February 15, 2017, the EU Parliament called on the EU Commission to strengthen the market surveillance mechanism and reiterate its call to the Council to immediately adopt the 2013 package. As a result, on December 19, 2017 the EU Commission proposed for a regulation to strengthen market surveillance rules for non-food products harmonized by EU legislation. This proposal is consistent with the proposal COM (2013) 75. The proposed regulation would replace provisions on market surveillance and external control in Regulation (EC) 765/2008 and delete or amend market surveillance provisions from more than 20 directives and regulations harmonizing non-food products. It would apply from 2020. In the ongoing legislative process, on November 23, 2018 the proposal was agreed on in the Council, thus making it possible to launch negotiations between the Council and the EU Parliament.

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 EU 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.

Producers can be cleared of liability under certain conditions, notably, if they prove that they did not put the product into circulation, the defect was due to the compliance of the product with mandatory regulations issued by public authorities or the state of scientific or technical knowledge at the time the product was put into circulation could not detect the defect.

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. It sets out a time limit of 3 years for the recovery of damages and forbids clauses limiting or excluding the liability of the producer. The Product Liability Directive does not restrict compensation for non-material damage under national legislation.

In mid-2019, the EU Commission intends to produce guidance to address the way in which the Product Liability Directive applies to artificial intelligence, robotics and the Internet of Things. Moreover, the EU Commission might update certain aspects of the Directive, such as the concepts of "defect", "damage", "product" and "producer."

Energy Efficiency

Directive 2012/27/EU of the EU Parliament and of the Council of October 25, 2012 (last amended by Decision (EU) 2019/504 of the EU Parliament and of the Council of March 19, 2019) ("**EED Directive**"), requires all enterprises except for small or medium-sized enterprises to carry out energy audits.

The revised EED Directive establishes a binding EU target of at least 32.5% efficiency improvements for 2030. With the exception of certain provisions, the revised EED Directive is to be transposed into national legislation by June 25, 2020. The EU Commission is required to evaluate the functioning of the revised EED Directive by 2023, and could accompany this review with a legislative proposal that raises the headline target.

The German legislation implemented the EED 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. Currently, the German legislation is about to be amended accordingly. On January 31, 2019, a relevant draft proposal to implement the revised EED Directive into German law was published by the Federal Ministry of Economic Affairs and Energy.

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 was initially regulated by Regulation (EC) No 216/2008 of the EU Parliament and of the Council of February 20, 2008, as last amended by EU Commission Regulation (EU) No 4/2016 of January 5, 2016, as a basic regulation. As of September 11, 2018, this regulation was repealed by Regulation (EU) 2018/1139 of the EU Parliament and of the Council of July 4, 2018 on common rules in the field of civil aviation and establishing a European Union Aviation Safety Agency (EASA). The principal objective of this

regulation is to establish and maintain a high uniform level of civil aviation safety across Europe. *Inter alia*, the new regulation includes essential requirements for the design, production, maintenance and operation of unmanned aircraft and, thus, aims to ensure the safe use of unmanned aerial systems. Accordingly, unmanned aircraft systems need to be designed and used in a way that they do not put people at risk.

Moreover, detailed requirements for the design and production of aeronautical products are provided by EU Commission Regulation (EU) No 748/2012 of August 3, 2012, as last amended by EU 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 EU Commission Regulation (EU) No 1321/2014 of November 26, 2014, as last amended by EU Commission Regulation (EU) 2018/1142 of the EU Commission of August 14, 2018.

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 EASA 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 EU 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.

EU Commission Regulation (EU) No 2018/1142 does amend Regulation (EU) No 1321/2014 by introducing additional categories of Aircraft Maintenance Licenses, modifying the acceptance procedure of components from external suppliers and by modifying the maintenance training organizations' privileges. It is, too, to ensure a high and uniform level of aviation safety at Union level and to reduce potential safety risks that may arise from a shortage of qualified personnel. It entered into force on September 5, 2018 and has been applicable since March 5, 2019.

Moreover, it is planned to amend EU Commission Regulations (EU) No 748/2012 and (EU) No 1321/2014. According to Regulation (EU) 2018/1139, EASA shall issue opinions concerning proposals for amendments of those regulations in order to adapt them to Regulation (EU) 2018/1139 in particular as regards aircraft intended primarily for sports and recreational use by September 11, 2020 at the latest.

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 EU Parliament and of the Council of June 17, 2008, as last amended by EU 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 EU Parliament and of the Council of December 11, 2013, as last amended by EU 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.

With effect from June 16, 2020, Directive 2008/57/EC is repealed by Directive (EU) 2016/797 of the EU Parliament and of the Council of May 11, 2016 on the interoperability of the rail system within the EU. Moreover, Directive 2004/49/EC is repealed by Directive (EU) 2016/798 of the EU Parliament and of the Council of May 11, 2016 on railway safety with effect from June 16, 2020. Both Directives have been adopted in the course of the "Fourth Railway Package", its purpose being to eliminate the national administrative and technical barriers between the different EU member states which are considered as a hindrance to interoperability and to reduce costs of railways so as to increase competitiveness of the railway sector. They were supplemented by Regulation (EU) 2016/796 of the EU Parliament and of the Council of May 11, 2016 on the European Union Agency for Railways.

Directive 2016/797 provides for the drafting and revision of TSIs'. It has been supplemented by the EU Commission Delegated Decision (EU) 2017/1474 of June 8, 2017 defining more specifically the objectives of each TSI in order to improve interoperability and facilitate the development and improvement of rail services with third countries. Moreover, on April 4, 2018, the EU Commission's Implementing Regulation (EU) 2018/545 establishing practical arrangements for the railway vehicle authorization and railway vehicle type authorization process pursuant to Directive (EU) 2016/797 has been adopted. With respect to the Fourth Railway Package, implementing regulations are issued to make sure that national legislation is consistent across all EU member states. This regulation governs the authorization of railway vehicles throughout Europe and aims to further speed up, simplify and reduce the cost of the approval procedure for rolling stock.

Directive (EU) 2016/798 provides for the drafting and revision of common safety methods ("**CSMs**"), common safety targets and common safety indicators. I*nter alia*, since February 2018, the EU Commission Delegated Regulation (EU) 2018/761, which is based on Directive 2016/798, establishes CSMs' for supervision by national safety authorities following the issue of a uniform safety certificate or a safety authorization for conformity assessment and surveillance. The CSMs shall be regularly revised in order to maintain and continuously improve safety, taking into account the general development of railway safety.

EU member states had to transpose Directive 2008/57/EC by July 19, 2010. Its proper implementation remains obligatory under the recently adopted Fourth Railway Package. They now have time until June 16, 2019 to transpose the interoperability and safety directives into national law. However, with respect to Germany, an infringement proceeding had been opened in February 2016 after Germany had failed to implement Directive 2008/57/EC. Only recently, August 11, 2018, the German Railway Commissioning Approval Regulation (*Eisenbahn-Inbetriebnahmegenehmigungsverordnung*) has entered into force transposing EU law on rail interoperability.

As regards the high-speed railway system, TSI for the rolling stock subsystem were adopted on May 30, 2002 (EU Commission Decision 2002/735/EC), and revised by EU Commission Decision 2008/232/EC of February 21, 2008, which has been repealed by EU Commission Regulation (EU) No 1302/2014 of November 18, 2014. The EU Commission Regulation (EU) No 1302/2014 of November 18, 2014 has been amended by the EU 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 EU 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 EU Commission Regulation (EU) No 1302/2014 of November 18, 2014. The EU Commission Regulation (EU) No 1302/2014 of November 18, 2014 has been amended by the EU 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 EU Commission Regulation (EU) No 2015/924 of June 8, 2015. TSI concerning noise have been issued by EU Commission Decision

2011/229/EU of April 4, 2011 which has been repealed by EU 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 EU Commission Directive 2014/88/EU of July 9, 2014 in respect of common safety indicators and common methods of calculating accident costs. EU 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 EU 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 EU 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.

On May 25, 2017, a new European Medical Device Regulation (EU) 2017/745 entered into force (the "**Medical Device Regulation**"). The Medical Device Regulation repeals Council Directive 93/42/EEC to ensure that only one set of rules applies to the placing of medical devices on the market and the related aspects covered by this Regulation. It aims to enhance patient safety and modernize public health by introducing an enhanced governance framework around the definition, supervision, traceability and risk-based classification system for medical device equipment. The Medical Device Regulation will only apply after a transitional period of three year after entry into force and, thus, will apply from May 2020. During the transition period, manufacturers can choose to comply with either the Medical Device Directive or the new Medical Device Regulation.

Most recently, the EU Commission issued the EU Commission Implementing Regulation (EU) 2017/2185 of November 23, 2017 on the list of codes and corresponding types of devices for the purpose of specifying the scope of the designation as notified bodies in the field of medical devices.

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 67 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 2016, NHTSA issued rules modifying FMVSS No. 110, "Tire Selection and Rims," to permit special trailer tires on new trailers with gross vehicle weight ("**GVW**") ratings of under 10,000 lbs. and to exclude these trailers from certain requirements regarding sudden losses of tire pressure. NHTSA additionally amended FMVSS No. 108, regulating side marker lamps, to restore the side marker requirements for motor vehicles under thirty feet in length that were in place prior to 2007.

In 2016, NHTSA secured a voluntary commitment from 20 automakers representing over 99% of U.S. market share to equip future vehicles with automatic electronic braking systems ("**AEBS**"). AEBS will become standard on almost all light-duty cars and trucks with a GVW of 8,500 pounds or less beginning no later than September 1, 2022 and on almost all trucks with GVW between 8,501 pounds and 10,000 pounds beginning no later than September 1, 2025. These requirements will impose significant new costs on manufacturers.

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 2018, the SELF DRIVE Act was passed in the U.S. House of Representatives to encourage testing and implementation of "highly automated vehicles" ("**HAVs**") and vehicles equipped with automated driving systems ("**ADS**"), and a similar bill was introduced in the U.S. Senate. This proposed legislation would have directed federal rulemaking requiring manufacturers introducing HAV or ADS-equipped vehicles to provide the U.S. Department of Transportation with a safety evaluation report describing

manufacturer efforts to comply with vehicle safety requirements. While the SELF DRIVE Act did not become law and it has not been reintroduced into the current Congress, a majority of states have enacted autonomous vehicle legislation and/or adopted executive orders on self-driving vehicles.

In 2018, NHTSA updated guidelines for the testing and deployment of ADS, providing additional clarity and alignment with OEM requests, including the announcement of a possible pilot program to encourage public road testing of vehicles equipped with ADS.

In December 2016, NHTSA published FMVSS No. 141, which requires 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 from its June 2015 Priority Plan for Vehicle Safety and Fuel Economy 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. 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.

Furthermore, the U.S. Environmental Protection Agency and NHTSA 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. In October 2016, the U.S. Environmental Protection Agency and NHTSA also finalized standards for medium- and heavy-duty vehicles from 2018 through model year 2027, which vary by the type and weight of the vehicle.

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 (due to be replaced shortly by new standards targeted to be achieved by 2025) 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 kilometers per liter to 20.3 kilometers per 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.

In 2017, the Japanese Consumer Affairs Agency imposed an administrative penalty of 485 million Japanese Yen on Mitsubishi Motors Corporation under the Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962, as amended; the "**AUPMR**") for listing false mileage figures in automobile catalogues and on its website. This was the first application of administrative penalty under the AUPMR.

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 China, Law of Protection of Consumer Rights and Interests and Tort Liability Law, promulgated by the Standing Committee of the National People's Congress of China on July 8, 2000 (latest amended on December 29, 2018), 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 China 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 China released the Administrative Regulations for Recalls of Defective Automobile Products (the "**Chinese Recall Regulation**") on October 22, 2012, (amended on March 2, 2019) which requires us to recall any defective products as defined by the administrative rules and regulations. The Chinese 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 (the "**AQSIQ**"), a predecessor of the State Administration for Market Regulation, issued the Opinions on General Administration of Quality Supervision, Inspection and Quarantine Regarding Several Issues Concerning Implementation of Chinese 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, labeling 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 of China has the power 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 not to comply with the Chinese Recall Regulations, the producer is subject to administrative fines of a maximum amount of Chinese Renminbi 1 million or 10% of the total value of defective products. In addition, the Producer may face punitive administrative actions including forfeiture of illegal proceeds (if any) and revoking its regulatory permits and business licenses.

AQSIQ promulgated the Measures for Implementing the Chinese Recall Regulations (the "**Chinese 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 China 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 of China 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 Chinese Renminbi 30,000.

In addition, if the administrative authority suspects that a perpetrator who violates the Chinese Recall Regulation or the Chinese Implementing Measures may have committed crime, the authority may report the case to criminal prosecution in accordance with the criminal law.

Chinese 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 "**China Household Automobile Guarantee Regulations**").

Under the China Household Automobile Guarantee Regulations, consumers are entitled to request for repair, replacement and return ("**Chinese Three Guarantees**") of automobiles and their related parts within certain periods. The sellers of automobiles must assume liability for the Chinese 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 kilometer 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 Chinese Three Guarantees certificate.

Any party who breaches the China Household Automobile Guarantee 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 "**Chinese 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 Chinese 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 of China on August 29, 2015 (amended on October 26, 2018), 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. China's Ministry of Ecology and Environment ("**Chinese MEE**") has the authority to apply automobile fuel economy level certificate to automobiles which satisfy different national fuel economy standards. Accordingly, China's Ministry of Environmental Protection, the predecessor of Chinese MEE promulgated national fuel economy standards including Limits and Measurement Methods of Light Vehicle Emission (China Stage VI) (GB18352.6-2016), Limits and Measurement Methods of Light Vehicle Emission (China Stage V) (GB18352.5-2013), Limits and Measurement Methods of Light Vehicle Emission (China 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 (China Stage III/IV/V) (GB17691-2005). Automobile OEMs and importers are required to disclose to the public (including but not limited to uploading information to a website of Chinese MEE) the environmental

information regarding the relevant vehicles manufactured or imported by them, such as emission testing information and pollution control technical information.

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 of China on October 29, 1996 (amended on December 29, 2018), 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 the State Council of China 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 China's 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 Provisions for the Administration of Entry of New-energy vehicle Manufacturers and Their Products, promulgated by China's Ministry of Industry and Information Technology on January 6, 2017 (effective on July 1, 2017), "new-energy vehicle" means vehicles using new types of power systems, entirely or mainly relying on new-energy as their driving force, including plug-in hybrid (including extended-range) vehicles, pure electric vehicles, and fuel cell vehicles and so forth.

According to Guiding Opinions of the General Office of the State Council of China on Accelerating the Popularization and Application of Alternative Fuel Vehicles promulgated by General Office of the State Council of China 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) 2019/496 of the EU Parliament and of the Council of March 25, 2019), 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. The latest EU Commission Delegated Regulation (EU) 2018/1922 entered into force on December 15, 2018. It updated Annex I and brought it in line with the decisions taken within the framework of the international non-proliferation regimes and export control arrangements in 2017.

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, however, we discontinued our activities in Iran as of November 5, 2018. As of November 5, 2018, a broad range of US sanctions targeting Iran have now been re-imposed by the United States, with additional sanctions also likely to be imposed. As a result of these developments, transactions by non-US persons with or for the benefit of the Government of Iran or other Iranian specially designated nationals (SDNs) can once again give rise to exposure to Secondary US Iran Sanctions. See "*Risk Factors—Legal, Regulatory and Tax Risks—Our compliance management system 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 EU 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 EU 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 EU 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 EU 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 EU Commission has published a Communication (Communication from the EU 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 Maria-Elisabeth Schaeffler-Thumann, Georg F. W. Schaeffler, Klaus Rosenfeld and Klaus Deißenberger.

Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler 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 Deißenberger 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
Maria-Elisabeth Schaeffler-Thumann	77	Managing director
Georg F. W. Schaeffler	54	Managing director
Klaus Rosenfeld	53	Managing director
Klaus Deißenberger/ Dr. Alexandra Zech[(1)]	64/ 47	Managing director

(1) Klaus Deißenberger will be succeeded by Dr. Alexandra Zech effective June 1, 2019.

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.

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. Mr. Schaeffler is also the chairman of the advisory board of Atesteo Management GmbH.

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 (CFO) of Dresdner Bank AG. Mr. Rosenfeld is also a member of the supervisory board of Continental AG and a member of its audit committee. Mr. Rosenfeld is also a member of the board of directors of Siemens Gamesa Renewable Energy S.A.

Klaus Deißenberger 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 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. Mr. Deißenberger will retire in 2019, effective June 30, 2019 and has resigned from his role as a managing director effective May 31, 2019.

Dr. Alexandra Zech is legal counsel of IHO Holding GmbH & Co. KG and Schaeffler AG and on April 26, 2019, she was appointed to succeed Klaus Deißenberger as managing director of the Issuer effective June 1, 2019. She studied law at the University of Augsburg. She joined IHO Holding GmbH & Co. KG as legal counsel in 2013 after working, *inter alia*, in the legal department of UBS Deutschland AG and as legal counsel at two international law firms.

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	53	CEO	06/30/2024
Prof. Dr.-Ing Peter Gutzmer/Uwe Wagner(1)	65/54	Chief Technology Officer and Deputy CEO	12/31/2019 / 12/31/2022
Dietmar Heinrich	55	CFO	07/31/2020
Matthias Zink	49	CEO Automotive OEM	12/31/2024
Michael Söding	57	CEO Automotive Aftermarket	12/31/2020
Dr. Stefan Spindler	57	CEO Industrial	04/30/2023
Andreas Schick	49	Chief Operating Officer	03/31/2021
Corinna Schittenhelm	52	Chief Human Resources Officer	12/31/2023

(1) On March 1, 2019, the Supervisory Board appointed Uwe Wagner as successor of Prof. Dr.-Ing Peter Gutzmer for the role of Chief Technology Officer (the role of Deputy CEO will not continue) effective January 1, 2020.

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 (CFO) of Dresdner Bank AG. Mr. Rosenfeld is also a member of the supervisory board of Continental AG and a member of its audit committee. Mr. Rosenfeld is also a member of the board of directors of Siemens Gamesa Renewable Energy S.A.

Prof. Dr.-Ing 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. Prof. Dr.-Ing Peter Gutzmer will retire in 2019 and, at his own request, his contract was not extended beyond December 31, 2019.

Dietmar Heinrich is the Chief Financial Officer. He studied industrial engineering at the University of Karlsruhe. Mr. Heinrich joined the Schaeffler Group in 1995 and has held various positions within the Schaeffler Group. In 2006, he assumed the role of Vice President of Finance for Asia/Pacific. He served as Vice President of the business unit Linear Technology from 2009 to 2014 and as Regional CEO, Europe from 2014 to 2017.

Matthias Zink serves as CEO Automotive OEM. He studied mechanical engineering at the University of Karlsruhe with a focus on automotive engineering and joined LuK as a graduate engineer in the testing department in 1994. He held various positions at LuK before he was appointed head of the clutch systems in 2006. In 2012, he was appointed President of Schaeffler Automotive Asia/Pacific. In 2014, he became President of the Transmission Systems sector. In January 2017, Mr. Zink became CEO of the Automotive Division (now the Automotive OEM Division).

Michael Söding serves as CEO Automotive Aftermarket. He studied engineering management at Darmstadt University of Technology. He started his career at the tire manufacturer Pirelli where he held various positions from 1989 to 1993, including head of product management for passenger car tires. Subsequently, from 1997 to 2001, he held various positions at aftermarket parts manufacturers producing starter batteries and brake systems. Beginning in 2002, Mr. Söding has held various positions within the Schaeffler Group. With the establishment of the Automotive Aftermarket Division, Mr. Söding became a member of the Board of Managing Directors and CEO of the Automotive Aftermarket Division.

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 and assumed the position of CEO Industrial in May 2015.

Andreas Schick is the Chief Operating Officer. 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 North America. In 2008, he became president of the transmission applications business unit. In 2009, he took a special assignment to launch the MOVE efficiency program within the Schaeffler Group. He served as regional CEO, Asia/Pacific from January 2014 to April 2018. In April 2018, he became a member of the Board of Managing Directors as Chief Operating Officer. Mr. Schick is also a member of the supervisory board of SupplyOn AG.

Corinna Schittenhelm is the Chief Human Resources Officer and Labor Director. She has a degree in Business Administration and started her career in 1994 with a graduate management program at Bayerische Vereinsbank in Munich. She joined Siemens AG in Munich in 1996 and held over a period of 18 years numerous positions in the HR Management in Germany and abroad (China and the US). Her last position in Siemens AG was the global CHRO role of the Sector Energy. She joined OSRAM Licht AG as CHRO in January 2014. She is Member of the Executive Board of Schaeffler AG since January 2016 and responsible for Human Resources and Labor Relations and in addition for Corporate Sustainability since April 2018.

Uwe Wagner is the head of R&D Automotive OEM and Industrial and on March 1, 2019, he was appointed to succeed Prof. Dr.-Ing Peter Gutzmer as Chief Technology Officer effective January 1, 2020. Mr. Wagner studied mechanical engineering at the University of Stuttgart, and joined LuK as a development engineer in the torque converter department in 1993. In 2007, he became president of the transmissions technologies business unit. In 2014, he was appointed head of R&D Automotive. Since 2016, he has served as head of R&D Automotive OEM and Industrial.

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 2018, as reported in accordance with IAS 24, amounted to €15 million, including €11 million in short-term benefits and €3 million in post-employment benefits. Expenses of €3 million were recognized in 2018 for post-employment benefits.

Compensation paid to the members of the Board of Managing Directors includes both non-performance-based and performance-based components. The non-performance-related compensation comprises the fixed base salary along with other remuneration such as pensions. The performance-based 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.

Under the 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 service agreements provide for a 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. However, the regional CEOs are not members of the Board of Managing Directors and therefore are not members of a statutory board of the Schaeffler Group. 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
Helmut Bode/Dharmesh Arora[1]	64/51	Regional CEO, Asia/Pacific
Bruce Warmbold/Marc McGrath[2]	63/52	Regional CEO, Americas
Dr. Yilin Zhang	55	Regional CEO, Greater China
Jürgen Ziegler	60	Regional CEO, Europe

(1) On March 1, 2019, the Board of Managing Directors appointed Dharmesh Arora as successor of Helmut Bode effective October 1, 2019.

(2) On March 1, 2019, the Board of Managing Directors appointed Marc McGrath as successor of Bruce Warmbold effective October 1, 2019.

Helmut Bode serves as regional CEO for the Asia/Pacific region. He studied mechanical engineering at the University of Kassel. He joined the Schaeffler Group in 1981 as an application engineer and has held various positions within the Schaeffler Group including President of the Industrial Division for the Greater China region and President of the Industrial Division for the Asia/Pacific region. In April 2018, Mr. Bode became regional CEO, Asia/Pacific.

Bruce Warmbold serves as regional CEO for the Americas region. 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, regional CEO, Americas. Mr. Warmbold will retire in 2019, and at his own request, his contract was not extended beyond October 1, 2019.

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

Jürgen Ziegler serves as regional CEO for the Europe region. He studied business administration at the AKAD University in Rendsburg while working at Daimler-Benz AG. He held various positions at

Daimler-Benz AG, including CEO of Turkey and President and CEO of the Latin America region. In 2014, Mr. Ziegler joined the consulting firm CONCEPT AG as an executive board member. In 2015, he joined the Schaeffler Group as President of the South America subregion. In 2017, he took over responsibility for the “CORE” and “Global Footprint” strategic initiatives. In August 2017, Mr. Ziegler assumed the position of regional CEO, Europe. Mr. Ziegler is also a member of the board of directors of SONA BLW Präzisionsschmiede GmbH and SONA BLW Precision Forgings Ltd.

Dharmesh Arora serves as CEO of Schaeffler India Ltd and on March 1, 2019, he was appointed to succeed Helmut Bode as Regional CEO, Asia/Pacific, effective October 1, 2019. He studied mechanical engineering at the University of Mumbai and acquired a TRIUM Global Executive MBA from the Stern School of Business at New York University, London School of Economics, and HEC Paris. He began his career as a product engineer with Maruti Suzuki India Ltd before joining General Motors in 1992. He held various positions at General Motors, including key senior management and global leadership positions in India, Thailand, Mexico and the United States. He also serves as a committee member of the Indo German Chamber of Commerce in Mumbai, India. Mr. Arora joined Schaeffler in 2012 as CEO of Schaeffler India Ltd.

Marc McGrath serves as president of Automotive Americas and on March 1, 2019, he was appointed to succeed Bruce Warmbold as regional CEO, Americas, effective October 1, 2019. He studied mechanical engineering at the University of Akron. He joined Schaeffler as a student in 1988 and has held various management positions within the Schaeffler Group.

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, Robin Stalker 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)	54	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson)	77	Partner of INA-Holding Schaeffler GmbH & Co. KG
Jürgen Wechsler (Deputy Chairman)	63	Representative of IG Metall Bavaria, vice-chairman of the supervisory board of Siemens Healthcare AG and member of the supervisory board of BMW AG
Sabine Bendiek	53	Managing Director of Microsoft Germany GmbH
Prof. Dr. Hans-Jörg Bullinger	75	Chairman of the supervisory boards of ARRI AG and TÜV SÜD AG
Dr. Holger Engelmann	54	Chairman of the Management Board of Webasto SE
Prof. Dr. Bernd Gottschalk	75	Managing Partner of AutoValue GmbH
Andrea Grimm	37	Deputy Chairwoman of the works council at Herzogenaurach plant
Susanne Lau	44	Member of the works council at Schaeffler Automotive Aftermarket GmbH & Co. KG, Hamburg, Administrative clerk responsible for Category Management Administration and Organization
Norbert Lenhard	61	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council at Schweinfurt plant
Dr. Reinold Mittag	62	Trade Union Secretary of IG Metall
Barbara Resch	44	Secretary of IG Metall regional directorate of Baden-Württemberg
Sabrina Soussan	49	CEO Siemens Mobility GmbH, member of board of directors of ITT Inc.
Dirk Spindler	54	Head of R&D Processes, Methods and Tools
Robin Stalker	61	Certified Public Accountant, supervisory board member of Commerzbank AG and Schmitz Cargobull AG
Jürgen Stolz	54	Member of the works council of LuK GmbH & Co. KG, Bühl
Salvatore Vicari	52	Chairman of the works council, Homburg/Saar plant, Deputy Chairman of General Works Council and European Works Council
Prof. KR Ing. Siegfried Wolf	61	Entrepreneur, supervisory board member of, *inter alia*, SBERBANK Europe AG, Continental AG, Porsche Automobil Holding SE, Banque Eric Sturdza SA and MIBA Group
Jürgen Worrich	64	Chairman of the Schaeffler European works council, Member of the works council at Herzogenaurach plant
Prof. Dr.-Ing. Tong Zhang	58	Director of the Academic Commission at the Automotive Engineering Department of 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. Mr. Schaeffler is also the chairman of the advisory board of Atesteo Management GmbH.

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 a representative 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. Mr. Wechsler is also a member of the supervisory board of BMW AG and vice chairman of the supervisory board of Siemens Healthcare GmbH.

Sabine Bendiek is managing director of Microsoft Germany GmbH. She studied business administration at the University of Cooperative Education in Mannheim and completed her graduate studies in electrical engineering and computer science at the Massachusetts Institute of Technology. Before joining Microsoft Germany GmbH, she held various positions including CEO in Germany of EMC Corporation and general manager small & medium business Germany/Austria/Switzerland of Dell Corporation. From 2014 to 2016, she also served as a supervisory board member of XING SE.

Prof. Dr. Hans-Jörg Bullinger is chairman of the supervisory boards of ARRI AG and TÜV SÜD AG. He studied mechanical engineering at the University of Stuttgart. From 2002 to 2012, he was president of Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V. He was also chairman of the Industry-Science Research Alliance of the Federal Ministry of Education and Research, a committee defining the high tech strategy of the German government from 2006 to 2012 and a member of the supervisory board of Windreich AG from 2010 to 2011. Prof. Dr. Bullinger also serves as member of the supervisory board of Bauernfeind AG, Alfred Kärcher SE and Wilo SE.

Dr. Holger Engelmann is the Chairman of the management board 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 and serving as its CFO from 2007 to 2010 and before becoming Webasto SE's CEO in 2013, he held various positions with Fichtel & Sachs AG (today ZF Friedrichshafen) and Mannesmann Plastics Machinery GmbH, including Group CFO of Mannesmann Plastics Machinery GmbH. Dr. Engelmann is also chairman of the supervisory board of Webasto Thermo & Comfort SE.

Prof. Dr. Bernd Gottschalk is the managing partner of AutoValue GmbH. He studied economics at the Universities of Hamburg, 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 1997 to 2008, he was president of the German Association of the Automotive Industry (*Verband der Automobilindustrie*). Prof. Dr. Gottschalk also served as a vice president of the Federation of German Industry (*Bundesverbandes der Deutschen Industrie e.V.*) from 2001 to 2008, and, since 2008, serves as managing partner of AutoValue GmbH. Prof. Dr. Bernd Gottschalk also serves as a member of the supervisory board and remuneration committee of Plastic Omnium S.A., vice chairman of the supervisory board of Jost Werke AG and chairman of the advisory board of the Woco Industrietechnik GmbH.

Andrea Grimm is the deputy chairwoman for the local works council at the Herzogenaurach plant. She studied business administration at the University of Applied Sciences, Nuremberg. She joined the Schaeffler Group in 2007.

Susanne Lau is the chairperson for the local works council at the Hamburg plant and deputy chairwoman of the joints works council Schaeffler AAM GmbH & Co. KG. She trained as a foreign language secretary in Hamburg and successfully trained as an industrial sales assistant at STILL GmbH in Hamburg from 1995-to 1997. She has held various positions at STILL GmbH, E.G. Kistenmacher GmbH & Co. KG and joined the Schaeffler Group in 2006. Mrs. Lau also serves as a member of the delegates assembly of IG Metall Hamburg and is actively involved in local politics on a voluntary basis.

Norbert Lenhard is the chairman of Schaeffler Technologies AG & Co. KG's central works council and the local works council at the 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*). 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. Reinold Mittag is the Trade Union Secretary 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 (*Freier Deutsche Gewerkschaftsbund, DGB*). He holds various law degrees as well as a doctorate in law from the University of Bielefeld.

Barbara Resch serves as the Secretary of IG Metall regional directorate of Baden-Württemberg. 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.

Sabrina Soussan is the CEO of Siemens Mobility. Since 2018, she has served as a member of the board of directors of ITT Inc. She studied mechanical and aeronautical engineering at E.N.S.M.A, Poitiers, France and earned a degree in business administration at Poitiers, France and Dublin, Ireland. From 1993 until 1997 she worked for Renault, Paris, France as an Engine Research and Development Engineer. In 1997 she joined Siemens Automotive Powertrain division as Project Director Ford for gasoline and diesel systems. From 2002 until 2008, she became the managing director for diesel systems Renault-Nissan for Siemens VDO Automotive Powertrain Division. In 2008, she joined the Powertrain Division at Continental AG as managing director for gasoline and diesel systems Renault-Nissan. Since 2009, she has held various positions at Siemens Schweiz and Siemens AG. Since 2017 she is CEO of Siemens Mobility. She is also the chairwoman and a member of the presiding board of the European Rail Industry Association (*Union des Industries Ferroviaires Européennes, UNIFE*).

Dirk Spindler is the head of R&D Processes, Methods and Tools. 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. Mr. Spindler is also a member of the executive board of the FAG Foundation.

Robin Stalker is a member of the supervisory board of Commerzbank AG and deputy chairman of the supervisory board of Schmitz Cargobull AG. He studied business administration at Massey University, New Zealand. He worked at several companies, such as Ernst & Young and Warner Bros International, before joining adidas AG in 1996 and serving as a member of its executive board and its CFO from 2001 to 2017.

Jürgen Stolz is a member of the works council at the Bühl plant and a member of the Schaeffler European works council. He completed his trainee program as a vehicle mechanic and professional driver and works as technical employee for the Schaeffler Group. Mr. Stolz joined the Schaeffler Group in 1988. In 2002, Mr. Stolz was first elected to the local works council at the Bühl plant, and from 2014 to 2017, he served as its chairman.

Salvatore Vicari is the chairman of the works council at the Homburg/Saar plant and deputy chairman of the General Works Council and the European Works Council. He completed his trainee program at Großklos in 1984. Mr. Vicari has completed a study program in business administration at the Saarland Academy of Labor and Welfare. He has worked at various companies as a mechanic and a commercial vehicle driver. Mr. Vicari joined the Schaeffler Group in 1990 and began serving as the chairman of the works council at the Homburg/Saar plant in 2009. Since 2016, he has also served as a member of the supervisory board of GEW Management GmbH.

Prof. KR Ing. Siegfried Wolf serves as a member of *inter alia*, the supervisory boards of SBERBANK Europe AG, Continental AG, Porsche Automobil Holding SE, Banque Eric Sturdza SA and MIBA Group. 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.

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 the Academic Commission at the Automotive Engineering Department of 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 served as its director from 2011 until 2016 and in 2017, he became director of the Academic Commission at the Automotive Engineering Department of the same university.

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 €1.5 million during 2018. There were no provisions for pensions and similar obligations for these persons as of December 31, 2018.

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 an executive committee, an audit committee, a mediation committee, a nomination committee and a technology 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)	54	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	77	Partner of INA-Holding Schaeffler GmbH & Co. KG
Norbert Lenhard	61	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council at Schweinfurt plant
Barbara Resch	44	Secretary of IG Metall regional directorate of Baden-Württemberg
Jürgen Wechsler	63	Representative of IG Metall Bavaria, vice-chairman of the supervisory board of Siemens Healthcare AG and member of the supervisory board of BMW AG
Prof. KR Ing. Siegfried Wolf	61	Entrepreneur, supervisory board member of, *inter alia*, SBERBANK Europe AG, Continental AG, Porsche Automobil Holding SE, Banque Eric Sturdza SA and MIBA Group

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 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
Robin Stalker (Chairman)	61	Certified Public Accountant, supervisory board member of Commerzbank AG and Schmitz Cargobull AG
Dr. Reinold Mittag	62	Trade Union Secretary of IG Metall
Georg F. W. Schaeffler	54	Partner of INA-Holding Schaeffler GmbH & Co. KG
Dr. Holger Engelmann	54	Chairman of the Management Board of Webasto SE
Salvatore Vicari	52	Chairman of the works council, Homburg/Saar plant, Deputy Chairman of General Works Council and European Works Council
Jürgen Worrich	64	Chairman of the Schaeffler European works council, Member of the works council at Herzogenaurach plant

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)	54	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	77	Partner of INA-Holding Schaeffler GmbH & Co. KG
Norbert Lenhard	61	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council at Schweinfurt plant
Jürgen Wechsler	63	Representative of IG Metall Bavaria, vice-chairman of the supervisory board of Siemens Healthcare AG and member of the supervisory board of BMW AG

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)	54	Partner of INA-Holding Schaeffler GmbH & Co. KG
Maria-Elisabeth Schaeffler-Thumann	77	Partner of INA-Holding Schaeffler GmbH & Co. KG
Dr. Holger Engelmann	54	Chairman of the Management Board of Webasto SE
Prof. Dr. Bernd Gottschalk	75	Managing Partner of AutoValue GmbH

Technology Committee

The Supervisory Board has established a technology committee, which is made up of equal numbers of employee and shareholder representatives. The technology committee is responsible for the regular exchange of information between the Supervisory Board and the Board of Managing Directors on technological developments and for joint deliberations on technology projects.

The following table sets forth the current members of the Supervisory Board's technology committee:

Name	Age	Position
Prof. Dr. Hans-Jörg Bullinger (Chairman)	75	Chairman of the supervisory boards of ARRI AG and TÜV SÜD AG
Norbert Lenhard	61	Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the works council at Schweinfurt plant
Georg F. W. Schaeffler	54	Partner of INA-Holding Schaeffler GmbH & Co. KG
Salvatore Vicari	52	Chairman of the works council, Homburg/Saar plant, Deputy Chairman of General Works Council and European Works Council
Jürgen Wechsler	63	Representative of IG Metall Bavaria, vice-chairman of the supervisory board of Siemens Healthcare AG and member of the supervisory board of BMW AG
Prof. KR Ing. Siegfried Wolf	61	Entrepreneur, supervisory board member of, *inter alia*, SBERBANK Europe AG, Continental AG, Porsche Automobil Holding SE, Banque Eric Sturdza SA and MIBA Group
Jürgen Worrich	64	Chairman of the Schaeffler European works council, Member of the works council at Herzogenaurach plant
Prof. Dr.-Ing. Tong Zhang	58	Director of the Academic Commission at the Automotive Engineering Department of, Tongji University, Shanghai, China

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 (20.0%) and Georg F. W. Schaeffler (80.0%). 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

Upstream Loans

In September 2016, the Issuer on-lent part of the net proceeds from the issuance of the Existing Issuer Notes and Redeemed Issuer Notes to IHO Beteiligung under a notes proceeds loan in the amount of €880 million (the "**Notes Proceeds Loan**"). The Notes Proceeds Loan matures on March 31, 2020 and bears cash interest at a rate of 2.0% per annum. The Issuer intends to set-off the obligations of IHO Beteiligung under the Notes Proceeds Loan against a dividend-in-kind to be declared by the Issuer for that purpose prior to the Notes Proceeds Loan's maturity.

Atesteo Loan

The Issuer has granted the right to Atesteo, a wholly-owned subsidiary of IHO Holding GmbH & Co. KG, an indirect shareholder of the Issuer, to make drawings on behalf and for the account of the Issuer of up to €50 million under ancillary facilities to the Issuer's Revolving Facility. While the Issuer remains the primary obligor under such ancillary facilities in respect of any such drawings made by Atesteo, Atesteo operates the ancillary facilities on behalf and for the account of the Issuer. Pursuant to a loan agreement dated February 14, 2018 between the Issuer and Atesteo, Atesteo is required to reimburse the Issuer for any principal, interest and other payments (including any commitment fee) to be made by the Issuer to the relevant lender under such ancillary facilities. As of March 31, 2019, €6 million were drawn under such ancillary facilities by Atesteo on behalf and for the account of the Issuer.

Intercompany Service Agreement

In December 2014, the Issuer entered into an intercompany service agreement, as amended from time to time, with IHO Holding GmbH & Co. KG (previously named Schaeffler Holding GmbH & Co. KG) pursuant to which IHO Holding GmbH & Co. KG provides certain accounting, tax and reporting services to the Issuer. Pursuant to this agreement, the Issuer paid fees of €0.4 million in 2016, €0.5 million in 2017 and €0.2 million in 2018.

Expense Reimbursement relating to the Offering

The Issuer has agreed to reimburse Schaeffler AG for its costs and expenses incurred in connection with the offering of the Notes. We estimate that the reimbursed costs will be approximately €1 million.

Transactions of the Schaeffler Group

Joint Procurement Cooperation Agreement

Pursuant to the Cooperation Agreement, originally dated March 27, 2009, Continental AG and Schaeffler Technologies AG & Co. KG, a subsidiary of Schaeffler AG, have agreed to 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 2016, 2017 and 2018 and between January 1, 2019 and the date of this Listing 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 and/or principal payments in regard to such notes.

General Information on the Issuer

Formation, Incorporation, Trade Name and Registered Office

IHO Verwaltungs 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 Beteiligung. 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 and finance company and does not hold any material assets other than 75.1% of the issued share capital of Schaeffler AG, 36.0% of the issued share capital of Continental AG and a 25.0% interest in P A R A V A N GmbH.

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. Pursuant to the HGB, the Issuer is not required to prepare notes to the Issuer Audited Unconsolidated Financial Statements. The Issuer is not required to produce any consolidated financial statements or any interim financial statements. Pursuant to section 291 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 Listing 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 March 31, 2019.

Description of Other Indebtedness

The following is a summary of the material terms of the principal financing arrangements of the Issuer and the Schaeffler Group. The following summaries do not purport to describe all of the applicable terms and conditions of such arrangements and are qualified in their entirety by reference to the actual agreements. Unless defined herein, defined terms used in this "Description of Other Indebtedness" have the meanings ascribed to them in the respective agreements described herein.

Indebtedness of the Issuer

Issuer Facilities Agreement

The Issuer as borrower entered into a syndicated term loan and revolving credit facilities agreement originally dated September 7, 2016 (as amended on September 8, 2016 and as amended and restated by an amendment and restatement agreement dated December 22, 2017, the "**Existing Issuer Facilities Agreement"**) providing for credit facilities in the aggregate amount of €1,000 million with, among others, Bank of America Merrill Lynch International Designated Activity Company (as successor in title to 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.

Pursuant to the terms and conditions of the Existing Issuer Facilities Agreement, the lenders named therein have made available to the Issuer the following credit facilities:

- a €750 million term loan facility which matures on December 22, 2022; and
- a €250 million revolving credit facility which matures on December 22, 2022.

On May 20, 2019, the Issuer and the other parties to the Existing Issuer Facilities Agreement entered into an amendment and restatement agreement (the "**Issuer Facilities Agreement Amendment**"), to the Existing Issuer Facilities Agreement (as amended by the Issuer Facilities Agreement Amendment, the "**Issuer Facilities Agreement**"). The effectiveness of the Issuer Facilities Agreement Amendment is subject to, *inter alia*, a partial repayment of the Issuer Term Facility by €150 million, which the Issuer intends to effect on the Issue Date.

Pursuant to the terms and conditions of the Issuer Facilities Agreement, and with effect from the date on which the amendments pursuant to the Issuer Facilities Agreement Amendment become effective (the "**Issuer Facilities Agreement Amendment Date**"), the lenders will make available to the Issuer the following credit facilities:

- a €600 million term loan facility which matures on the fifth anniversary of the date of the Issuer Facilities Agreement Amendment, May 20, 2024; and
- a €400 million revolving credit facility which matures on the fifth anniversary of the date of the Issuer Facilities Agreement Amendment, May 20, 2024.

As of March 31, 2019, €750 million were drawn under the term facility made available under the Existing Issuer Facilities Agreement. The Issuer intends to use a portion of the proceeds from the Offering to prepay term loans in an aggregate principal amount of €150 million made available under the Issuer Term Facility, reducing it from €750 million to €600 million. The Issuer Revolving Facility will be made available for drawings in cash or, up to an aggregate amount of €50 million, as ancillary facilities until one month prior to the final maturity date. Any undrawn commitments under the Issuer Revolving Facility will be cancelled on such date. As of March 31, 2019, €6 million were utilized

under the Issuer Revolving Facility in the form of ancillary facilities drawn by Atesteo on behalf and for the account of the Issuer.

The following summary describes the material terms of the Issuer Facilities Agreement as it will be in effect after the occurrence of the Issuer Facilities Agreement Amendment Date.

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 applicable margin with respect to each of the Issuer Facilities is determined by reference to the leverage ratio in accordance with a margin ratchet mechanism in a range between 1.75% and 3.75% per annum. As of March 31, 2019, the applicable margin was 2.25% per annum and increased to 2.75% per annum as of May 7, 2019. 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. The rate and time of payment of interest, commission, fees and any other remuneration in respect of ancillary facilities provided under the Issuer Facilities Agreement are agreed between the relevant ancillary lender and the Issuer in its capacity as borrower under the relevant ancillary facility.

Purpose

The Issuer Term Facility may be used for financing or refinancing of indebtedness, costs and/or expenses of any member of the Issuer Group or IHO Beteiligung and/or any payments to Restricted Persons (as defined in the Issuer Facilities Agreement) which are permitted pursuant to the exceptions set out in the Issuer Facilities Agreement. 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 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 IHO Beteiligungs GmbH (previously named Schaeffler Verwaltungs GmbH), the relevant member of the IHO Group or, as the case may be, the relevant Restricted Person.

Repayment

The Issuer Term Facility will become repayable in full on May 20, 2024. Each loan made under the Issuer Revolving Facility will become repayable (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 May 20, 2024. 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 and cancellations, the Issuer Facilities Agreement requires mandatory prepayment of the loans made available under the Issuer Facilities Agreement and a mandatory cancellation of the Issuer Revolving Facility 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 (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), (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 50.0% of the share capital and voting rights in the Issuer or the Issuer ceases to own (directly or indirectly) more than 50.0% of the voting shares in Schaeffler AG or otherwise loses control over 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) with respect to the term loans made available under the Issuer Term Facility and, after all such term loans have been repaid in full, with respect to the revolving facility loans to allow for the cancellation of the Issuer Revolving Facility subject to certain criteria, from net proceeds (the "**Proceeds**") received by (A) any Restricted Person or any member of the Issuer Group in connection with any direct or indirect sale, transfer or other disposal of shares in the Issuer and/or shares in Schaeffler AG which are subject to transaction security held by any member of the Issuer Group (except for any disposal to any member of the Issuer Group) and (B) a member of the Issuer Group in connection with the sale, transfer or other disposal of any of the 41,937,694 non-par value shares in Continental AG which are subject to transaction security (as such number is increased or reduced under certain circumstances) by any member of the Issuer Group, provided that the Issuer may elect to repay other indebtedness which is regulated by the Issuer Security Pooling and Intercreditor Agreement.

Security

The facilities made available under the Existing Issuer Facilities Agreement are secured, and upon the occurrence of the Issuer Facilities Agreement Amendment Date, the Issuer Facilities will be secured by security over (i) 41,937,694 non-par value shares held by the Issuer in Continental AG and (ii) 333,000,001 non-par value voting shares (*Stammaktien*) held by the Issuer in Schaeffler AG. In general, the number of shares in Schaeffler AG which is required to be subject to transaction security pursuant to the terms of the Issuer Facilities Agreement must represent at any time (i) 50% plus one share of the voting shares (*Stammaktien*) of Schaeffler AG and (ii) 50% plus one share of the share capital of Schaeffler AG. The number of shares in Continental AG which is required to be subject to transaction security pursuant to the terms of the Issuer Facilities Agreement will be increased in the event of a capital increase from capital reserves, a share split or any measure having a similar effect, or may be reduced in case of a permitted disposal of 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), which is tested by reference to each of the financial statements and/or each compliance certificate to be delivered pursuant to the terms of the Issuer Facilities Agreement and which is calculated on the basis of financial definitions that are (i)

determined on a consolidated basis for Schaeffler AG and, 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 50.0% of the voting rights and share capital (together with Schaeffler AG, the "**Majority Owned Entities**"), (ii) expressed in euro and (iii) derived from the financial statements of all members of the Issuer Group or, as the case may be, all Majority Owned Entities from time to time.

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 shares in Continental AG 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 (the "**Annual Floor Amount**"). The Annual Floor Amount under the Issuer Facilities Amendment Agreement for the financial year 2019 will amount to €950 million, which includes (i) any previous amounts carried forward under the Existing Issuer Facilities Agreement until the Issuer Facilities Agreement Amendment Date as well as (ii) the Issuer Dividend (*i.e.* €250 million will have been used for the Issuer Dividend), and the Annual Floor Amount for each financial year commencing after the financial year 2019, will be €200 million (in each case subject to a full carry forward of unused amounts) (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) and (ii) an additional amount of €150 million for 2019 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 may declare any dividend for the benefit of IHO Beteiligungs GmbH resulting in the loans, which were granted to IHO Beteiligungs GmbH by the Issuer in an aggregate principal amount of not more than €880 million and existing on the Issuer Facilities Agreement Amendment Date, ceasing to exist.

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 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 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 and, after all term loans have been prepaid in full, towards cancellation of the Issuer Revolving Facility and, to the extent necessary to allow for such cancellation, prepayment of revolving facility loans utilized thereunder.

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 or (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 the Issuer or any other member of the Issuer Group if the relevant entity has become a guarantor under the Issuer Facility Agreement.

In addition, a disposal of shares in Continental AG may be made with the prior written consent of the special majority lenders.

Schaeffler AG shares disposal and release of Schaeffler AG share security

A disposal of shares in Schaeffler AG which are subject to transaction security can be made for cash or cash equivalent proceeds or by way of share exchange in each case on arm's length terms for fair market value provided that the net proceeds from any such share disposal are used to prepay the Issuer Term Facility and, after all term loans have been prepaid in full, towards cancellation of the Issuer Revolving Facility and, to the extent necessary to allow for such cancellation, prepayment of revolving facility loans utilized thereunder.

Shares in Schaeffler AG which are not and do not have to be subject to transaction security may be disposed of if such disposal is made to any person, any member of the Issuer Group (other than the Issuer), any other direct or indirect subsidiary of the Issuer or any Designated Non-Issuer Group Entity and such disposal is made on arm's length terms and effected while no default is continuing.

A disposal of shares in Schaeffler AG may be made by any member of the Issuer Group to any other member of the Issuer Group (provided that, where the disposing entity is an obligor, such other member of the Issuer Group must also be an obligor).

In addition, a disposal of shares in Schaeffler AG may be made with the prior written consent of the special majority lenders.

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.

Existing Issuer Notes

On September 22, 2016, the Issuer issued €750 million in aggregate principal amount of 2.750% / 3.500% senior secured PIK toggle notes due 2021 (the "**Existing 2021 Euro Notes**"), €750 million in aggregate principal amount of 3.250% / 4.000% senior secured PIK toggle notes due 2023 (the "**Existing 2023 Euro Notes**"), €750 million in aggregate principal amount of 3.750% / 4.500% senior secured PIK toggle notes due 2026 (the "**Existing 2026 Euro Notes**" and, together with the Existing 2021 Euro Notes, the Existing 2023 Euro Notes, the "**Existing Euro Notes**"), $500 million in aggregate principal amount of 4.125% / 4.875% senior secured PIK toggle notes due 2021 (the "**Existing 2021 Dollar Notes**"), $500 million in aggregate principal amount of 4.500% / 5.250% senior secured PIK toggle notes due 2023 (the "**Existing 2023 Dollar Notes**"), $500 million in aggregate principal amount of 4.750% / 5.500% senior secured PIK toggle notes due 2026 (the "**Existing 2026 Dollar Notes**" and, together with the Existing 2021 Dollar Notes, the Existing 2023 Dollar Notes, the "**Existing Dollar Notes**" and collectively, the "**Existing Notes**"), under a New York law governed indenture dated September 22, 2016, among, *inter alios*, itself as issuer, Deutsche Trustee Company Limited as trustee and Deutsche Bank AG, Filiale Luxemburg, as security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

We intend to use the net proceeds from the offering of the Notes to redeem the Existing 2021 Euro Notes, the Existing 2021 Dollar Notes, the Existing 2023 Euro Notes and the Existing 2023 Dollar Notes in full on or about the Issue Date and have called the Notes for redemption, subject to the successful closing of the offering of the Notes.

Interest on the Existing Notes is payable in the currency in which such Existing Notes are denominated semi-annually in arrears on May 15 and November 15, commencing on May 15, 2017. The final interest payment on the Existing 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 ("**Existing Notes Cash Interest**"), unless certain conditions described in the indenture are satisfied, in which case the Issuer will be entitled to pay, to the extent described therein, interest for such interest period by increasing the principal amount of the Existing Notes or issuing Additional Existing PIK Notes (as defined in the indenture) (such increase or issuance being referred to herein as "**Existing Notes PIK Interest**"). Cash interest on the Existing 2021 Euro Notes accrues at the rate of 2.750% per annum, cash interest on the Existing 2023 Euro Notes accrues at the rate of 3.250% per annum, cash interest on the Existing 2026 Euro Notes accrues at the rate of 3.750% per annum, cash interest on the Existing 2021 Dollar Notes accrues at the rate of 4.125% per annum, cash interest on the Existing 2023 Dollar Notes accrues at the rate of 4.500% per annum and cash interest on the Existing 2026 Dollar Notes accrues at the rate of 4.750% per annum. Existing Notes PIK Interest will accrue at the respective cash interest rate plus 0.75% per annum.

Security

The Existing Notes are secured by the same Collateral that will secure the Notes, and initially consists of pledges over (i) 333,000,001 common shares in Schaeffler AG held by the Issuer and (ii) 41,937,694 common shares in Continental AG held by the Issuer (the "**Existing Collateral**"). The security of the Issuer may be released under certain circumstances as set forth in the indenture.

Terms and conditions of the Existing Notes

The terms and conditions of the Existing Notes are, except for the maturity and the interest rate, substantially similar to the terms and conditions of the Notes set forth in "*Description of the Notes"*. Under the indenture governing the Existing Notes, the Issuer is subject to certain covenants which limit its ability (and the ability of any of its future restricted subsidiaries) 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;
- 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 Existing Notes;

in each case subject to certain exceptions and baskets.

Under the indenture governing the Existing Notes, upon the occurrence of certain change of control events, each of the note holders is entitled to require the Issuer to redeem in whole or in part the Existing Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and Additional Amounts (as defined in the indenture).

The indenture governing the Existing Notes also provides for events of default, including cross acceleration and cross-payment defaults with respect to financial indebtedness in an aggregate amount of at least €100.0 million, entitling the note holders to demand immediate redemption of the Existing Notes.

Issuer Security Pooling and Intercreditor Agreement

Overview

On September 7, 2016, IHO Beteiligungs GmbH (previously named Schaeffler Verwaltungs 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**") (as amended on September 9, 2016) 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 for the Existing Issuer Notes and 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 holders of the Notes 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 that has acceded to the Issuer Security Pooling and Intercreditor Agreement, including the Trustee for the Notes and the trustee for the Existing Issuer Notes, and the holders of the notes that will be subject to the Security Pooling and Intercreditor Agreement (including the Notes, the Existing Issuer Notes and any future notes with respect to which a Notes Effective Date (as defined below) occurs) together, 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, IHO Beteiligungs GmbH (previously named Schaeffler Verwaltungs 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 holders of the Notes. 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) IHO Beteiligungs GmbH (previously named Schaeffler Verwaltungs 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.

<u>Option to purchase: Note Holders</u>

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*") 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*") 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 on 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 on 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 on 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

Non-Distressed Disposals: General

If, prior to an Enforcement Decision, in respect of a disposal of any asset by a Security Provider which is subject to any Transaction Security:

- 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.

Application of Proceeds resulting from Non-Distressed Disposals

The Parties agree that if, and to the extent pursuant to the terms of any Transaction Finance Document, any proceeds resulting from any disposal of an asset in accordance with the description under "*—Non-Distressed Disposals: General*" 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*" 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.*"

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.

<u>Application of proceeds by Security Trustee</u>

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.*"

<u>Prospective liabilities and determination of quotas</u>

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 in this section "*—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 in this 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**").

<u>Facilities Effective Date</u>

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 captions "—*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 captions "*—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 in this section "*—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 in this section "*—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 in this section "*—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 the 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, email, 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 paragraph (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

paragraph (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, as Principal Obligations) as and when the same fall due for payment under the relevant Hedging Agreement, or with respect to paragraph (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:

(i) 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;

(ii) 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*;"

(iii) 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*" above, 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.

Indebtedness of the Schaeffler Group

Schaeffler Group Syndicated Facilities Agreement

On July 18, 2016, Schaeffler AG entered into a syndicated term loan and revolving credit facilities agreement (the "**SFA 2016**"), with Schaeffler AG as borrower 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 certain banks and financial institutions named therein as original lenders. The SFA 2016 was amended pursuant to a transaction agreement dated August 31, 2018 coordinated by Citigroup Global Markets Limited, HSBC Bank PLC, ING Bank, a branch of ING-DIBA AG and MUFG Bank, Ltd. (the "**SFA 2016 Transaction Agreement,**" and the SFA 2016 as amended pursuant to the SFA 2016 Transaction Agreement, the "**Schaeffler Group Syndicated Facilities Agreement**").

Pursuant to the terms and conditions of the Schaeffler Group Syndicated Facilities Agreement, the lenders have made available to Schaeffler AG the following credit facilities:

- a €500 million term loan facility (the "**Schaeffler Group Term Facility**") which matures, subject to an uncommitted extension option, on September 30, 2023; and
- a €1,500 million multi-currency revolving credit facility (the "**Schaeffler Group Revolving Facility**" and, together with the Schaeffler Group Term Facility, the "**Schaeffler Group Syndicated Facilities**"), which matures, subject to certain uncommitted extension options, on September 30, 2023. Schaeffler AG has the right to request (subject to certain conditions being met) an increase of the Schaeffler Group Revolving Facility by an aggregate amount of up to €300 million, provided that the lenders may decide in their free discretion whether or not they agree to participate in any such increase. The 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 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 €750 million (with such limit to be increased or, as the case may be, reduced by the same percentage as the total commitments under the Schaeffler Group Revolving Facility are increased pursuant to the increase option mentioned above or reduced by way of cancellation.

As of March 31, 2019, the Schaeffler Group Term Facility was fully drawn and €20 million were utilized under the Schaeffler Group Revolving Facility, primarily in the form of letters of credit under ancillary facilities provided thereunder.

The Schaeffler Group Syndicated Facilities are not secured by any collateral *in rem* or any guarantee by any member of the Schaeffler Group (other than by Schaeffler AG in respect of amounts owed under the Schaeffler Group Syndicated Facilities Agreement by finance subsidiaries of Schaeffler AG, which may accede to the Schaeffler Group Syndicated Facilities Agreement from time to time as additional borrowers).

Extension option –Schaeffler Group Term Facility

The Schaeffler Group Syndicated Facilities Agreement provides for an extension option in relation to the Schaeffler Group Term Facility pursuant to which Schaeffler AG may, shortly before the date falling one year before its original final maturity date, request an extension of the final maturity date applicable to the Schaeffler Group Term Facility by one year to September 30, 2024. Each lender under the Schaeffler Group Term Facility may decide in its sole discretion to agree or not to agree to such extension request. The final maturity date applicable to the Schaeffler Group Term Facility will be extended in relation to the participations in the Schaeffler Group Term Facility of each lender which agrees to such extension request.

Extension option –Schaeffler Group Revolving Facility

The Schaeffler Group Syndicated Facilities Agreement provides for an extension option in relation to the Schaeffler Group Revolving Facility pursuant to which Schaeffler AG may request (i) prior to March 26, 2020, an extension of the final maturity date applicable to the Schaeffler Group Revolving Facility by one year to September 30, 2024 and/or (ii) prior to March 26, 2021, an extension of the final maturity date applicable to the Schaeffler Group Revolving Facility by one or, as the case may be, two years to September 30, 2024 or, as applicable, September 30, 2025. The lenders under the Schaeffler Group Revolving 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 Schaeffler Group Revolving Facility will be extended (as requested) in relation to the participations under the Schaeffler Group Revolving Facility of each lender which agrees to the relevant extension request.

Interest

The Schaeffler Group Syndicated 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 in relation to the Schaeffler Group Syndicated Facilities is a certain percentage per annum that is determined in accordance with a margin ratchet mechanism by reference to the credit ratings solicited by Schaeffler AG and assigned to Schaeffler AG's long-term debt by any two of Moody's and either of the other two rating agencies of international standing which were market leaders on the date of the SFA 2016 Transaction Agreement. Pursuant to that margin ratchet mechanism, the ranges of possible margins are (i) in respect of loans under the Schaeffler Group Term Facility, from 1.50% per annum, in the case of a credit rating of BB/Ba2 or equivalent or lower, to 0.50% per annum, in the case of a credit rating of A-/A3 or equivalent or better, (ii) in respect of loans (other than in U.S. dollars) under the Schaeffler Group Revolving Facility, from 1.20% per annum, in the case of a credit rating of BB/Ba2 or equivalent or lower, to 0.20% per annum, in the case of a credit rating of A-/A3 or equivalent or better and (iii) in respect of loans in US dollars under the Schaeffler Group Revolving Facility, from 1.35% per annum, in the case of a credit rating of BB/Ba2 or equivalent or lower, to 0.35% per annum, in the case of a credit rating of A-/A3 or equivalent.

Purpose

The term loans outstanding under the Schaeffler Group Term Facility were used to repay all outstanding amounts under the then-existing senior facilities agreement and to redeem the Redeemed Schaeffler Group April 2013 Notes.

The Schaeffler Group Revolving Facility may be used towards general corporate purposes of Schaeffler AG and its subsidiaries.

(P)repayment/cancellation

All loans utilized under the 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 Schaeffler Group Revolving Facility shall be repaid on the last day of its interest period and all amounts outstanding under the Schaeffler Group Revolving Facility shall be repaid on the final maturity date (as extended as the case may be) applicable to the Schaeffler Group Revolving Facility.

Subject to certain conditions, Schaeffler AG may voluntarily prepay its utilizations under the Schaeffler Group Syndicated Facilities and/or permanently cancel all or part of the available commitments under the Schaeffler Group Revolving Facility.

The Schaeffler Group Syndicated Facilities Agreement requires mandatory prepayment of the loans made available under the Schaeffler Group Syndicated 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 Schaeffler Group Syndicated 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 participations in the Schaeffler Group Syndicated Facilities to another (existing or new) lender willing to accept such assignment, subject to certain conditions.

Financial Covenant

Until the date on which credit ratings, solicited by Schaeffler AG, of BBB/Baa2 (or equivalent) have been assigned to Schaeffler AG's long-term debt by any two of Moody's and either of the other two rating agencies of international standing, which were market leaders on the date of the SFA 2016 Transaction Agreement (the "**Fall-Away Date**"), Schaeffler AG must ensure that the ratio of consolidated total net debt on any testing date to adjusted consolidated EBITDA (both as calculated in accordance with the terms and provisions of the Schaeffler Group Syndicated Facilities Agreement) (the "**Leverage Ratio**") for the relevant testing period is not more than (i) 3.75:1 or (ii) 4.25:1 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 adjusted consolidated EBITDA is calculated for the testing period ending on the relevant testing date.

General covenants

The Schaeffler Group Syndicated Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the Schaeffler Group Syndicated 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 Schaeffler AG or certain other material members of the Schaeffler Group (together, the "**Material Schaeffler Group Members**"), (iii) the incurrence of financial indebtedness by any material subsidiary of Schaeffler AG (other than any finance subsidiary), (iv) (prior to the occurrence of the Fall-Away Date) the granting of loans or credit by any Material Schaeffler Group Member, (v) mergers and other reorganization measures involving any Material Schaeffler 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 Schaeffler Group Syndicated Facilities Agreement.

In addition, the Schaeffler Group Syndicated 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 Schaeffler Group Syndicated 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 payable on demand) or declare that all or part of the amounts outstanding under any ancillary facilities be immediately due and payable (or payable on demand).

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 Schaeffler Group Syndicated Facilities Agreement;

(b) (prior to the occurrence of the Fall-Away Date) 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 Schaeffler Group Member, subject to a threshold of €100 million in aggregate;

(d) certain insolvency events or proceedings in relation to a Material Schaeffler Group Member; and

(e) certain creditors' processes, including expropriations, attachments or sequestration of assets or similar events affecting assets of a Material Schaeffler Group Member, subject to a threshold of €50 million in aggregate.

Fall-Away Date: fall-away of covenants

The Schaeffler Group Syndicated Facilities Agreement provides for a mechanism according to which certain covenants will fall away or relax (as applicable) upon the occurrence of the Fall-Away Date:

- the financial covenant (and, consequentially, the related event of default ceases to apply); and
- the restrictions on the granting of loans or credit.

Governing Law

The Schaeffler Group Syndicated Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by German law.

Schaeffler Group Investment Facility Agreement

On December 15, 2017, Schaeffler AG as borrower entered into a term loan facility agreement with, among others, ING Bank, a branch of ING-DiBa AG and MUFG Bank, Ltd. as coordinators and certain banks as original lenders, to finance certain capital expenditure investments, providing for a credit facility in an amount of €250 million, maturing, subject to an extension option, on December 15, 2022 (as amended, including by an amendment agreement dated August 31, 2018 (the "**Schaeffler IF Amendment Agreement**"), the "**Schaeffler Group Investment Facility Agreement**") and the term loan facility made available thereunder (the "**Schaeffler Group Investment Facility**").

As of March 31 2019, loans in a principal amount of €184 million were outstanding under the Schaeffler Group Investment Facility. The availability period for any unutilized commitments under the Schaeffler Group Investment Facility expires on December 31, 2019.

Extension option—Schaeffler Group Investment Facility

The Schaeffler Group Investment Facility Agreement provides for an extension option in relation to the Schaeffler Group Investment Facility pursuant to which Schaeffler AG may, shortly before the date falling one year before its original final maturity date, request a one year extension of the final maturity date applicable to the Schaeffler Group Investment Facility to December 15, 2023. Each lender under the Schaeffler Group Investment Facility may decide in its sole discretion to agree or not to agree to such an extension request. The final maturity date applicable to the Schaeffler Group Investment Facility will be extended in relation to the participations of each lender under the Schaeffler Group Investment Facility which agrees to such extension request.

Interest

The Schaeffler Group Investment Facility bears interest at a rate of EURIBOR (provided that EURIBOR is, if EURIBOR is below zero, zero), plus the applicable margin. The applicable margin in relation to the Schaeffler Group Investment Facility is a certain percentage per annum that is determined in accordance with a margin ratchet mechanism by reference to the credit ratings, solicited by Schaeffler AG, and assigned to Schaeffler AG's long-term debt by any two of Moody's and either of the other two rating agencies of international standing which were market leaders on the date of the Schaeffler IF Amendment Agreement. Pursuant to that margin ratchet mechanism, the ranges of possible margins are from 1.70% per annum, in the case of a credit rating of BB/Ba2 or equivalent or lower, to 0.70% per annum, in the case of a credit rating of A-/A3 or equivalent or better.

Purpose

The term loans outstanding or to be utilized under the Schaeffler Group Investment Facility have been or, as the case may be, shall be applied towards the financing (or refinancing) of capital expenditures by way of investments in, or in connection with, the development and the construction of the EDC and the AKO.

(P)repayment/cancellation, financial covenant, general covenants, events of default, Fall-Away Date: fall-away of covenants

The provisions of the Schaeffler Group Investment Facility Agreement, in relation to prepayment and cancellation, the financial covenant, general covenants, events of default and the Fall-Away Date and the effects of its occurrence, are substantially equivalent to the relevant provisions of the Schaeffler Group Syndicated Facilities Agreement.

Governing Law

The Schaeffler Group Investment Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by German law.

Schaeffler Group Notes

Schaeffler Group May 2014 Notes

On May 14, 2014, Schaeffler Finance B.V. issued €500 million in aggregate principal amount of 3.50% senior secured notes due 2022 under a New York law governed indenture dated May 14, 2014, as amended from time to time (the "**2014/2022 Schaeffler Group Notes**"), 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 2014/2022 Schaeffler Group Notes accrued at the rate of 3.50% per annum. Schaeffler Finance B.V. redeemed the 2014/2022 Schaeffler Group Notes with a portion of the proceeds from the issuance of the New Schaeffler Group Notes on May 15, 2019.

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 (the "**2015/2020 Schaeffler Group Notes**"), $600 million in aggregate principal amount of 4.75% senior secured notes due 2023 (the "**2015/2023 Schaeffler Group Notes**") and €600 million in aggregate principal amount of 3.25% senior secured notes due 2025 (the "**2015/2025 Schaeffler Group Notes**" and, together with the 2015/2020 Schaeffler Group Notes and the 2015/2023 Schaeffler Group Notes, the "**Schaeffler Group April 2015 Notes**" and, together with the 2014/2022 Schaeffler Group 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 2015/2020 Schaeffler Group Notes accrued at the rate of 2.50% per annum, interest on the dollar-denominated 2023 Schaeffler Group Notes accrued at the rate of 4.75% per annum and interest on the euro-denominated 2025 Schaeffler Group Notes accrues at the rate of 3.25% per annum.

Schaeffler Finance B.V. redeemed the 2020 Schaeffler Group Notes and the 2023 Schaeffler Group Notes with a portion of the proceeds from the issuance of the New Schaeffler Group Notes on May 15, 2019. The 2015/2025 Schaeffler Group Notes remain outstanding.

Guarantees and Security

The 2015/2025 Schaeffler Group Notes were originally guaranteed by certain subsidiaries of Schaeffler AG and secured by certain assets of the Schaeffler Group. The guarantees and security were released in accordance with the terms of the indenture governing the 2015/2025 Schaeffler Group Notes.

Terms and conditions of the 2015/2025 Schaeffler Group Notes

The indenture governing the 2015/2025 Schaeffler Group Notes contains certain covenants limiting the ability of the Schaeffler Group 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;

in each case, subject to certain exceptions and baskets.

As the 2015/2025 Schaeffler Group Notes have achieved investment grade credit ratings from each of Moody's (Baa3 on September 7, 2016) and S&P (BBB- on August 30, 2018), most of the restrictive covenants (other than the covenant restricting the Schaeffler Group to incur certain liens) have been suspended. Should the Notes cease to have an investment grade rating from Moody's or S&P, these covenants will be reinstated.

Under the indenture governing the 2015/2025 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 2015/2025 Schaeffler Group Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts.

The indenture governing the 2015/2025 Schaeffler Group Notes also provides for events of default, including cross acceleration and cross-payment defaults with respect to financial indebtedness in an aggregate amount of at least €75 million, entitling the note holders to demand immediate redemption of the 2015/2025 Schaeffler Group Notes.

New Schaeffler Group Notes

On March 26, 2019, Schaeffler AG issued €2,200 million in aggregate principal amount of senior notes (€750 million of 1.125% senior notes due 2022, €800 million of 1.875% senior notes due 2024 and €650 million of 2.875% senior notes due 2027), under its €5,000 million debt issuance program (the "**New Schaeffler Group Notes**"), in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the New Schaeffler Group Notes due 2022 accrues at the rate of 1.125% per annum, interest on the New Schaeffler Group Notes due 2024 accrues at the rate of 1.875% per annum and interest on the New Schaeffler Group Notes due 2027 accrues at the rate of 2.875% per annum. Interest on the New Schaeffler Group Notes is payable in euro annually in arrears on March 26, commencing on March 26, 2020.

The terms of the New Schaeffler Group Notes restrict the ability of Schaeffler AG to create certain liens securing capital markets indebtedness, subject to certain exceptions. Under the terms of the New Schaeffler Group Notes, upon the occurrence of a change of control in combination with certain ratings downgrade events, each holder of notes is entitled to require Schaeffler AG to redeem in whole or in part its New Schaeffler Group Notes at their principal amount, plus accrued and unpaid interest.

The terms of the New Schaeffler Group Notes also provide for events of default, including cross acceleration with respect to capital markets indebtedness in an aggregate amount of at least €100 million, entitling the holders to demand immediate repayment of the New Schaeffler Group Notes.

The New Schaeffler Group Notes are governed by German law.

Schaeffler Group Asset-backed Commercial Paper Program

On November 30, 2017, the Schaeffler Group established an asset-backed commercial paper program (as amended and restated from time to time, the "**Schaeffler Group ABCP Program**"), under which we securitize certain trade receivables. On November 29, 2018, we amended the Schaeffler Group ABCP Program to extend its maturity to November 29, 2019. Under the Schaeffler Group ABCP Program, two Schaeffler Group companies sell trade receivables on a revolving basis to a special purpose vehicle in an asset-backed commercial paper program sponsored by UniCredit Bank AG and Bayerische Landesbank. The maximum amount permitted to be outstanding under the Schaeffler Group ABCP Program at any one time was originally €150 million and was increased to €200 million in September 2018. As of March 31, 2019, trade receivables with a carrying amount of €183 million net of retained credit risk had been sold under the Schaeffler Group ABCP Program. Under the

Schaeffler Group ABCP Program, the purchase price for sold assets corresponds to the nominal amount of the receivable sold less certain discounts. The Schaeffler Group ABCP Program contains representations, warranties and covenants typical for asset-backed security financing programs, including representations and warranties as to the eligibility of receivables sold under the program and compliance with the credit and collection policy agreed between the parties to the Schaeffler Group ABCP Program.

Other Schaeffler Group lines of credit

In addition to the Schaeffler Group Syndicated Facilities Agreement, the Schaeffler Group Investment Facility and the Schaeffler Group Notes, the Schaeffler Group had further committed lines of credit with certain banks or other financial institutions in the equivalent of approximately €136 million as of March 31, 2019, of which an aggregate principal amount of €119 million was unutilized as of March 31, 2019.

Description of the Notes

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 Listing Memorandum*." The terms of the Notes include those set forth in the Indenture. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended. The Security Documents referred to below under the caption "*—Security*" define the terms of the security that will secure the Notes.

The Issuer will use the gross proceeds from the Offering, together with cash on hand, to (i) redeem in full the Existing 2021 Dollar Notes, the Existing 2023 Dollar Notes, the Existing 2021 Euro Notes and the Existing 2023 Euro Notes, in each case including the payment of the applicable redemption premium and accrued and unpaid interest up until the redemption date for the Redeemed Issuer Notes (which is expected to be the Issue Date), (ii) repay €150 million under the Issuer Term Facility, (iii) close out cross-currency hedging arrangements related to certain of the Redeemed Issuer Notes and (iii) pay related fees and expenses.

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 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 Existing Issuer Notes, 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 indebtedness under the Existing Issuer Notes and the Issuer Facilities Agreement; 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 March 31, 2019, on a *pro forma* basis after giving effect to the Refinancing, the Issuer would have €1,801 million outstanding indebtedness for borrowed money other than the Notes, consisting of €1,195 million (equivalent) outstanding under the Existing Issuer Notes and €606 million under the Issuer Facilities Agreement. In addition, as of March 31, 2019, after giving effect to the Refinancing, the Issuer had €394 million available for drawing under the Issuer Facilities Agreement. As of March 31, 2019, on a *pro forma* basis after giving effect to the Schaeffler Group Notes Redemption, Schaeffler AG and its Subsidiaries would have had approximately €3,484 million of indebtedness outstanding (based on principal amounts, comprising, among other things, of borrowings under the Schaeffler Group Syndicated Facilities Agreement, the Schaeffler Group Investment Facility Agreement and indebtedness under the Schaeffler Group Existing Notes; see "*Capitalization*"). In addition, as of March 31, 2019, Schaeffler AG and certain of its Subsidiaries had €1,546 million available for drawing under the Schaeffler Group Revolving Facility of the Schaeffler Group Syndicated Facilities Agreement and under the Schaeffler Group Investment Facility 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 €800 million in aggregate principal amount of senior secured PIK toggle notes due 2025 (the "**2025 Euro Notes**"), €500 million in aggregate principal amount of senior secured PIK toggle notes due 2027 (the "**2027 Euro Notes**" and, together with the 2025 Euro Notes, the "**Euro Notes**"), $450 million in aggregate principal amount of senior secured PIK toggle notes due 2027 (the "**2027 Dollar Notes**") and $400 million in aggregate principal amount of senior secured PIK toggle notes due 2029 (the "**2029 Dollar Notes**" and, together with the 2027 Dollar Notes, the "**Dollar Notes**;" the Dollar Notes and the Euro Notes together, the "**Notes**") in the Offering.

The Issuer may issue additional Notes ("**Additional Notes**") under the Indenture from time to time after the 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 2025 Euro Notes will mature on May 15, 2025 and the 2027 Euro Notes will mature on May 15, 2027. The 2027 Dollar Notes will mature on May 15, 2027 and the 2029 Dollar Notes will mature on May 15, 2029. The redemption price at maturity will equal 100% of the principal amount of the Notes redeemed.

Interest

Cash interest on the 2025 Euro Notes will accrue at the rate of 3.625% per annum (the "**2025 Euro Cash Interest Rate**"), cash interest on the 2027 Euro Notes will accrue at the rate of 3.875% per annum (the "**2027 Euro Cash Interest Rate**" and, together with the 2025 Euro Cash Interest Rate, the "**Euro Cash Interest Rate**"), cash interest on the 2027 Dollar Notes will accrue at the rate of 6.000% per annum (the "**2027 Dollar Cash Interest Rate**") and cash interest on the 2029 Dollar Notes will accrue at the rate of 6.375% per annum (the "**2029 Dollar Cash Interest Rate**" and, together with the 2027 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 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 Dollar Notes or issue Additional Notes in relation to the 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and the 2029 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 November 15, 2019. 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 on the aggregate nominal amount outstanding. 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, 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. 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 (collectively with any other paying agents, the"**Paying Agents**") for the Euro Notes and one or more Paying Agents for the Dollar Notes. The initial Paying Agent for the Euro Notes will be Deutsche Bank AG, London Branch and the initial Paying Agent for the Dollar Notes will be Deutsche Bank Trust Company Americas.

The Issuer will also maintain one or more registrars (each, a "**Registrar**"). The initial Registrars will be Deutsche Bank Luxembourg S.A. for the Euro Notes and Deutsche Bank Trust Company Americas for the Dollar Notes. The Issuer will also maintain one or more transfer agents (each a "**Transfer Agent**"). The initial Transfer Agents will be Deutsche Bank AG, London Branch with respect to the Euro Notes and Deutsche Bank Trust Company Americas with respect to the Dollar Notes. The Registrars will maintain a register (the "**Register**") reflecting ownership of Definitive Registered Notes outstanding from time to time, if any, and will 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*." Each Transfer Agent shall perform the functions of a transfer agent.

The Issuer may change the Paying Agents, Registrars or 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 S.A. ("**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 May 22, 2019, 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 the 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 Listing Memorandum); and

(2) pledges over 41,937,694 common shares in Continental held by the Issuer (representing approximately 21.0% of Continental AG's total Capital Stock as of the date of this Listing Memorandum).

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 Existing Issuer 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 and any additional notes issued as PIK interest in respect of the Existing Issuer Notes) will be secured effectively equally and ratably by liens over the Collateral. While the pledges on the Collateral securing the Notes will be created second in time and thus *in rem* ranking, the Intercreditor Agreement provides that any proceeds received from enforcement of the security documents will be shared equally and ratably between the holders of the Notes and any other indebtedness that is or becomes subject to the Intercreditor Agreement. Under the Indenture, the Issuer and the Restricted Subsidiaries, if any, 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 the 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 the Existing Issuer Notes and 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 the Existing Issuer Notes and any 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 Refinancing, the aggregate principal amount of the Notes outstanding will constitute approximately 48% of the total commitments of all secured creditors subject to the Intercreditor Agreement and entitled to vote thereunder. Accordingly, 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

2025 Euro Notes

Except as set forth below and except pursuant to "—*Redemption for changes in taxes*," the 2025 Euro Notes will not be redeemable at the Issuer's option prior to May 15, 2021.

At any time prior to May 15, 2021, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2025 Euro Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice to Holders, at a redemption price equal to 103.625% of the principal amount of the 2025 Euro Notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to (but not including) the date of redemption (subject to the rights of Holders on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of an Equity Offering of (i) 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 2025 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 2025 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 May 15, 2021, the Issuer may on any one or more occasions redeem all or a part of the 2025 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 2025 Euro Notes redeemed, plus the Applicable Premium as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption, subject to the rights of holders of the 2025 Euro Notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after May 15, 2021, the Issuer may on any one or more occasions redeem all or a part of the 2025 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 2025 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on May 15 of the years indicated below,

subject to the rights of holders of the 2025 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2025 Euro Notes
2021	101.8125%
2022	100.9063%
2023 and thereafter	100.0000%

2027 Euro Notes

Except as set forth below and except pursuant to "—*Redemption for changes in taxes*," the 2027 Euro Notes will not be redeemable at the Issuer's option prior to May 15, 2022.

At any time prior to May 15, 2022, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2027 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 103.875% of the principal amount of the 2027 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 2027 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 2027 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 May 15, 2022, the Issuer may on any one or more occasions redeem all or a part of the 2027 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 2027 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 2027 Euro Notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after May 15, 2022, the Issuer may on any one or more occasions redeem all or a part of the 2027 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 2027 Euro Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2027 Euro Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2027 Euro Notes
2022	101.9375%
2023	100.9688%
2024 and thereafter	100.0000%

2027 Dollar Notes

Except as set forth below and except pursuant to "—*Redemption for changes in taxes*," the 2027 Dollar Notes will not be redeemable at the Issuer's option prior to May 15, 2022.

At any time prior to May 15, 2022, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2027 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 106.000% of the principal amount of the 2027 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 2027 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 the 2027 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 May 15, 2022, the Issuer may on any one or more occasions redeem all or a part of the 2027 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 2027 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 2027 Dollar Notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after May 15, 2022, the Issuer may on any one or more occasions redeem all or a part of the 2027 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 2027 Dollar Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2027 Dollar Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2027 Dollar Notes
2022	103.000%
2023	101.500%
2024 and thereafter	100.000%

2029 Dollar Notes

Except as set forth below and except pursuant to "—*Redemption for changes in taxes*," the 2029 Dollar Notes will not be redeemable at the Issuer's option prior to May 15, 2024.

At any time prior to May 15, 2024, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 2029 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 106.375% of the principal amount of the 2029 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 2029 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 2029 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 May 15, 2024, the Issuer may on any one or more occasions redeem all or a part of the 2029 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 2029 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 2029 Dollar Notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after May 15, 2024, the Issuer may on any one or more occasions redeem all or a part of the 2029 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 2029 Dollar Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on May 15 of the years indicated below, subject to the rights of holders of the 2029 Dollar Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price 2029 Dollar Notes
2024	103.188%
2025	102.125%
2026	101.063%
2027 and thereafter	100.000%

Notwithstanding the foregoing, in connection with any tender offer for any series of Notes in compliance with the terms of the Indenture, including a Change of Control Offer, a Notes Offer or an Asset Sale Offer, if Holders of not less than 90% in aggregate principal amount of the applicable series of outstanding Notes validly tender and do not withdraw such Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases all of the Notes of the applicable series validly tendered and not withdrawn by such Holders, all of the Holders of such series of Notes will be deemed to have consented to such tender offer, and accordingly, the Issuer or such third party will have the right upon not less than 10 nor more than 60 days' prior written notice, given not more than 30 days following such tender offer expiration date, to redeem the Notes of the applicable series that remain outstanding in whole, but not in part, following such purchase, at a price equal to the price offered to each other Holder of such series of Notes (excluding any early tender or incentive fee) in such tender offer, plus, to the extent not included in the tender offer payment, accrued and unpaid interest and Additional Amounts, if any, thereon, to, but excluding, such redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). In determining whether the Holders of at least 90% of the aggregate principal amount of the then outstanding Notes of the applicable series have validly tendered and not withdrawn Notes of such series in a tender offer or other offer to purchase for all of the Notes of such series, as applicable, Notes of such series owned by any affiliate of the Issuer shall be deemed to be outstanding for the purposes of such tender offer or other offer, as applicable. 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 or regulations to the extent those laws and regulations are applicable in connection with any such tender offer.

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 2025 Euro Notes, the 2027 Euro Notes, the 2027 Dollar Notes and/or the 2029 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 May 22, 2019 (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after May 22, 2019, 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 May 22, 2019 (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after May 22, 2019, 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 constitute a change of control under the Issuer's and the Schaeffler OpCo Group's other indebtedness, including the Issuer Facilities Agreement, the Schaeffler Group Facilities Agreements, the Existing Issuer Notes and the Schaeffler Group Existing Notes, which would require a mandatory prepayment or offer to repurchase such indebtedness. In addition, certain events that may constitute a change of control under such other indebtedness and require a mandatory prepayment or offer to purchase such indebtedness may not constitute a Change of Control under the Indenture. Future indebtedness of the Issuer or its Subsidiaries may also 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. Even if sufficient funds were otherwise available at the Issuer's Subsidiaries or at Continental AG or its subsidiaries, the boards of directors of Schaeffler AG and/or Continental AG may not declare the requisite dividends or distributions to pay such funds to the Issuer Group, the other shareholders of Continental AG may fail to approve any such dividend or distribution by Continental AG to the Issuer Group, and the terms of indebtedness of the Schaeffler OpCo Group and/or Continental AG and its subsidiaries may prohibit the upstreaming of funds to the Issuer Group necessary to repurchase or repay the Notes upon a Change of Control. Accordingly, the Issuer expects that it would require third party financing to make an offer to repurchase the Notes upon a Change of Control, and the Issuer cannot assure you that it would be able to obtain such financing. 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 Trustee or the applicable Registrar will select Notes for redemption on a *pro rata* basis (or, in the case of Notes issued in global form as discussed under "—*Book-entry, Delivery and Form*," based on a method that most nearly approximates a *pro rata* selection (or, in the case of Notes clearing through DTC, by lot) as the Trustee or the applicable Registrar deems fair and appropriate in accordance with DTC's, Euroclear's and Clearstream's procedures), unless otherwise required by law or applicable stock exchange or 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 €1,500 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) Indebtedness under the Existing Issuer Notes and any Guarantees in respect thereof, (c)(i) 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), (ii) any Pari Passu PIK Indebtedness issued from time to time in payment of Pari Passu PIK Interest on any Pari Passu PIK Indebtedness (as such may be increased as a result of the issuance of additional Pari Passu PIK Indebtedness issued from time to time in payment of paid in kind of interest or additional amounts on such Pari Passu PIK Indebtedness), provided that, in the case of this clause (c)(ii) only, the original aggregate principal amount of such Pari Passu PIK Indebtedness was first incurred in compliance with this "—*Indebtedness*" section (including the Existing Issuer Notes and any Guarantees in respect thereof), and (d) the parallel debt obligations for the benefit of the Security Trustee under the Intercreditor Agreement relating to the Indebtedness described in clauses (a), (b) and (c) of this clause (3);

(4) Indebtedness of the Issuer and its Restricted Subsidiaries (other than the Indebtedness described in clauses (1), (2) or (3) of this covenant) outstanding on the Issue Date;

(5) *[Reserved]*;

(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), (12) or (13);

(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); and

(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.

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 (14) 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 (14) 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 purposes of determining any particular amount of Indebtedness under this "Limitation on Indebtedness" covenant, obligations with respect to letters of credit, guarantees or Liens, in each case supporting Indebtedness otherwise included in the determination of such particular amount will not be included. Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness (including in respect of the Notes, the payment of dividends in the form of additional shares of preferred stock or Redeemable Capital Stock or the reclassification of commitments or

obligations not treated as Indebtedness due to a change in IFRS, will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

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 property or assets or 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)(c) of the second paragraph of this covenant and clauses (4) and (8) 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 clauses (3) and (8) 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) €700.0 million in 2019 and (ii) €350.0 million in any calendar year thereafter, in each case plus (x) 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 (including, for the avoidance of doubt, any repayment by way of set-off against, assumption of or exchange for or using as consideration any other Permitted Upstream Payments made under this clause (8)) and any interest paid to the Issuer or any of its Restricted Subsidiaries with respect to such loans or advances in such calendar year and (z) the aggregate net cash proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer in such calendar year (and after 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) (provided that the amount of any net cash proceeds under this clause (z) that are utilized for any such Permitted Upstream Payments will be excluded from the calculation of amounts under clause (3)(c) of the second paragraph of this covenant and clauses (3) and (4) of this paragraph); and provided further that any unused amounts under this clause (8) 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 Refinancing;

(14) any Restricted Payments by the Issuer to IHO Beteiligungs GmbH necessary to permit the assumption or set-off by the Issuer of Indebtedness of Schaeffler IHO Beteiligungs GmbH under the Existing Upstream 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 (including Credit Facilities) in effect on the Issue Date, including the Issuer Facilities Agreement, the Intercreditor Agreement, the Existing Issuer Notes and the indenture governing the Existing Issuer Notes, the security documents relating to the Issuer Facilities Agreement and the Existing Issuer Notes, 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; and

(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) 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 or any cost, expense, liability or obligation (including with respect to any Taxes) to the extent such cost, expense, liability or obligation are disproportionate to the benefit obtained by the Holders with respect to the receipt of the guarantee (as determined in good faith by the Issuer).

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

If on any date following the Issue Date (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, beginning on that day and continuing until the Reversion Date (as defined below), the covenants specifically listed under the following captions in this "*Description of the Notes*" section of this Listing 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*;" (iii) any Affiliate Transaction entered into after such reinstatement pursuant to an agreement entered into during any Suspension Period shall be deemed to be permitted pursuant to clause (8) of the second paragraph of the covenant described under the caption "*—Transactions with Affiliates*"; (iv) any encumbrance or restriction on the ability of any Restricted Subsidiary to take any action described in clauses (1) through (3) of the first paragraph of the covenant described under the caption "—*Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*" that becomes effective during any Suspension Period shall be deemed to be permitted pursuant to clause (1) of the second

paragraph of the covenant described under "—*Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*" and (v) 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. The Issuer shall notify the Trustee of the occurrence of a Covenant Suspension Event, although such notification shall not be a condition for suspension of the applicable covenants to be effective.

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, 2019, 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 (*Konzernlagebericht*) 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, 2019, 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 (if any) 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, 2019, 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 June 30, 2019, 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 June 30, 2019, 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 Listing 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 Trustee 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.

In the event that, and for so long as, equity securities of Schaeffler AG or a Restricted OpCo Group TopCo are listed on any nationally recognized regulated stock exchange or listing authority in a member state of the European Union or the United States (including, for avoidance of doubt, the main market of the Frankfurt Stock Exchange) and Schaeffler AG or such Restricted OpCo Group TopCo, as the case may be, is subject to the admission and disclosure standards applicable to issuers of equity securities admitted to trading on such stock exchange, for so long as it elects, the Issuer will be entitled to deliver to the Trustee such annual and interim reports, information, documents and other reports that Schaeffler AG or such Restricted OpCo Group TopCo, as the case may be, is, or would be, required to file with such stock exchange pursuant to such admission and disclosure standards. Upon complying with the foregoing requirements, and provided that such requirements require Schaeffler AG or such Restricted OpCo Group TopCo, as the case may be, to prepare and file with such stock exchange (or otherwise publish) annual and interim reports, information, documents and other reports, the Issuer will be deemed to have complied with the provisions contained in clauses 1(a), 1(b), 2(a) and (3) of the first paragraph and in the fifth paragraph of this covenant with respect to Schaeffler Group or such Restricted OpCo Group TopCo, as the case may be.

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.

Delivery of any information, documents and reports to the Trustee pursuant to this "Reports" covenant is for information purposes only and the Trustee's receipt of such shall not constitute actual or constructive notice of any information contained therein, including the compliance by the Issuer or any Guarantor with any of its covenants under 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 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 60 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 such Indebtedness at the Stated Maturity thereof (after giving effect to any applicable grace periods) provided in such Indebtedness (a "**Payment Default**"); or

(b) results in the acceleration of such Indebtedness prior to its Stated 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 Significant 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 60 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, and any such Default under clauses (A) or (B) continues for 10 days; 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. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (5) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (5) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of Default shall have been discharged in full, in each case, within 30 days after the declaration of acceleration with respect thereto and if the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and may not enforce the Security Documents except as provided in such Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Holders of a majority in principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium, interest or Additional Amounts on any Note held by a non-consenting Holder which may only be waived with the consent of Holders of not less than 90% of the aggregate principal amount of the outstanding Notes of the series affected thereby) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

The Indenture will provide that (i) if a Default for a failure to report or failure to deliver a required certificate in connection with another default (the "**Initial Default**") occurs, then at the time such

Initial Default is cured, such Default for a failure to report or failure to deliver a required certificate in connection with another default that resulted solely because of that Initial Default will also be cured without any further action and (ii) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled "*—Certain covenants—Reports*" or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon the delivery of any such report required by such covenant or such notice or certificate, as applicable, even though such delivery is not within the prescribed period specified in the Indenture.

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 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); provided, however, that, if any amendment, supplement, modification or waiver relates only to the rights of a particular series of Notes, only the consent of the Holders of at least a majority in principal amount of all the then outstanding Notes of such series shall be required.

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 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;

provided, however, that, if any amendment, supplement, modification or waiver relates only to the rights of a particular series of Notes, only the consent of the Holders of at least 90% in principal amount of all the then outstanding Notes of such series shall be required.

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 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;

(3) 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;

(4) 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;

(5) to enter into additional or supplemental Security Documents;

(6) to release any Note Guarantee in accordance with the terms of the Indenture and the Intercreditor Agreement;

(7) to release the Collateral in accordance with the terms of the Indenture, the Intercreditor Agreement and the Security Documents;

(8) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(9) to allow any Restricted Subsidiary to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes;

(10) 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);

(11) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture; or

(12) 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 Listing 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 IHO Verwaltungs GmbH, Industriestrasse 1-3, 91074 Herzogenaurach, Germany, for the attention of Treasury & Controlling.

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 Listing Memorandum may be obtained, free of charge, during normal business hours at the offices of the Listing Agent.

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 German law.

Consent to jurisdiction and service of process

The Indenture will provide that the Issuer will appoint Cogency Global, Inc., 10 East 40th Street, 10th floor, New York, New York, 10016, USA, 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.

"**Aggregate Issuer Group Indebtedness**" means, as of any date of determination, the aggregate amount of Indebtedness of the Issuer and any Restricted Subsidiary that is a member of the Issuer Group outstanding as of such date that is (i) incurred under the first paragraph or clauses (1), (3)(a), 3(b), 3(c), (11) or (13) of the second paragraph of the covenant described under "*—Certain covenants—Limitation on Indebtedness*" or (ii) Permitted Refinancing Indebtedness in respect of any Indebtedness set forth in clause (i).

"**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 (other than Restricted Shares) held by any member of the Issuer Group from time to time.

"**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 on or prior to such interest payment date under the Issuer Facilities Agreement (or any Credit Facility that replaces the Issuer Facilities Agreement) or any other outstanding Indebtedness of any member of the Issuer Group. 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 May 15, 2021, in the case of the 2025 Euro Notes, or May 15, 2022, in the case of the 2027 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 2025 Euro Notes or the 2027 Euro Notes, respectively, and of a maturity most nearly equal to May 15, 2021, in the case of the 2025 Euro Notes, or May 15, 2022, in the case of the 2027 Euro Notes; provided, however, that, if the period from such redemption date to May 15, 2021, in the case of the 2025 Euro Notes, or May 15, 2022, in the case of the 2027 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 (as in effect on December 31, 2018, and in any event disregarding the impact of IFRS 16 (*Leases*) and any successor standard thereto), 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, but only to the extent such interest is actually paid by the Person guaranteeing or securing such Indebtedness, or by its Restricted Subsidiaries; 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, but only to the extent such interest is actually paid by the Person guaranteeing or securing such Indebtedness, or by 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).

"**Contingent Obligations**" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness ("**primary obligations**") of any other Person (the "**primary obligor**"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

 (a) for the purchase or payment of any such primary obligation; or

 (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"**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; provided that any Default that results solely from the taking of an action that would have been permitted but for the continuation of a previous Default will be deemed to be cured if such previous Default is cured prior to becoming 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*."

"**disinterested member**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A member of the Board of Directors of the Issuer shall not be deemed to have such a financial interest by reason of such member's holding Capital Stock of the Issuer or any Affiliate thereof or any options, warrants or other rights in respect of any of the foregoing or being an officer, director, consultant or employee of any such entities.

"**Dollar Applicable Premium**" means, with respect to a Dollar Note at any redemption date, the excess of (A) the present value at such redemption date of: (1) the redemption price of such Dollar Note on May 15, 2022 (such redemption price being described under "*—Optional redemption*" exclusive of any accrued and unpaid interest), in the case of the 2027 Dollar Notes, or May 15, 2024, in the case of the 2029 Dollar Notes; plus (2) all required remaining scheduled interest payments due on such Dollar Note through May 15, 2022, in the case of the 2027 Dollar Notes, or May 15, 2024, in the case of the 2029 Dollar Notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate (subject to a 0.0% floor) 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 May 15, 2021 (such redemption price being described under "*—Optional redemption*" exclusive of any accrued and unpaid interest), in the case of the 2025 Euro Notes, or May 15, 2022, in the case of the 2027 Euro Notes; plus (2) all required remaining scheduled interest payments due on such Euro Note through May 15, 2021, in the case of the 2025 Euro Notes, or May 15, 2022, in the case of the 2027 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 (subject to a 0.0% floor) plus 50 basis points over (B) the principal amount of such Euro Note on such redemption date.

"**Euro Equivalent**" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Issuer or the Trustee, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in *The Financial Times* in the "*Currency rates*" section (or, if *The Financial Times* is no longer published, or if such

information is no longer available in *The Financial Times,* such source as may be selected in good faith by the Issuer) on the date of such determination.

"**European Government Obligations**" means any security that is: (1) a direct obligation of any country that is a member of the European Monetary Union on the date of the Indenture whose long-term debt is rated "Aa2" or higher by Moody's or "AA" by S&P or the equivalent rating category of another internationally recognized rating agency, for the payment of which the full faith and credit of such country is pledged; or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

"**Event of Default**" has the meaning assigned to such term in "*—Events of Default and Remedies.*"

"**Existing Issuer Notes**" means (i) €750,000,000 in aggregate principal amount of the Issuer's 3.750% / 4.500% senior secured PIK toggle notes due 2026 and (ii) $500,000,000 in aggregate principal amount of the Issuer's 4.750% / 5.500% senior secured PIK toggle notes due 2026, each issued pursuant to an indenture dated September 22, 2016, as amended from time to time.

"**Existing Upstream Loan**" means the notes proceeds loan in the principal amount of €880,000,000 granted by the Issuer to IHO Beteiligungs GmbH, originally dated September 22, 2016, as amended from time to time.

"**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 activities, transactions and arrangements substantially similar to those carried out by the Issuer or to which the Issuer is a party as at the Issue Date, (xiii) 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 (xii) and the ownership of assets required therefor; and (xiv) 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. At any date after the Issue Date, the Issuer may make an irrevocable election to establish that IFRS means as in effect on a date that is after the Issue Date and on or prior to the date of such election (except with respect to the covenant described under the caption "*—Certain covenants—Reports*," which shall continue to mean as in effect from time to time). Notwithstanding any of the foregoing, the impact of IFRS 16 (*Leases*) and any successor standard thereto shall be disregarded with respect to all ratios, calculations and determinations based upon IFRS to be calculated or made, as the case may be, pursuant to the Indenture and (without limitation) any lease of property that would be considered an operating lease under IFRS as of December 31, 2018, and any guarantee thereof, shall be accounted for in accordance with IFRS as in effect on December 31, 2018.

"**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) Contingent Obligations incurred in the ordinary course of business or consistent with past practice, other than Guarantees or other assumptions of Indebtedness; (v) 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 (vi) any leases of property (or guarantees thereof) which would be considered operating leases in accordance with IFRS as in effect on December 31, 2018 (and in any event disregarding the impact of IFRS 16 (Leases) and any successor standard thereto). 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, the trustee of the Existing Issuer Notes and the Security Trustee, and the other parties named therein, and to which the Trustee will accede on or about the Issue Date, 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 Issuer Group Indebtedness as of such date 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 June 6, 2019.

"**Issuer Facilities Agreement**" means the €1,000,000,000 syndicated term loan and revolving credit facilities agreement, originally 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 Issuer Group Indebtedness as of such date 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.

"**Pari Passu PIK Indebtedness**" means any Pari Passu Indebtedness which permits, pursuant to its terms, the payment of interest in kind.

"**Pari Passu PIK Interest**" means any interest (and any additional amounts payable as a result of the tax gross-up provisions of the applicable Pari Passu Indebtedness) paid in kind by increasing the principal amount of the applicable outstanding Pari Passu Indebtedness in a principal amount equal to such interest.

"**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 clauses (iii) or (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 secured parties thereto (acting directly or through its respective creditor representative) 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 clauses (1), (3)(b), 3(c)(ii), (11) or (14) (in the case of (14), to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral

Liens) 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 secured parties thereto (acting directly or through its respective creditor representative) will have entered into the Intercreditor Agreement;

(iv) Liens on the Collateral to secure Indebtedness permitted under clause (i) of the first paragraph of the covenant described under the caption "—*Certain covenants—Limitation on Indebtedness*"; provided that the Intercreditor Agreement LTV Ratio would be less than 1.0 to 1.5 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 secured parties thereto (acting directly or through its respective creditor representative) 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 not incurred in contemplation of such Person becoming a Restricted Subsidiary or such merger or consolidation 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 applicable accounting principles 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 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;

(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 a 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.

"**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.

"**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 cash receipts and payments expected 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*."

"**Refinancing**" has the meaning given to such term in this listing memorandum under the caption "*Summary—The Refinancing*."

"**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 OpCo Group**" means Schaeffler AG and its Subsidiaries.

"**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, 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).

"**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 such redemption date to May 15, 2022, in the case of the 2027 Dollar Notes, or May 15, 2024, in the case of the 2029 Dollar Notes; *provided*, however, that if the period from such redemption date to May 15, 2022, in the case of the 2027 Dollar Notes, or May 15, 2024, in the case of the 2029 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 such redemption date to May 15, 2022, in the case of the 2027 Dollar Notes, or May 15, 2024, in the case of the 2029 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 Schaeffler 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.

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. As such, it is subject to Regulation (EU) 2015/848 of the European Parliament and of the Council dated May 20, 2015 on insolvency proceedings (recast) (the "**EU Insolvency Regulation**"), which entered into force on June 26, 2017 and applies to insolvency proceedings opened on or after that date. It has replaced Council Regulation (EC) no. 1346/2000 on insolvency proceedings, as amended by Council Regulation (EC) no. 663/2014 of June 5, 2014, which continues to apply to insolvency proceedings opened prior to June 26, 2017.

The EU Insolvency Regulation is effective in all EU member states (other than Denmark). Pursuant to the EU Insolvency Regulation, the courts of a member state (other than Denmark) will have jurisdiction to open main insolvency proceedings if the company concerned has its center of main interests ("**COMI**") in that member state. The determination of where a company has its COMI is a question of fact and is made at the time of the filing of the insolvency application. There is a presumption under Article 3(1) of the EU Insolvency Regulation that a company has its COMI in the member state in which it has its 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 with the three-month period prior to the request for the opening of insolvency proceedings). However, the EU Insolvency Regulation also states in its preamble at Recital 30 that the COMI of a company should correspond to the place where the company conducts the administration of its interests on a regular basis and is therefore ascertainable by third-parties. Courts have taken into consideration a number of factors in determining the COMI of a company, including in particular, where board meetings are held, the location where the company conducts the majority of its business or has its head office and the location where the majority of the company's creditors are established.

The question of where a company's COMI is located must be determined at the time that the relevant insolvency proceedings are opened. If main insolvency proceedings are validly opened in one member state, they will be recognized and have effect in all other member states (other than Denmark) pursuant to the EU Insolvency Regulation. If the company is found to have its COMI in a place other than the relevant member state (other than Denmark), the courts of that member state will only have jurisdiction to open secondary insolvency proceedings in that member state and only then provided that the company concerned has an "establishment" (within the meaning and as defined in Article 2(10) of the EU Insolvency Regulation) in that member state. An "establishment" is

defined as "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." Accordingly, the opening of secondary insolvency proceedings in another EU member state will also be possible if the debtor had an establishment in such member state in the three-month period prior to the request for commencement of main insolvency proceedings.

The effects of such secondary insolvency proceedings will be restricted to the assets of the company located in that member state and the main insolvency proceedings will be opened in the member state (other than Denmark) in which the company is found to have its COMI. Where main proceedings in the member state in which the debtor has its COMI have not yet been commenced, territorial insolvency proceedings may only be commenced in another member state where the debtor has an establishment where either (i) insolvency proceedings cannot be commenced in the member state in which the debtor's COMI is situated because of the conditions laid down by that member state's law; or (ii) the opening of territorial insolvency proceedings is requested by (a) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the member state where the opening of territorial proceedings is requested, or (b) a public authority which, under the law of the member state within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings.

Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings will, subject to certain exceptions, be governed by the *lex fori concursus*, *i.e.*, the local insolvency law of the court that has assumed jurisdiction over the insolvency proceedings of the debtor. The courts of all EU member states (other than Denmark) must recognize the judgment of the court commencing main proceedings, which will be given the same effect in the other member states so long as no secondary proceedings have been commenced there. The insolvency administrator appointed by a court in a member state which has jurisdiction to commence main proceedings (because the debtor's COMI is there) may exercise the powers conferred on it by the laws of that member state in another member state (such as to remove assets of the debtor from that other member state) subject to certain limitations, as long as no insolvency proceedings have been commenced in that other member state or no preservation measures have been taken to the contrary further to a request to commence insolvency proceedings in that other member state where the debtor has assets. 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.

In addition, the concept of "group proceedings" has been introduced in the EU Insolvency Regulation with the aim of bolstering communication and efficiency in the insolvency of several members of a group of companies. Under Article 61 of the EU Insolvency Regulation, group coordination proceedings may be requested before any court having jurisdiction over the insolvency proceedings of a member of the group, by an insolvency practitioner appointed in insolvency proceedings opened in relation to a member of the group. Participation in group proceedings and adherence to the coordinating insolvency practitioner's recommendations or plan, however, is voluntary.

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. The insolvency court can also order a stay of all enforcement measures by unsecured creditors against the debtor.

During preliminary insolvency proceedings a "preliminary creditors' committee" (*vorläufiger Gläubigerausschuss*) can be set up if the debtor satisfies two of the following three requirements: (i) a balance sheet total in excess of €6 million (after deducting an equity shortfall if the debtor is over-indebted), (ii) revenues of at least €12 million in the twelve months prior to the last balance sheet date and/or (iii) 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 (in which case the court will only appoint a custodian (*Sachwalter*) who will supervise the management of the debtor). The insolvency creditors (*Insolvenzgläubiger*) will only be entitled to change the individual appointed as insolvency administrator upon the occasion of the first creditors' assembly (*erste Gläubigerversammlung*) with such change requiring that (i) a simple majority of votes cast (by heads and amount of insolvency claims) has voted in favor of the proposed individual becoming insolvency administrator and (ii) the proposed individual being eligible to be officeholder, (*i.e.*, sufficiently qualified, business experienced and impartial). 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 (other than with respect to immoveable assets), 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. On April 13, 2017, the German legislator passed an act to facilitate the mastering of group insolvencies (*Gesetz zur Erleichterung der Bewältigung von Konzerninsolvenzen*), which came into force on April 21, 2018. This act is mainly

intended to facilitate the coordination of and cooperation between insolvency proceedings of group companies. This act does not provide for a consolidation of the insolvency proceedings of the insolvent group companies, or a consolidation of the assets and liabilities of a group of companies or pooling of claims among the respective entities of a group, but rather 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 assume jurisdiction for other group company insolvency proceedings (*Gruppen-Gerichtsstand*); (ii) the appointment of a single person as insolvency administrator for all relevant 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 coordinator (*Verfahrenskoordinator*) with the ability to propose a coordination plan (*Koordinationsplan*).

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*) (or, in the event that debtor-in-possession status has been granted, the custodian (*Sachwalter*)) under the rules of avoidance as set out in the German Insolvency Code (*Insolvenzordnung*).

Under these rules, an insolvency administrator (or custodian) 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.

On March 29, 2017, the German legislator passed an act for the improvement of legal certainty concerning clawback pursuant to the German Insolvency Code and the German Act on Avoidance (*Gesetz zur Verbesserung der Rechtssicherheit bei Anfechtungen nach der Insolvenzordnung und nach dem Anfechtungsgesetz*), which entered into force on April 5, 2017 (subject to certain transitional provisions). The amendments to the German Insolvency Code (*Insolvenzordnung*) and the German Act on Avoidance (*Anfechtungsgesetz*) concern, 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*).

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 (including a guarantee) (*Sicherung*) 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 (including a guarantee) or satisfaction for a debt to which such creditor had no right, no right at the respective time or no right as to the respective manner, can be avoided if 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 insolvency 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 of a debtor without (adequate) consideration (*e.g.*, whereby a debtor grants a security interest (including a guarantee) for a third party debt might be regarded as having been granted gratuitously (*unentgeltlich*)) 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 the ten years prior to the filing of the petition for the opening of insolvency proceedings or at any time after the filing, if the debtor acted with the intention of prejudicing its insolvency creditors (*vorsätzliche Gläubigerbenachteiligung*) and the beneficiary of the act knew of such intention at the time of such act; in case the relevant act granted a creditor, or enabled a creditor to obtain, security or satisfaction for a debt, the above

ten-year period is reduced to four years; "knowledge by the beneficiary of the act" in terms of such provision is presumed if the beneficiary knew that the debtor was imminently illiquid (drohende Zahlungsunfähigkeit) and that the relevant act disadvantaged the other creditors; in case the relevant act granted a creditor, or enabled a creditor to obtain, security or satisfaction in a form or at a time to which or at which such creditor was entitled, the "knowledge by the beneficiary of the act" is presumed if the beneficiary knew that the debtor was actually illiquid (*eingetretene Zahlungsunfähigkeit*) and that the relevant act disadvantaged the other creditors; the fact that the creditor agreed on a payment plan with the debtor or agreed to deferred payments establishes a presumption that he had no knowledge of the debtor being illiquid at this time;

- any non-gratuitous contract (*unentgeltlicher Vertrag*) concluded between the debtor and a related party (*nahestehende Person*) 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 'related 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 (including a guarantee) 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; It being understood, that the regulation for shareholder loans does not apply (x) to shareholders that own 10% or less of the shares or interest and are not engaged in management and (y) until the successful restructuring of the debtor in case a creditor acquires for the first time shares during overindebtedness, illiquidity or imminent illiquidity for the purpose of restructuring the debtor; 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. 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.

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.

The German restructuring laws may be subject to further amendments in the near future due to the current EU Commission's proposal as at November 22, 2016, for a directive of the European Parliament and of the Council on preventive restructuring frameworks, second chances and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU which may, among other things, stipulate that claims of the relevant creditors may be modified by majority vote and against the voting of a single creditor even outside formal insolvency proceedings. On March 28, 2019, the European Parliament adopted the provisional agreement on such proposal. Once the consent of the Council follows, the proposed directive may be published in the official journal of the European Union and become effective.

Parallel Debt; Security Interests

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 Trustee to enforce the collateral may thus be restricted. Similar concerns would

apply for any future pledgee concept included in the relevant pledge agreement. In addition, Note Holders bear some risk associated with a possible insolvency or bankruptcy of the Security Trustee.

The security interests of the Security Trustee may also be subject to practical problems generally associated with the realization of security interests in the collateral. For example, the enforcement of ownership interests and pledges may be subject to certain specific requirements, and the Security Trustee may need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the Security Trustee will be able to obtain any such consent. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Trustee may not have the ability to foreclose upon those assets, and the value of the collateral may significantly decrease. German law does not generally permit the appropriation of pledged assets by the pledgee upon enforcement of the pledge. The enforcement of a share pledge under German law usually requires the sale of the asset constituting the collateral through a formal process involving a public auction to which certain waiting periods and notice requirements apply. Under German law, it is unclear whether the security interest in the collateral gives the Security Trustee the right to prevent other creditors of the entities having granted such security from foreclosing on and realizing the asset constituting the collateral. Some courts have held that certain types of security interests only give their holders priority (according to their ranking) in the distribution of any proceeds from the realization of the asset constituting the collateral and no right to intervene (*i.e.*, the right to request the court to impose a stay on proceedings initiated by other creditors).

Under German mandatory law, the value of collateral transferred or assigned for security purposes must not be excessive. Due to German mandatory law, security grantors may have a right to claim the release of certain collateral in case of a subsequent over-collateralization (where the value of security interest granted significantly and not only temporarily exceeds the amount of the secured obligations), or security interest can even be deemed void in case of an initial excessive over-collateralization. As a general rule, value of collateral should not exceed the amount of the secured obligations by more than 50%. A security transfer or assignment violating this rule either in itself or in combination with other security interests will be deemed void if the violation exists at the time the collateral is granted. If the ratio is exceeded later as a result of partial prepayment or of progressing repayment of the secured obligations, the security grantor is entitled to a corresponding ratable release of the collateral. There is no clear authority as to how the ratio has to be applied in the context of a financing involving several companies and to what extent accessory forms of collateral (*e.g.* share pledges) granted for the same obligations have to be taken into account. While the German Federal High Court (*Bundesgerichtshof*) does the calculation on a case-by-case basis, legal authors estimate that an initial over-collateralization is given if the realization value of the security exceeds the aggregate amount of secured claims.

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 the Trustee 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 the Trustee 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. For the purposes of the International Central Securities Depositories, the denomination of the Notes should be considered as €1 and Euroclear Bank SA/NV and Clearstream Banking S.A. are not required to monitor or enforce the minimum denomination/tradeable amount of, *e.g.*, €100,000.

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*", 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 certain German tax consequences 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 Listing 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.

The law as currently in effect provides for a reduced tax rate for certain investment income. The coalition agreement between the German Christian Democratic Party and the German Social Democratic Party for the formation of a new German federal government provides that the flat tax regime shall be partially abolished. The coalition agreement further specifies that the solidarity surcharge shall be abolished in stages provided that the individual income does not exceed certain thresholds. There is however no draft bill available yet and a lot of details are hence still unclear.

Withholding Tax

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, redemption, repayment or assignment 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, redemption, repayment or assignment 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 similar Notes kept or administered in the same custodial account were acquired

at different points in time, the Notes first acquired will be deemed to have been sold first for the purposes of determining the capital gains. Where Notes are acquired and/or sold or redeemed in a currency other than euro, the sales/redemption price and the acquisition costs have to be converted into euro on the basis of the foreign exchange rates prevailing on the sale or redemption date and the acquisition date, respectively, with the result that any currency gains or losses are part of the capital gains. If 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, redemption, repayment or assignment 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 ("**Accrued Interest**" (*Stückzinsen*)), 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 European Union or the European Economic Area or certain other countries (*e.g.*, Switzerland or Andorra).

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 couples and partners 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, redemption, repayment or assignment 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 interest income and capital gains from the disposal, redemption, repayment or assignment 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, redemption, repayment or assignment 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 of Current Income and Capital Gains

Tax Residents

This subsection "—Tax Residents" refers to persons who are tax residents of Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

Income (*i.e.* interest income and capital gains) derived from capital investments under the Notes held by an individual holder who is tax resident in Germany, irrespective of any holding period, is in general subject to German income tax at a flat tax rate of 25% (plus solidarity surcharge and church tax, if applicable, thereon) (*Abgeltungsteuer*) if the Notes are held as private investment (*Privatvermögen*). Individual holders who are tax resident in Germany are entitled to a maximum annual allowance (*Sparer-Pauschbetrag*) of €801 (€1,602 for couples and partners filing jointly), whereby actually incurred higher expenses directly attributable to a capital investment are not deductible.

The personal income tax liability of an individual holder who is tax resident in Germany on income from capital investments under the Notes will, in principle, be satisfied by the tax withheld (as described under "—Withholding Tax" above). To the extent that withholding tax has not been levied, such as in the case of Notes kept in custody abroad or if no Disbursing Agent being involved in the payment process or if the withholding tax on disposal, redemption, repayment or assignment has been calculated from 30% of the disposal proceeds (rather than from the actual gain), the individual holder must include its interest income and capital gains derived from the Notes in its annual tax return and will then also be taxed at a rate of 25% (plus solidarity surcharge and, where applicable, church tax thereon). If the withholding tax on a disposal, redemption, repayment or assignment has been calculated from 30% of the disposal proceeds (rather than from the actual gain), an individual holder may, and in case the actual gain is higher than 30% of the disposal proceeds, must apply for an assessment on the basis of his or her actual acquisition costs. Further, an individual holder may apply for a taxation of all investment income of a given year at its lower individual tax rate based upon an assessment to tax with any amounts over withheld being refunded. In each case, the deduction of expenses (other than transaction costs) on an itemized basis is not permitted. Losses incurred with respect to the Notes may only be offset with investment income of the individual holder realized in the same or following assessment periods.

Pursuant to a tax decree issued by the German Federal Ministry of Finance dated January 18, 2016 (as amended) a bad debt-loss (*Forderungsausfall*) and a waiver of a receivable (*Forderungsverzicht*), to the extent that 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 are not tax-deductible if the Notes are held as private investment (*Privatvermögen*). The same rules should apply according to that tax decree, if the Notes expire worthless so that losses may not be tax-deductible at all. Losses suffered from a sale of Notes will only be recognized according to the view of the tax authorities if the proceeds received in the sale exceed the respective transaction costs. This view has however been rejected in 2018 by the German Federal Fiscal Court (BFH 12.6.2018 – VIII R 32/16). Further, the German Federal Fiscal Court (BFH VIII R 13/15 of October 24, 2017) decided that a finally suffered

bad debt loss is tax deductible. The German Federal Fiscal Court did not decide whether this also applies in case of debt waiver. The new ruling has not been officially acknowledged by the German Federal Ministry of Finance and, therefore, has not been published in the Federal Tax Gazette (*Bundessteuerblatt*). The Regional Tax office North Rhine-Westphalia has since published guidance that the ruling should therefore not be used apart from the specific case which was decided by the court, as the coordination of the supreme tax authorities of the federation and the German states on whether the ruling shall be published in the Federal Tax Gazette has not taken place yet (regional finance office North Rhine-Westphalia, information note (income tax) no. 01/2018 dated January 23, 2018).

Where Notes form part of a trade or business of an individual or corporate holder or where the income from the Notes qualifies as income from the letting and leasing of property, the withholding tax, if any, will not satisfy the personal or corporate income tax liability. Rather, the income is subject to individual or corporate income tax (plus solidarity surcharge and, where applicable, church tax thereon). Where Notes form part of a trade or business, interest income (including Accrued Interest) and capital gains must be taken into account as income. The respective holder must include income and related (business) expenses in the annual tax return and the balance will be taxed at the holder's applicable tax rate. Withholding tax levied, if any, will be credited as advance payment against the personal or corporate income tax liability of the holder or, to the extent exceeding this personal or corporate income tax liability, be refunded. Where Notes form part of a German trade or business the current income and capital gains from the disposal, redemption, repayment or assignment of the Notes may also be subject to German trade tax (*Gewerbesteuer*). The trade tax liability depends on the municipal trade tax factor (*Gewerbesteuerhebesatz*) applicable to the investor. If the holder is an individual or an individual partner of a partnership, the trade tax may generally be completely or partly credited against the personal income tax pursuant to a lump sum tax credit method.

Non Tax—Residents

This subsection "—Non Tax Residents" refers to persons who are not tax residents of Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, and place of effective management and control is not located in Germany).

Interest income (including Accrued Interest) and capital gains (which include currency gains and losses, if any) from the disposal, redemption, repayment or assignment of the Notes received by holders who are not tax resident in Germany are generally not subject to German taxation, unless (i) the Notes form part of the business property of a permanent establishment, including a permanent representative, or a fixed base maintained in Germany by the holder or (ii) the income otherwise constitutes German source income (such as income from the letting and leasing of certain German-*situs* real estate or income from capital investments directly or indirectly secured by German-*situs* real estate, unless the Notes qualify as global notes (*Sammelurkunde*) within the meaning of Section 9a of the German Custody Act (*Depotgesetz*) or as fungible notes representing the same issue (*Teilschuldverschreibungen*)). In cases (i) and (ii) a tax regime similar to that explained above under "—Tax Residents" applies. If holders who are not tax resident in Germany are subject to German taxation, the German tax authorities may request, under certain circumstances, if appropriate to secure the relevant tax claims and on a case-by-case basis, that the debtor of a payment to the respective holder under the Notes (*Vergütungsschuldner*) withholds the respective holder's relevant German tax. Furthermore, the holders who are not tax resident in Germany may become subject to German withholding tax in case they receive the proceeds by way of an over the counter payment by a German Disbursing Agent and the Notes are not held in custody with the same German Disbursing Agent. Subject to certain requirements, a holder who is not tax resident in Germany may benefit from tax reductions or tax exemptions provided by an applicable double taxation treaty (*Doppelbesteuerungsabkommen*).

Inheritance and Gift Tax

A gratuitous transfer of Notes by reason of death or as a gift will be subject to German inheritance or gift tax if the decedent or donor or the heir, donee or other beneficiary is at the time of the transfer a resident or deemed to be a resident of Germany or in certain cases for German citizens who previously maintained a residence in Germany. If neither the holder nor the recipient is a resident or deemed to be a resident of Germany at the time of the transfer, no German inheritance or gift taxes will be levied if the Notes qualify as fungible notes representing the same issue (*Teilschuldverschreibungen*) unless the Notes are attributable to a German trade or business for which a permanent establishment or fixed base is maintained or a permanent representative has been appointed in Germany or the obligations under the Notes are directly or indirectly secured by German-*situs* real estate (unless the Notes qualify as fungible notes representing the same issue (*Teilschuldverschreibungen*)). Should a double taxation treaty (*Doppelbesteuerungsabkommen*) be in effect in the individual case, however, German taxation provisions may be restricted thereby.

Other Taxes

No stamp, issue or registration taxes or such duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes (for the avoidance of doubt, except for any notarial fees). However, under certain conditions, entrepreneurs for VAT purposes may opt for a liability to value added tax with regard to the sale of Notes which would otherwise be tax exempt. Currently, net assets tax (*Vermögensteuer*) is not levied in Germany.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**") and Estonia. However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, 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. Additional EU Member States may decide to participate. Therefore, it is currently uncertain whether and when the proposed FTT will be enacted by the Participating Member States and when it will take effect with regard to dealings in the Notes or Additional PIK Notes.

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 arrangements, or persons that hold Notes through pass-through entities or arrangements; (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; (xi) persons subject to special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account in an applicable financial statement; and (xii) holders having notes redeemed in the Issuer Notes Redemption, 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 the applicable series 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 or arrangement 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 stated 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 applicable series of 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 on a series of Notes will be equal to the excess of such 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 generally 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, adjusted issue price and accrued and unpaid OID 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, plans, accounts or other arrangements (each of clauses (a), (b) and (c) above, 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.

Each ERISA Plan should consider the fact that none of the Issuer, the Initial Purchasers, the Trustee, the registrars, the agents and their respective affiliates (collectively, the "**Transaction Parties**") is acting, or will act, as a fiduciary to any ERISA Plan with respect to the decision to purchase or hold the Notes. The Transaction Parties are not undertaking to provide impartial investment advice or advice based on any particular investment need, or to give advice in a fiduciary capacity, with respect to the decision to purchase or hold the Notes. All communications, correspondence and materials from the Transaction Parties with respect to the Notes are intended to be general in nature and are not directed at any specific purchaser of the Notes, and do not constitute advice regarding the advisability of investment in the Notes for any specific purchaser. The decision to purchase and hold the Notes must be made solely by each prospective ERISA Plan purchaser on an arm's length basis.

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 any Transaction Party is 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 or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a 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 warranted that (X) 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) (a) 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 a similar violation of any applicable Similar Laws, and (b) none of the Transaction Parties is acting, or will act, as a fiduciary to any Plan with respect to the decision to acquire or hold the Notes, or is undertaking to provide impartial investment advice or give advice in a fiduciary capacity with respect to the decision to acquire or hold the Notes, and (Y) it will not sell or otherwise transfer such Notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase and holding of such Notes or any interest therein.

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 Listing 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 International 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 Listing 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 June 6, 2019 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 two 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 seven 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 seven 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 the 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 Listing 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 respective 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 (including the Notes).

Each of the Initial Purchasers or their respective affiliates is a lender under the Issuer Facilities Agreement. A portion of the proceeds from the Offering will be used to prepay €150 million under the Issuer Term Facility. In addition, the Initial Purchasers or their respective affiliates are lenders under a term loan facility and a revolving credit facility to the Schaeffler Group of an aggregate amount of €2,000 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 $50 million revolving credit facility, and affiliates of certain Initial Purchasers provide further credit lines to the Schaeffler Group from time to time. Certain of the Initial Purchasers or their respective affiliates acted as initial purchasers in the placement of the New Schaeffler Group Notes. The Initial Purchasers or their respective affiliates have received and/or will receive customary fees for their services in such capacities.

It is likely that certain Initial Purchasers and/or their respective 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 respective 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 (including the Notes). Any such short positions could adversely affect future trading prices of Notes. The Initial Purchasers and their respective 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 the 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 in the Offering.

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 Listing 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 has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this Listing 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 Listing 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 clause (v)(d) or (v)(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 CLAUSE (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 HEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (X) EITHER (A) IT IS NOT, AND NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE AND HOLD THIS SECURITY OR ANY INTEREST HEREIN CONSTITUTES THE 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 ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE (COLLECTIVELY, "**SIMILAR LAWS**") (EACH OF (1), (2), (3) AND (4) ABOVE A "**PLAN**") OR (B) (1) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY OR ANY INTEREST HEREIN WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAWS AND (2) NONE OF THE ISSUER, THE INITIAL PURCHASERS, THE TRUSTEE, THE REGISTRARS, THE AGENTS OR THEIR RESPECTIVE AFFILIATES IS ACTING, OR WILL ACT, AS A FIDUCIARY TO ANY PLAN WITH RESPECT TO THE DECISION TO ACQUIRE OR HOLD THIS SECURITY OR IS UNDERTAKING TO PROVIDE IMPARTIAL INVESTMENT ADVICE OR GIVE ADVICE IN A FIDUCIARY CAPACITY WITH RESPECT TO THE DECISION TO ACQUIRE OR HOLD THIS SECURITY, AND (Y) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS SECURITY OTHERWISE THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS ACQUISITION AND HOLDING OF THIS SECURITY.

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 (X) either (a) you are not, and no portion of the assets used by you to acquire and hold such Notes or any interest therein constitutes the 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 any federal, state, local or non-U.S. laws or regulations that are substantially similar to Title I of ERISA or Section 4975 of the Code (collectively, "**Similar Laws**") (each of (1), (2), (3) and (4) above a "**Plan**") or (b) (1) the acquisition, holding and disposition of such 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 a similar violation of any applicable Similar Laws, and (2) none of the Issuer, the Initial Purchasers, the Trustee, the registrars, the agents or their respective affiliates is acting, or will act, as a fiduciary to any Plan with respect to the decision to acquire or hold the Notes, or is undertaking to provide impartial investment advice or give advice in a fiduciary capacity with respect to the decision to acquire or hold the Notes, and (Y) it will not sell or otherwise transfer such Notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase and holding of such Notes or any interest therein.

(ix) You acknowledge that, until 40 days following the commencement of the 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 Listing 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 the Offering will be passed upon for us by Allen & Overy LLP as to matters of United States federal, New York, German and English law.

Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP as to matters of United States federal and New York law and Latham & Watkins LLP as to matters of German and English law.

Certain legal matters in connection with the 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, 2017 and 2018 were KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**"), Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG audited the Issuer's unconsolidated financial statements as of and for the fiscal years ended December 31, 2017 and 2018, 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 years ended December 31, 2017 and 2018.

KPMG audited Schaeffler AG's consolidated financial statements as of and for the fiscal years ended December 31, 2017 and 2018, 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, 2017 and 2018.

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.

Civil liabilities based on federal or state securities laws of the Unites States may, either in an original action or in an action to enforce a judgment obtained in U.S. courts, not be enforceable in Germany. The enforceability of U.S. judgments in Germany is subject to an action to be brought before a German court of competent jurisdiction in accordance with the procedures set forth by the German Code of Civil Procedure (*Zivilprozessordnung*). 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. Moreover, a German

court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent they are necessary to compensate actual losses or damages;

(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 Listing Memorandum; and
- 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 502 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 Listing Memorandum. The Issuer declares that, to the best of its knowledge, except as otherwise noted, the information contained in this Listing Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Listing Memorandum. This Listing 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 board of managing directors dated May 12, 2019.

Financial Information

Schaeffler AG has prepared consolidated financial statements as of and for the fiscal years ended December 31, 2017 and 2018. So long as the Notes remain outstanding, Schaeffler AG will continue to prepare consolidated financial statements in the future.

Clearing Information

The 2025 Euro Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance and settlement through the facilities of Euroclear and Clearstream under Common Codes 200443845 and 200443853, respectively. The international securities identification numbers (the "**ISINs**") for the 2025 Euro Notes sold pursuant to Regulation S and Rule 144A are XS2004438458 and XS2004438532, respectively.

The 2027 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 200445112 and 200445872, respectively. The ISINs for the 2027 Euro Notes sold pursuant to Regulation S and Rule 144A are XS2004451121 and XS2004458720, respectively.

The 2027 Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of DTC. The ISINs of the 2027 Dollar Notes sold pursuant to Regulation S and Rule 144A are USD4000PAL60 and US44963BAE83, respectively. The CUSIP numbers for the 2027 Dollar Notes sold pursuant to Regulation S and Rule 144A are D4000P AL6 and 44963B AE8, respectively. The Common Codes for the 2027 Dollar Notes sold pursuant to Regulation S and Rule 144A are 200565487 and 200853199, respectively.

The 2029 Dollar Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of DTC. The ISINs of the 2029 Dollar Notes sold pursuant to Regulation S and Rule 144A are USD4000PAK87 and US44963BAD01, respectively. The CUSIP numbers for the 2029 Dollar Notes sold pursuant to Regulation S and Rule 144A are D4000P AK8 and 44963B AD0, respectively. The Common Codes for the 2029 Dollar Notes sold pursuant to Regulation S and Rule 144A are 200854918 and 200565541, respectively.

Significant Change

Except as disclosed in this Listing Memorandum :

- there has been no material adverse change in the financial condition or prospects of the Issuer since December 31, 2018; 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.*"

Legal Entity Identifier

The Legal Entity Identifier (LEI) of the Issuer is 529900JL0HDVGZMUJF32.

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.
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.
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.
Rolling chassis	Chassis without bodywork, assembled with its final engine and drivetrain, able to move under its own power.
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 €800,000,000 3.625% / 4.375% Senior Secured PIK Toggle Notes due 2025, €500,000,000 3.875% / 4.625% Senior Secured PIK Toggle Notes due 2027, $450,000,000 6.000% / 6.750% Senior Secured PIK Toggle Notes due 2027 and $400,000,000 6.375% / 7.125% Senior Secured PIK Toggle Notes due 2029 issued on June 6, 2019 (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 2025 Euro 144A Global Note (ISIN XS2004438532, Common Code 200443853) shall be increased by €[●];

(b) by a 2025 Euro Regulation S Global Note (ISIN XS2004438458, Common Code 200443845) shall be increased by €[●];

(c) by a 2027 Euro 144A Global Note (ISIN XS2004458720, Common Code 200445872) shall be increased by €[●];

(d) by a 2027 Euro Regulation S Global Note (ISIN XS2004451121, Common Code 200445112) shall be increased by €[●];

(e) by a 2027 Dollar 144A Global Note (CUSIP No. 44963B AE8, ISIN US44963BAE83, Common Code 200853199) shall be increased by $[●]; and

(f) by a 2027 Dollar Regulation S Global Note (CUSIP No. D4000P AL6, ISIN USD4000PAL60, Common Code 200565487) shall be increased by $[●].

(g) by a 2029 Dollar 144A Global Note (CUSIP No. 44963B AD0, ISIN US44963BAD01, Common Code 200565541) shall be increased by $[●]; and

(h) by a 2029 Dollar Regulation S Global Note (CUSIP No. D4000P AK8, ISIN USD4000PAK87, Common Code 200854918) 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

Financial Information

Unaudited consolidated condensed financial statements of Schaeffler AG as of and for the three-month period ended March 31, 2019, prepared in accordance with IFRS

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Consolidated statement of comprehensive income F-4
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Audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2018, prepared in accordance with IFRS

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Audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2017, prepared in accordance with IFRS

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Audited unconsolidated financial statements of IHO Verwaltungs GmbH as of and for the fiscal year ended December 31, 2018, prepared in accordance with German GAAP

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Audited unconsolidated financial statements of IHO Verwaltungs GmbH as of and for the fiscal year ended December 31, 2017, prepared in accordance with German GAAP

Statement of financial position F-162
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Unaudited consolidated condensed financial statements of Schaeffler AG as of and for the three-month period ended March 31, 2019, prepared in accordance with IFRS

Consolidated income statement

No. 019

in € millions	1st three months 2019	1st three months 2018 [1]	Change in %
Revenue [2]	3,622	3,551	2.0
Cost of sales	-2,708	-2,591	4.5
Gross profit	**913**	**960**	**-4.8**
Research and development expenses	-229	-224	2.5
Selling expenses	-253	-242	4.3
Administrative expenses	-140	-119	17.2
Other income [2]	28	26	7.8
Other expenses	-90	-10	› 100
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)	**230**	**391**	**-41.2**
Financial income	26	10	› 100
Financial expenses	-64	-64	0.1
Financial result	**-38**	**-54**	**-29.1**
Income (loss) from equity-accounted investees	-4	0	-
Earnings before income taxes	**188**	**337**	**-44.2**
Income taxes	-47	-95	-49.8
Net income	**140**	**242**	**-42.0**
Attributable to shareholders of the parent company	137	238	-42.4
Attributable to non-controlling interests	3	4	-18.3
Earnings per common share (basic/diluted, in €)	0.21	0.36	-41.7
Earnings per common non-voting share (basic/diluted, in €)	0.21	0.36	-41.7

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[2] See condensed notes to the consolidated interim financial statements for further details.

Consolidated statement of comprehensive income

No. 020

in € millions	1st three months					
			2019			2018 [1]
	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income	**188**	**-47**	**140**	**337**	**-95**	**242**
Foreign currency translation differences for foreign operations	112	0	112	-44	0	-44
Net change from hedges of net investments in foreign operations	0	0	0	4	-1	3
Effective portion of changes in fair value of cash flow hedges	-18	5	-13	-22	6	-16
Net change in fair value of available-for-sale financial assets	-2	0	-2	0	0	0
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**92**	**5**	**97**	**-62**	**5**	**-57**
Remeasurement of net defined benefit liability [2]	-178	50	-128	-33	10	-23
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**-178**	**50**	**-128**	**-33**	**10**	**-23**
Total other comprehensive income (loss)	**-86**	**55**	**-31**	**-95**	**15**	**-80**
Total comprehensive income (loss)	**101**	**8**	**109**	**242**	**-80**	**162**
Total comprehensive income (loss) attributable to shareholders of the parent company	93	10	103	243	-78	165
Total comprehensive income (loss) attributable to non-controlling interests	8	-2	6	1	-2	-1

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See “Basis of preparation” in the condensed notes to the consolidated interim financial statements for further details.
[2] See condensed notes to the consolidated interim financial statements for further details.

Consolidated statement of financial position

in € millions	03/31/2019	12/31/2018 [1]	03/31/2018 [1,2]	Change in %
ASSETS				
Intangible assets	718	627	636	14.5
Right-of-use assets under leases [3]	209	0	0	› 100
Property, plant and equipment	5,443	5,318	4,888	2.4
Investments in equity-accounted investees	157	160	3	-2.2
Contract assets	11	11	16	4.6
Other financial assets	89	106	102	-16.3
Other assets	102	86	63	18.6
Deferred tax assets	585	520	538	12.5
Total non-current assets	**7,315**	**6,828**	**6,246**	**7.1**
Inventories	2,334	2,183	2,168	6.9
Contract assets	51	45	30	12.4
Trade receivables	2,225	2,003	2,275	11.1
Other financial assets	105	131	95	-20.3
Other assets	324	267	285	21.3
Income tax receivables	113	102	105	11.3
Cash and cash equivalents	2,071	801	672	› 100
Assets held for sale [3]	25	2	0	› 100
Total current assets	**7,246**	**5,534**	**5,630**	**30.9**
Total assets	**14,561**	**12,362**	**11,876**	**17.8**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See “Basis of preparation” in the condensed notes to the consolidated interim financial statements for further details.
[2] See “Basis of preparation” in the condensed notes to the consolidated interim financial statements for further details.
[3] See condensed notes to the consolidated interim financial statements for further details.

No. 021

in € millions	03/31/2019	12/31/2018 [1]	03/31/2018 [1)2)]	Change in %
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	666	666	666	0.0
Capital reserves	2,348	2,348	2,348	0.0
Other reserves	1,003	866	554	15.8
Accumulated other comprehensive income (loss)	-941	-907	-896	3.8
Equity attributable to shareholders of the parent company	**3,076**	**2,973**	**2,672**	**3.5**
Non-controlling interests	93	87	106	6.6
Total shareholders' equity	**3,169**	**3,060**	**2,778**	**3.5**
Provisions for pensions and similar obligations [3]	2,362	2,173	2,167	8.7
Provisions [3]	180	172	182	4.8
Financial debt [3]	3,442	3,188	3,103	8.0
Contract liabilities	3	2	0	24.9
Income tax payables	105	103	98	1.6
Other financial liabilities	29	9	16	› 100
Lease liabilities [3]	151	0	0	› 100
Other liabilities	3	2	6	36.9
Deferred tax liabilities	130	131	120	-0.4
Total non-current liabilities	**6,404**	**5,780**	**5,692**	**10.8**
Provisions [3]	281	244	275	15.0
Financial debt [3]	1,434	160	8	› 100
Contract liabilities	45	45	72	-1.0
Trade payables	1,980	1,967	1,866	0.7
Income tax payables	86	69	187	24.9
Other financial liabilities	501	481	395	4.1
Lease liabilities [3]	59	0	0	› 100
Refund liabilities	193	236	180	-18.0
Other liabilities	396	320	423	23.8
Liabilities held for sale [3]	15	0	0	-
Total current liabilities	**4,988**	**3,522**	**3,406**	**41.6**
Total shareholders' equity and liabilities	**14,561**	**12,362**	**11,876**	**17.8**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[2] See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[3] See condensed notes to the consolidated interim financial statements for further details.

Consolidated statement of cash flows

No. 022

in € millions	1st three months 2019	1st three months 2018 [1]	Change in %
Operating activities			
EBIT	230	391	-41.2
Interest paid	-37	-28	32.1
Interest received	4	3	33.3
Income taxes paid	-57	-89	-36.0
Depreciation, amortization, and impairment losses	242	196	23.5
(Gains) losses on disposal of assets	-1	-2	-50.0
Changes in:			
• Inventories	-117	-159	-26.4
• Trade receivables	-241	-132	82.6
• Trade payables	62	79	-21.5
• Provisions for pensions and similar obligations	2	1	100
• Other assets, liabilities, and provisions	67	-23	-
Cash flows from operating activities	**154**	**237**	**-35.0**
Investing activities			
Proceeds from disposals of property, plant and equipment	2	1	100
Capital expenditures on intangible assets	-2	-3	-33.3
Capital expenditures on property, plant and equipment	-371	-303	22.4
Acquisition of subsidiaries [2]	-65	-2	> 100
Other investing activities	-4	-1	> 100
Cash used in investing activities	**-440**	**-308**	**42.9**
Financing activities			
Receipts from bond issuances and loans [2]	2,190	56	> 100
Repayments of loans [2] [3]	-635	-1	> 100
Principal repayments on lease liabilities	-14	0	-
Cash provided by financing activities	**1,541**	**55**	**> 100**
Net increase (decrease) in cash and cash equivalents	**1,255**	**-16**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	15	-10	-
Cash and cash equivalents as at beginning of period	801	698	14.8
Cash and cash equivalents as at March 31	**2,071**	**672**	**> 100**

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[2] See condensed notes to the consolidated interim financial statements for further details.
[3] Incl. EUR 37 m in cash inflows from cross-currency swaps terminated early in connection with the planned redemption of the USD bond series.

Consolidated statement of changes in equity

No. 023

in € millions	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)					Equity attributable to shareholders [1]	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve	Total			
Balance as at January 01, 2018 before IFRS 9 and IFRS 15 adjustments [2]	**666**	**2,348**	**282**	**-267**	**15**	**0**	**-570**	**-822**	**2,474**	**107**	**2,581**
Adjustments IFRS 9			27						27		27
Adjustments IFRS 15			7						7		7
Balance as at January 01, 2018 [2]	**666**	**2,348**	**316**	**-267**	**15**	**0**	**-570**	**-822**	**2,508**	**107**	**2,615**
Net income			238						238	4	242
Other comprehensive income (loss)				-35	-16	0	-23	-74	-74	-5	-79
Total comprehensive income (loss)	**0**	**0**	**238**	**-35**	**-16**	**0**	**-23**	**-74**	**164**	**-1**	**163**
Balance as at March 31, 2018 [2] [3]	**666**	**2,348**	**554**	**-302**	**-1**	**0**	**-593**	**-896**	**2,672**	**106**	**2,778**
Balance as at January 01, 2019 [2]	**666**	**2,348**	**866**	**-285**	**-27**	**0**	**-595**	**-907**	**2,973**	**87**	**3,060**
Net income			137						137	3	140
Other comprehensive income (loss)				109	-13	-2	-128	-34	-34	3	-31
Total comprehensive income (loss)	**0**	**0**	**137**	**109**	**-13**	**-2**	**-128**	**-34**	**103**	**6**	**109**
Balance as at March 31, 2019	**666**	**2,348**	**1,003**	**-176**	**-40**	**-2**	**-723**	**-941**	**3,076**	**93**	**3,169**

[1] Equity attributable to shareholders of the parent company.
[2] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[3] See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.

Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 024

	1st three months		1st three months		1st three months		1st three months	
	2019	**2018 [1) 2)]**	**2019**	**2018 [1) 2)]**	**2019**	**2018 [1) 2)]**	**2019**	**2018 [1)]**
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue	2,286	2,280	441	447	895	824	3,622	3,551
EBIT	59	218	64	81	108	92	230	391
• in % of revenue	2.6	9.6	14.4	18.1	12.0	11.2	6.3	11.0
EBIT before special items [3)]	113	218	64	81	95	92	272	391
• in % of revenue	5.0	9.6	14.4	18.1	10.6	11.2	7.5	11.0
Depreciation, amortization, and impairment losses	-187	-157	-10	-7	-46	-32	-242	-196
Working capital [4) 5)]	1,166	1,239	386	418	1,028	920	2,579	2,577
Additions to intangible assets and property, plant and equipment	225	181	40	18	30	35	296	234

Prior year information presented based on 2019 segment structure.

[1)] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 01, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See “Basis of preparation” in the condensed notes to the consolidated interim financial statements for further details.

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

[3)] EBIT before special items for legal cases, restructuring, and other.

[4)] Inventories plus trade receivables less trade payables.

[5)] Amounts as at March 31.

See condensed notes to the consolidated interim financial statements for further details

Condensed notes to the consolidated interim financial statements

Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982, and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated interim financial statements of Schaeffler AG as at March 31, 2019, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the “Schaeffler Group”). The Schaeffler Group is a globally leading, 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 International Financial Reporting Interpretations Committee (IFRIC).

The consolidated interim financial statements of Schaeffler AG, Herzogenaurach, for the reporting period ended March 31, 2019, have been compiled in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”. They do not include all information necessary for a complete set of consolidated financial statements.

The accounting policies used in these consolidated interim financial statements are largely based on the accounting policies used in the 2018 consolidated financial statements, where the latter are discussed in detail. Except for the amendments to and new requirements of IFRS effective starting in 2019, these accounting policies have been applied consistently in these consolidated interim financial statements.

In compiling financial statements in accordance with IFRS, management exercises judgment in making estimates and assumptions. Such estimates and judgments are unchanged from the matters described in the consolidated financial statements of the Schaeffler AG as at and for the year ended December 31, 2018. 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 decrease 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.

Adjustments to comparative information

In 2018, a change in accounting policy for interest and penalties related to income taxes (see Note 1.4 to the consolidated financial statements in the annual report 2018 for further details) and the change in the accounting treatment of contracts with customers (see Note 1.5 to the consolidated financial statements in the annual report 2018 for further details) have resulted in retrospective adjustments to the comparative figures of the consolidated statement of financial position as at March 31, 2018, presented in this interim financial report.

The following summary provides an overview of the retrospective adjustments to the consolidated statement of financial position as at March 31, 2018.

Adjustments to comparative information – consolidated statement of financial position March 31, 2018 **No. 025**

	Before adjustments	Adjustment due to change in accounting policy for		Adjusted
in € millions	03/31/2018	interest and penalties related to income taxes	revenue from contracts with customers	03/31/2018
ASSETS				
Property, plant and equipment	4,890	0	-2	4,888
Contract assets	0	0	16	16
Deferred tax assets	535	0	3	538
Total non-current assets	**6,229**	**0**	**17**	**6,246**
Inventories	2,166	0	2	2,168
Contract assets	28	0	2	30
Total current assets	**5,626**	**0**	**4**	**5,630**
Total assets	**11,855**	**0**	**21**	**11,876**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Other reserves	519	31	4	554
Total shareholders' equity	**2,742**	**31**	**4**	**2,778**
Provisions	170	12	0	182
Income tax payables	141	-43	0	98
Deferred tax liabilities	115	0	5	120
Total non-current liabilities	**5,718**	**-31**	**5**	**5,692**
Provisions	242	36	-2	275
Contract liabilities	23	0	49	72
Income tax payables	223	-36	0	187
Other financial liabilities	575	0	-180	395
Refund liabilities	0	0	180	180
Other liabilities	458	0	-35	423
Total current liabilities	**3,395**	**0**	**12**	**3,406**
Total shareholders' equity and liabilities	**11,855**	**0**	**21**	**11,876**

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases, which replaces the requirements of IAS 17 and the related Interpretations. The Schaeffler Group has initially applied IFRS 16 effective January 1, 2019.

IFRS 16 introduces a uniform lessee accounting model requiring lessees to capitalize leases in their statement of financial position. Lessees capitalize the right to use the leased asset ("right-of-use asset") and recognize a liability representing its obligation to make lease payments. The new standard substantially carries forward the lessor accounting requirements in IAS 17, continuing to require them to classify leases as operating leases or finance leases.

The Schaeffler Group is using the modified retrospective approach to transition to IFRS 16, i.e. the standard is only applied to the most recent reporting period presented in the financial statements (the year 2019). Prior year amounts are not adjusted. Upon initially applying IFRS 16, the company has measured the right-of-use asset at an amount equal to the lease liability, using the discount rate at the date of initial application. The Schaeffler Group's average incremental borrowing rate as at January 1, 2019, amounted to 2.4%.

The company has elected to apply the recognition exemptions for short-term leases with a term of up to twelve months and for leases of low-value assets. The Schaeffler Group also applies additional practical expedients. For all leases except real estate, lease and non-lease components are accounted for as a single lease component. Additionally, for leases not classified as leases under IAS 17 and IFRIC 4, the company does not reassess whether these leases meet the definition of a lease under IFRS 16.

The Schaeffler Group has examined the impact that applying IFRS 16 has on processes, systems, and contracts in a dedicated project. The main impact of transitioning to the new standard results from capitalizing real estate and vehicle leases. Additional categories were identified: machinery, production equipment, and office equipment.

The initial application of IFRS 16 has resulted in the recognition of EUR 212 m in lease liabilities and right-of-use assets in the consolidated statement of financial position as at January 1, 2019.

The following summaries provide an overview of the impact of IFRS 16 on the consolidated interim financial statements as at March 31, 2019.

IFRS 16 – impact on consolidated statement of financial position **No. 026**

in € millions	**03/31/2019**	Impact IFRS 16	03/31/2019 before applying IFRS 16
ASSETS			
Right-of-use assets under leases	209	209	0
Non-current assets	**7,315**	**209**	**7,106**
Current assets	**7,246**	**0**	**7,246**
Total assets	**14,561**	**209**	**14,352**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	**3,169**	**0**	**3,169**
Lease liabilities	151	151	0
Non-current liabilities	**6,404**	**151**	**6,253**
Lease liabilities	59	59	0
Current liabilities	**4,988**	**59**	**4,929**
Total shareholders' equity and liabilities	**14,561**	**209**	**14,352**

IFRS 16 – impact on consolidated income statement **No. 027**

in € millions	**1st three months 2019**	Impact IFRS 16	1st three months 2019 before applying IFRS 16
EBIT	**230**	**1**	**229**
Financial result	**-38**	**-1**	**-37**
Net income	**140**	**0**	**140**

Unrecognized lease obligations as at December 31, 2019, can be reconciled to recognized lease liabilities as at January 1, 2019, as follows:

Reconciliation of unrecognized lease obligations **No. 028**

in € millions	
Operating rental and lease agreements as at December 31, 2018	**141**
Short-term leases with a lease term of up to 12 months	-2
Leases for which the underlying asset is of low value	-3
Operating rental and lease agreements as at January 01, 2019	**136**
Discounted at the incremental borrowing rate as at January 01, 2019	**128**
Extension and termination options reasonably certain to be exercised	84
Lease liabilities resulting from the initial application of IFRS 16 as at January 01, 2019	**212**
Lease liabilities resulting from finance leases as at January 01, 2019	0
Lease liabilities recognized as at January 01, 2019	**212**

Foreign currency translation

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

Selected foreign exchange rates **No. 029**

Currencies		03/31/2019	12/31/2018	03/31/2018	2019	2018
					1st three months	
1 € in				Closing rates		Average rates
CNY	China	7.54	7.88	7.75	7.66	7.81
INR	India	77.72	79.73	80.30	80.07	79.16
KRW	South Korea	1,276.46	1,277.93	1,310.89	1,278.48	1,317.96
MXN	Mexico	21.69	22.49	22.52	21.80	23.03
USD	U.S.	1.12	1.15	1.23	1.14	1.23

Scope of consolidation

The consolidated financial statements of Schaeffler AG as at March 31, 2019, cover, in addition to Schaeffler AG, 156 (December 31, 2018: 152) subsidiaries; 54 (December 31, 2018: 51) entities are domiciled in Germany and 102 (December 31, 2018: 101) in other countries.

Additions to the scope of consolidation resulted largely from the acquisition of Elmotec Statomat Holding GmbH and its subsidiaries. These companies were consolidated effective January 31, 2019.

In the consolidated financial statements as at March 31, 2019, three (December 31, 2018: three) joint ventures and four associated companies (December 31, 2018: two) are accounted for at equity.

Acquisition of subsidiaries

Acquisition of Elmotec Statomat Holding GmbH

The Schaeffler Group acquired a 100% interest in Elmotec Statomat Holding GmbH in a transaction that closed on January 31, 2019. Elmotec Statomat is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represents a further step toward expanding the Schaeffler Group's manufacturing expertise in the field of construction of electric motors and implementing its electric mobility strategy.

The purchase price paid in the amount of EUR 65 m is preliminary. The consideration for the acquisition, which is payable in cash, depends on the amounts of financial debt, net working capital, and further liabilities and provisions in the closing balance sheet of Elmotec Statomat.

The allocation of the consideration to be transferred to the assets and liabilities acquired is still preliminary. Based on information currently known, total net identifiable assets amount to EUR 21 m. The preliminary purchase price allocation has resulted in goodwill of EUR 44 m and identifiable intangible assets of EUR 30 m (including EUR 26 m in technology assumed).

The purchase agreement with the former shareholders of Elmotec Statomat Holding GmbH includes a value guarantee covering receivables more than 180 days past due. Should no cash be collected on these receivables within two years, the purchase price will be reduced retrospectively by the amount of the uncollectible receivables.

Based on information currently known, the goodwill of EUR 44 m represents the value of the technology's planned further development.

The amounts contributed by the Elmotec Statomat Group to revenue and net income before tax since the date of acquisition were immaterial.

Revenue

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

IFRS 15 – analysis of revenue by category **No. 030**

	1st three months		1st three months		1st three months		1st three months	
	2019	**2018 1)**	**2019**	**2018 1)**	**2019**	**2018 1)**	**2019**	**2018**
in € millions		Automotive OEM	Automotive Aftermarket			Industrial		Total
Revenue by type								
• Revenue from the sale of goods	2,242	2,244	441	447	886	818	3,569	3,509
• Revenue from the sale of tools	32	14	0	0	1	0	33	14
• Revenue from developement services	5	13	0	0	0	0	5	13
• Revenue from other services	7	7	0	0	8	5	15	12
• Other revenue	0	2	0	0	0	1	0	3
Total	**2,286**	**2,280**	**441**	**447**	**895**	**824**	**3,622**	**3,551**
Revenue by region 2)								
• Europe	1,024	1,058	321	338	501	482	1,846	1,878
• Americas	566	481	88	78	162	141	817	700
• Greater China	412	472	20	19	155	131	586	622
• Asia/Pacific	284	269	11	12	77	70	373	351
Total	**2,286**	**2,280**	**441**	**447**	**895**	**824**	**3,622**	**3,551**

1) Prior year information presented based on 2019 segment structure. Prior year amounts are based on a retrospective change in segment structure.
2) By market (customer location).

Other income

Other income included the refund of a penalty of EUR 13 m paid in 2015 in connection with antitrust proceedings in South Korea.

Assets held for sale and liabilities associated with assets held for sale

Assets and liabilities held for sale reflect the planned sale of European production locations. The related impairment loss recognized during the year amounted to EUR 14 m.

Provisions

On March 6, 2019, the Schaeffler Group announced its program “RACE” (Regroup Automotive for higher margin and Capital Efficiency), which is designed to sustainably increase the Automotive OEM division’s efficiency and optimize its portfolio. The Schaeffler Group’s overriding goal for “RACE” is to sustainably improve the Automotive OEM division’s margin over the next three to four years and to generate an EBIT margin percentage in the high single digits going forward. Responsibility for the program, which consists of three stages, rests with Matthias Zink, CEO of the Automotive OEM division. As part of the first stage, the division will further consolidate its European footprint. This will affect four German locations and one additional European location. The company has recognized a total of EUR 50 m in current and non-current restructuring provisions in connection with the program.

In addition, a portion of the EUR 9 m restructuring provision recognized in 2018 for the reorganization of the company’s UK business activities was reversed, since the company intends to sell one of the production locations affected.

Provisions for pensions and similar obligations

Interest rate levels as at March 31, 2019, have decreased significantly compared to December 31, 2018. 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 March 31, 2019, amounted to 1.8% (December 31, 2018: 2.2%). The resulting remeasurement of the company’s obligations under defined benefit pension plans resulted in actuarial losses of EUR 178 m as at March 31, 2019, which were recognized in the consolidated statement of comprehensive income and are reported under accumulated other comprehensive income net of deferred taxes.

Current and non-current financial debt

Financial debt (current/non-current) **No. 031**

in € millions	03/31/2019 Due in up to 1 year	Due in more than 1 year	Total	12/31/2018 Due in up to 1 year	Due in more than 1 year	Total
Bonds	1,434	2,778	4,212	0	2,019	2,019
Facilities Agreement	0	481	481	160	986	1,146
Capital investment loan	0	183	183	0	183	183
Total	**1,434**	**3,442**	**4,876**	**160**	**3,188**	**3,348**

On March 19, 2019, Schaeffler AG issued three bond series denominated in EUR with terms ranging from 3 to 8 years and an aggregate volume of EUR 2.2 bn under its debt issuance program. The 3-year bonds have a volume of EUR 750 m and a coupon of 1.125%, the 5-year bonds have a volume of EUR 800 m and a coupon of 1.875%, and the 8-year bonds have a volume of EUR 650 m and carry a coupon of 2.875%.

A portion of the bond proceeds was used to prepay EUR 500 m of the existing term loan and to repay the amount outstanding under the Revolving Credit Facility. Furthermore, the company announced on March 20, 2019, that it will redeem three outstanding bond series issued by Schaeffler Finance B.V. early: the EUR 400 m 2.50% bonds due in 2020, the EUR 500 m 3.50% bonds due in 2022, and the USD 600 m 4.75% bonds due in 2023. The three bond series will be redeemed on May 15, 2019. As a result, the three bond series were reclassified to current financial debt.

The refinancing transactions triggered the amendments to the EUR 2.3 bn Facilities Agreement and the EUR 250 m capital investment loan agreed on August 31, 2018, including a reduction in the margins on the term loan and the Revolving Credit Facility, improvements to other credit terms, and an increase in the Revolving Credit Facility to EUR 1.5 bn. All of these amendments became effective on March 26, 2019.

Financial instruments

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

Other investments included unconsolidated investments (shares in incorporated companies and cooperatives of less than 20%) for which fair value was determined using an EBIT multiple methodology. The company is currently not planning to sell these investments. Marketable securities consist almost entirely of financial instruments in the form of money market fund units without fixed maturities. These are measured at fair value through profit or loss.

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

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.

- Level 2: 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 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 transfers between levels were made during the period.

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.

Financial instruments by class and category in accordance with IFRS 7.8 **No. 032**

			03/31/2019		12/31/2018 [1]		03/31/2018 [1]	
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	Amortized cost		2,064	2,064	1,914	1,914	2,139	2,139
Trade receivables – ABCP program	FVTPL	2	161	161	89	89	136	136
Other financial assets								
• Other investments	FVOCI	2	36	36	38	38	38	38
• Marketable securities	FVTPL	1	20	20	17	17	17	17
• Derivatives designated as hedging instruments	n.a.	2	5	5	43	43	33	33
• Derivatives not designated as hedging instruments	FVTPL	2	47	47	31	31	55	55
• Miscellaneous other financial assets	Amortized cost		86	86	108	108	54	54
Cash and cash equivalents	Amortized cost		2,071	2,071	801	801	672	672
Financial liabilities, by class								
Financial debt	FLAC	1,2 [2]	4,876	4,986	3,348	3,364	3,110	3,232
Trade payables	FLAC		1,980	1,980	1,967	1,967	1,866	1,866
Refund liabilities	n.a.		193	193	236	236	180	180
Lease liabilities [3]	FLAC		209	-	0	-	0	-
Other financial liabilities								
• Derivatives designated as hedging instruments	n.a.	2	60	60	40	40	19	19
• Derivatives not designated as hedging instruments	FVTPL	2	41	41	27	27	30	30
• Miscellaneous other financial liabilities	FLAC		429	429	423	423	362	362
Summary by category								
Financial assets at amortized cost (Amortized cost)			4,221	4,221	2,823	2,823	2,865	2,865
Financial assets at fair value through profit or loss (FVTPL)			228	228	137	137	208	208
Financial assets (equity instruments) at fair value through other comprehensive income (FVOCI)			36	36	38	38	38	38
Financial liabilities at amortized cost (FLAC)			7,494	7,395	5,738	5,754	5,338	5,460
Financial liabilities at fair value through profit or loss (FVTPL)			41	41	27	27	30	30

[1] The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
[2] Level 1: EUR 4,302 m (December 31, 2018: EUR 2,020 m; March 31, 2018: EUR 2,083 m).
Level 2: EUR 684 m (December 31, 2018: EUR 1,344 m; March 31, 2018: EUR 1,149 m).
[3] Disclosure of fair value omitted in accordance with IFRS 7.29 (d).

Contingent liabilities and other obligations

The statements made in the annual report 2018 with respect to contingent liabilities are largely unchanged.

Open commitments under fixed contracts to purchase property, plant and equipment amounted to EUR 429 m as at March 31, 2019 (December 31, 2018: EUR 465 m).

Segment information

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 AG Board of Managing Directors. The Schaeffler Group 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.

The Schaeffler Group divides its business into three divisions – **Automotive OEM**, **Automotive Aftermarket**, and **Industrial**. The Automotive OEM division business is organized into the four **business divisions (BD) Engine Systems**, **Transmission Systems**, **E-Mobility**, and **Chassis Systems**. The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe, Americas, Greater China**, and **Asia/Pacific**.

The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses is reviewed and adjusted annually. To ensure that the information on the Automotive OEM division, Automotive Aftermarket division, and Industrial division segments is comparable, prior year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

The integration of the "Bearing & Components Technologies" (BCT) unit, which had previously acted as an internal supplier, has had a significant impact on the presentation of prior year amounts. Under this reorganization, the functions and plants previously assigned to BCT were integrated directly into the two divisions Automotive OEM and Industrial. In this context, the risk of fluctuations in production cost during the year has been borne exclusively by the two producing divisions Automotive OEM and Industrial starting in 2019, a change designed to strengthen divisional management.

Reconciliation to earnings before income taxes **No. 033**

	1st three months	
in € millions	**2019**	**2018 1) 2)**
EBIT Automotive OEM 2)	59	218
EBIT Automotive Aftermarket 2)	64	81
EBIT Industrial 2)	108	92
EBIT	**230**	**391**
Financial result	-38	-54
Income (loss) from equity-accounted investees	-4	0
Earnings before income taxes	**188**	**337**

1) The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
2) Prior year information presented based on 2019 segment structure.

Reconciliation EBIT to EBIT before special items **No. 034**

	1st three months		1st three months		1st three months		1st three months	
	2019	**2018 1) 2)**	**2019**	**2018 1) 2)**	**2019**	**2018 1) 2)**	**2019**	**2018 1)**
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
EBIT	**59**	**218**	**64**	**81**	**108**	**92**	**230**	**391**
• in % of revenue	2.6	9.6	14.4	18.1	12.0	11.2	6.3	11.0
Special items	**55**	**0**	**0**	**0**	**-13**	**0**	**42**	**0**
• Legal cases	0	0	0	0	-13	0	-13	0
• Restructuring	55	0	0	0	0	0	55	0
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**113**	**218**	**64**	**81**	**95**	**92**	**272**	**391**
• in % of revenue	5.0	9.6	14.4	18.1	10.6	11.2	7.5	11.0

1) The Schaeffler Group has initially applied the new standard IFRS 16 effective January 1, 2019, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See "Basis of preparation" in the condensed notes to the consolidated interim financial statements for further details.
2) Prior year amounts are based on a retrospective change in segment structure.

Related parties

The extent of transactions with related persons and entities remained largely unchanged compared to the 2018 consolidated financial statements.

Transactions with associated companies and joint ventures in the first three months of 2019 were insignificant.

Events after the reporting period

Schaeffler AG's annual general meeting, which was held on April 24, 2019, passed a resolution to pay a dividend of EUR 0.54 (prior year: EUR 0.54) per common share and EUR 0.55 (prior year: EUR 0.55) per common non-voting share to Schaeffler AG's shareholders for 2018. The dividend was paid on April 29, 2019.

In addition, Schaeffler AG's annual general meeting, which was held on April 24, 2019, elected the ten shareholder representatives on Schaeffler AG's Supervisory Board as scheduled. With the election, eight members of the Supervisory Board were confirmed in their posts. The following members were re-elected: Maria-Elisabeth Schaeffler-Thumann, Georg F. W. Schaeffler, Prof. Dr.-Ing. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Robin Stalker, Prof. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang. Sabine Bendiek and Sabrina Soussan were newly elected to the Supervisory Board.

On April 26, 2019, the Schaeffler Group signed an agreement to sell its subsidiary The Barden Corporation (UK), Ltd., located in Plymouth, UK, to HQW Holding (UK) Co. Limited. The purchaser is also acquiring the global rights to the Barden brand except for America. In America, the Schaeffler Group will continue to have exclusive use of the Barden brand. The sale represents another step in the reorganization of the Schaeffler Group's UK business activities initiated on October 29, 2018. This reorganization originally called for two of three production locations in the UK to be closed and the production to be relocated as well as two logistics centers to be consolidated at one location. While the closure of the production location in Llanelli has been confirmed and the consolidation of the two logistics centers is progressing as planned, the sale of the Plymouth location has been developed as a positive alternative for all stakeholders.

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after March 31, 2019.

Herzogenaurach, April 29, 2019

The Board of Managing Directors

Audited consolidated financial statements of Schaeffler AG as of and for the fiscal year ended December 31, 2018, prepared in accordance with IFRS

1. Consolidated income statement

No. 089

in € millions	Note	2018	2017 [1]	Change in %
Revenue	3.1	14,241	14,021	1.6
Cost of sales		-10,558	-10,175	3.8
Gross profit		**3,683**	**3,846**	**-4.2**
Research and development expenses		-847	-846	0.1
Selling expenses		-1,004	-970	3.5
Administrative expenses		-488	-443	10.2
Other income	3.2	87	82	6.1
Other expenses	3.3	-77	-141	-45.4
Earnings before financial result, income (loss) from equity-accounted investees, and income taxes (EBIT)		**1,354**	**1,528**	**-11.4**
Financial income	3.5	66	108	-38.9
Financial expenses	3.5	-221	-300	-26.3
Financial result	**3.5**	**-155**	**-192**	**-19.3**
Income (loss) from equity-accounted investees		-4	0	-
Earnings before income taxes		**1,195**	**1,336**	**-10.6**
Income taxes	3.6	-300	-339	-11.5
Net income		**895**	**997**	**-10.2**
Attributable to shareholders of the parent company		881	980	-10.1
Attributable to non-controlling interests		14	17	-17.6
Earnings per common share (basic/diluted, in €)	3.7	1.32	1.47	-10.2
Earnings per common non-voting share (basic/diluted, in €)	3.7	1.33	1.48	-10.1

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

2. Consolidated statement of comprehensive income

No. 090

in € millions	Note	2018 before taxes	2018 taxes	2018 after taxes	2017 [1] before taxes	2017 [1] taxes	2017 [1] after taxes
Net income		**1,195**	**-300**	**895**	**1,336**	**-339**	**997**
Foreign currency translation differences for foreign operations		-10	0	-10	-270	0	-270
Net change from hedges of net investments in foreign operations	4.15	-8	2	-6	33	-10	23
Effective portion of changes in fair value of cash flow hedges [2]	4.15	-59	17	-42	71	-21	50
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss		**-77**	**19**	**-58**	**-166**	**-31**	**-197**
Remeasurement of net defined benefit liability	4.12	-36	11	-25	120	-39	81
Total other comprehensive income (loss) that will not be reclassified to profit or loss		**-36**	**11**	**-25**	**120**	**-39**	**81**
Total other comprehensive income (loss)		**-113**	**30**	**-83**	**-46**	**-70**	**-116**
Total comprehensive income (loss)		**1,082**	**-270**	**812**	**1,290**	**-409**	**881**
Total comprehensive income (loss) attributable to shareholders of the parent company		1,069	-264	805	1,271	-400	871
Total comprehensive income (loss) attributable to non-controlling interests		13	-6	7	19	-9	10

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

[2] Including gains of EUR 35 m (prior year: losses of EUR 58 m) reclassified to profit and loss.

3. Consolidated statement of financial position

No. 091

in € millions	Note	12/31/2018	12/31/2017 [1]	Change in %
ASSETS				
Intangible assets	4.1	627	636	-1.4
Property, plant and equipment	4.2	5,318	4,865	9.3
Investments in equity-accounted investees	4.3	160	3	>100
Contract assets	3.1	11	0	-
Other financial assets	4.7	106	111	-4.5
Other assets	4.7	86	71	21.1
Deferred tax assets	4.4	520	492	5.7
Total non-current assets		**6,828**	**6,178**	**10.5**
Inventories	4.5	2,183	2,017	8.2
Contract assets	3.1	45	0	-
Trade receivables	4.6	2,003	2,192	-8.6
Other financial assets	4.7	131	111	18.0
Other assets	4.7	267	236	13.1
Income tax receivables	4.4	102	102	0.0
Cash and cash equivalents	4.8	801	698	14.8
Assets held for sale	4.9	2	3	-33.3
Total current assets		**5,534**	**5,359**	**3.3**
Total assets		**12,362**	**11,537**	**7.2**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		666	666	0.0
Capital reserves		2,348	2,348	0.0
Other reserves		866	282	>100
Accumulated other comprehensive income (loss)		-907	-822	10.3
Equity attributable to shareholders of the parent company		**2,973**	**2,474**	**20.2**
Non-controlling interests		87	107	-18.7
Total shareholders' equity	**4.10**	**3,060**	**2,581**	**18.6**
Provisions for pensions and similar obligations	4.12	2,173	2,124	2.3
Provisions	4.13	172	188	-8.5
Financial debt	4.11	3,188	3,066	4.0
Contract liabilities	3.1	2	0	-
Income tax payables	4.4	103	106	-2.8
Other financial liabilities	4.14	9	24	-62.5
Other liabilities	4.14	2	7	-71.4
Deferred tax liabilities	4.4	131	129	1.6
Total non-current liabilities		**5,780**	**5,644**	**2.4**
Provisions	4.13	244	264	-7.6
Financial debt	4.11	160	2	>100
Contract liabilities	3.1	45	0	-
Trade payables	4.15	1,967	1,867	5.4
Income tax payables	4.4	69	130	-46.9
Other financial liabilities	4.14	481	682	-29.5
Refund liabilities	4.15	236	0	-
Other liabilities	4.14	320	367	-12.8
Total current liabilities		**3,522**	**3,312**	**6.3**
Total shareholders' equity and liabilities		**12,362**	**11,537**	**7.2**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

4. Consolidated statement of cash flow

No. 092

in € millions	Note	**2018**	**2017 [1)]**	Change in %
Operating activities				
EBIT		1,354	1,528	-11.4
Interest paid		-94	-121	-22.3
Interest received		15	10	50.0
Income taxes paid		-355	-345	2.9
Depreciation, amortization, and impairment losses		821	767	7.0
(Gains) losses on disposal of assets		-3	2	-
Changes in:				
• Inventories		-166	-206	-19.4
• Trade receivables	5.2	135	-86	-
• Trade payables		63	261	-75.9
• Provisions for pensions and similar obligations		-28	31	-
• Other assets, liabilities, and provisions	4.14	-136	-63	> 100
Cash flows from operating activities		**1,606**	**1,778**	**-9.7**
Investing activities				
Proceeds from disposals of property, plant and equipment		13	9	44.4
Capital expenditures on intangible assets		-14	-32	-56.3
Capital expenditures on property, plant and equipment		-1,218	-1,241	-1.9
Acquisition of subsidiaries and interests in joint ventures	5.1	-163	-47	> 100
Proceeds from disposal of subsidiaries and interests in joint ventures		1	20	-95.0
Other investing activities		-3	1	-
Cash used in investing activities		**-1,384**	**-1,290**	**7.3**
Financing activities				
Dividends paid to shareholders and non-controlling interests		-363	-330	10.0
Receipts from loans	5.1	404	440	-8.2
Repayments of loans	5.1	-152	-940	-83.8
Cash used in financing activities		**-111**	**-830**	**-86.6**
Net increase (decrease) in cash and cash equivalents		**111**	**-342**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents		-8	-31	-74.2
Cash and cash equivalents as at beginning of period		698	1,071	-34.8
Cash and cash equivalents as at December 31	**4.8**	**801**	**698**	**14.8**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

5. Consolidated statement of changes in equity

No. 093

	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss)				Equity attributable to shareholders [1]	Non-controlling interests	Total
in € millions				Translation reserve	Hedging reserve	Defined benefit plan remeasurement reserve	Total			
Balance as at January 01, 2017 before IAS 8 adjustments	**666**	**2,348**	**-404**	**-27**	**-35**	**-651**	**-713**	**1,897**	**100**	**1,997**
Change in accounting policy IAS 8 [2]			33					33		33
Balance as at January 01, 2017	**666**	**2,348**	**-371**	**-27**	**-35**	**-651**	**-713**	**1,930**	**100**	**2,030**
Net income			980					980	17	997
Other comprehensive income (loss)				-240	50	81	-109	-109	-7	-116
Total comprehensive income (loss)	**0**	**0**	**980**	**-240**	**50**	**81**	**-109**	**871**	**10**	**881**
Dividends	0	0	-328					-328	-2	-330
Transactions with non-controlling interests			1					1	-1	0
Total amount of transactions with shareholders	**0**	**0**	**-327**					**-327**	**-3**	**-330**
Balance as at December 31, 2017 [3]	**666**	**2,348**	**282**	**-267**	**15**	**-570**	**-822**	**2,474**	**107**	**2,581**
Balance as at January 01, 2018 before IFRS 9 and IFRS 15 adjustments [3]	**666**	**2,348**	**282**	**-267**	**15**	**-570**	**-822**	**2,474**	**107**	**2,581**
Adjustments IFRS 9			27					27		27
Adjustments IFRS 15			7					7		7
Balance as at January 01, 2018 [3]	**666**	**2,348**	**316**	**-267**	**15**	**-570**	**-822**	**2,508**	**107**	**2,615**
Net income			881					881	14	895
Other comprehensive income (loss)				-9	-42	-25	-76	-76	-7	-83
Total comprehensive income (loss)	**0**	**0**	**881**	**-9**	**-42**	**-25**	**-76**	**805**	**7**	**812**
Dividends			-361					-361	-2	-363
Transactions with non-controlling interests [4]			30	-9			-9	21	-25	-4
Total amount of transactions with shareholders	**0**	**0**	**-331**	**-9**			**-9**	**-340**	**-27**	**-367**
Balance as at December 31, 2018	**666**	**2,348**	**866**	**-285**	**-27**	**-595**	**-907**	**2,973**	**87**	**3,060**

[1] Equity attributable to shareholders of the parent company.
[2] Change in accounting policy for interest and penalties related to income taxes. See Note 1.4 “Change in accounting policy IAS 8” to the consolidated financial statements for further details.
[3] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.
[4] Merger of the two unlisted entities, INA Bearings India Private Limited and LuK India Private Limited, with Schaeffler India Ltd. The transaction increased Schaeffler AG‘s indirect interest in Schaeffler India Ltd. from approx. 51% to approx. 74%. Includes transaction costs of EUR 4 m.

See Note 4.10 to the consolidated financial statements for further details

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 094

in € millions	2018	2017 1) 2)	2018	2017 1) 2)	2018	2017 1) 2)	2018	2017 1)
	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue	8,997	8,991	1,859	1,880	3,385	3,150	14,241	14,021
EBIT	682	951	319	333	353	244	1,354	1,528
• in % of revenue	7.6	10.6	17.2	17.7	10.4	7.7	9.5	10.9
EBIT before special item 3)	693	973	316	358	372	253	1,381	1,584
• in % of revenue	7.7	10.8	17.0	19.0	11.0	8.0	9.7	11.3
Depreciation, amortization, and impairment losse	-637	-581	-6	-5	-178	-181	-821	-767
Working capital 4) 5)	945	1,127	398	416	876	799	2,219	2,342
Additions to intangible assets and property, plant and equipment	970	1,006	64	33	241	248	1,275	1,287

Prior year information presented based on 2018 segment structure.
1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Prior year amounts are based on a retrospective change in segment structure. See Note 5.5 "Segment information" to the consolidated financial statements for further details.
3) EBIT before special items for legal cases, restructuring, and other. See Note 5.5 "Segment information" to the consolidated financial statements for further details.
4) Inventories plus trade receivables less trade payables.
5) Amounts as at December 31.

See Note 5.5 to the consolidated financial statements for further details

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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 Industriestr. 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, 2018, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the "Schaeffler Group").

The Schaeffler Group is a globally leading, integrated automotive and industrial supplier. Extensive systems know-how enables the Schaeffler Group to offer comprehensive solutions that are tailored to customer and market requirements. By delivering cutting-edge products for the automotive and industrial sector, the Schaeffler Group is shaping "Mobility for tomorrow" to a significant degree. These include products both for vehicles with only an internal combustion engine and for hybrid and electric vehicles, as well as components and systems for rotary and linear movements, and services, maintenance products, and monitoring systems for a large number of industrial applications. Additionally, the global business with spare parts provides repair solutions in original-equipment quality for the automotive spare parts market. The company earns revenue primarily from the sale of goods – in volume production for major customers as well as through its catalog business – and from services. Production of these goods is frequently based on development services, followed in some cases by the manufacture of tools required to produce the goods. Development services and manufacturing tools generate revenue as well.

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 Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Federal Gazette.

1.2 Basis of preparation

In accordance with section 315e (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2018 have been compiled 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 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 determined 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 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.

Estimation uncertainty and management judgment

In compiling financial statements, 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
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets
- evaluation of control over structured entities, associated companies, and joint ventures
- determination of valuation allowances on inventories
- assessment of the recoverability of deferred tax assets
- determination of expected credit losses on financial assets
- accounting for post-employment employee benefits, especially selecting actuarial assumptions
- recognition and measurement of provisions
- share-based payment and
- determination of fair values of financial debt and derivatives

Except for 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 2018. The discount rate used to measure defined benefit pension obligations was increased to reflect higher interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.12). In addition, the provisions for restructuring and for antitrust proceedings (see Note 4.13) were updated to reflect current information.

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 that are directly or indirectly controlled by Schaeffler AG have been consolidated in the company's consolidated financial statements. Subsidiaries are consolidated in the consolidated financial statements from the date the Schaeffler Group obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. 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 compiling the consolidated financial statements. Intercompany profits or losses on intra-group transactions 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.

Investments in joint ventures are jointly controlled by their shareholders. Joint control exists only if decisions about the relevant activities require the unanimous consent of the parties. Parties having joint control hold rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method.

Investments in associated companies are also accounted for under the equity method if the Schaeffler Group has significant influence over the investee.

Carrying amounts of investments in equity-accounted investees are adjusted to reflect changes in the Schaeffler Group's interest in the equity of the investee. Goodwill capitalized in connection with the initial application of the equity method to the company's interest in the investee is not amortized. The carrying amount of the investment is tested for impairment when there is an indication of impairment ("triggering event").

Foreign currency translation

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

Selected foreign exchange rates **No. 095**

Currencies		12/31/2018	12/31/2017	2018	2017
1 € in			Closing rates		Average rates
CNY	China	7.88	7.80	7.81	7.63
INR	India	79.73	76.61	80.72	73.51
KRW	South Korea	1,277.93	1,279.61	1,299.23	1,275.98
MXN	Mexico	22.49	23.66	22.71	21.33
USD	U.S.	1.15	1.20	1.18	1.13

Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies 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. Non-monetary items are translated at historical rates.

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 (loss) 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

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

In 2018, the company recognized revenue based on the accounting policies described below. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Revenue is recognized when the related performance obligation is satisfied, i. e. when the customer obtains control of the promised goods or services. This occurs either at a point in time or over time. The transaction price is the amount of consideration to which the Schaeffler Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Schaeffler Group recognizes revenue in the amount of the agreed price relating to the relevant performance obligation. The Schaeffler Group's customers are granted rebates, bonuses, discounts, credits, price concessions, or other variable price concessions. These types of variable consideration are recognized as a reduction of revenue during the year based on historical experience, contractually agreed bonus scales, and prior period sales. Since it expects that the period between when control over a promised good or service transfers and when payment is received will be one year or less, the Schaeffler Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for any financing component. Warranties provided in connection with the sale of goods or services are only intended to provide assurance that the product complies with agreed-upon specifications. Therefore, Schaeffler continues to account for warranties under IAS 37.

Customers typically have 30 to 60 days from the date the invoice is issued to pay for performance obligations under contracts with customers. Invoices are normally issued as at the date the performance obligation is satisfied.

The dates on which performance obligations under contracts with customers are satisfied can be summarized as follows:

Performance obligations under contracts with customers **No. 096**

Type of revenue	Date performance obligations satisfied
Revenue from the sale of goods	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Revenue from the sale of customer-specific products	Revenue recognition over time for customer-specific products for which the Schaeffler Group has an enforceable right to payment for performance completed to date amounting to any costs incurred plus a reasonable profit margin. This will result in revenue being recognized before the date of actual delivery. Revenue for customer-specific finished goods is recognized at the amount of the full price of the finished good in the period in which the customer is obligated to take delivery. For customer-specific goods in progress, the amount of revenue for the period in which the customer is obligated to take delivery is derived from the acquisition cost of the goods in progress rather being determined as the amount of the full price of the goods when they are finished. The method described above best represents the transfer of customer-specific products to the customer.
Revenue from the sale of tools	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Development service revenue	Revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This revenue is recognized when the development services have been rendered in full.
Other service revenue	Revenue is mostly recognized at a point in time upon completion of the service.

In 2017, the company recognized revenue based on the following accounting policies:

Revenue 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 the Schaeffler Group,
- the costs associated with the transaction can be measured reliably,
- the Schaeffler Group does not retain continuing managerial involvement with the goods, and
- the amount of revenue can be measured reliably.

Revenue is recognized at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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.

Functional costs

Income and expenses are allocated to the various functional areas. Depreciation, amortization, and impairment losses on intangible assets and property, plant and equipment are allocated to the functional area in which the asset is utilized.

Research and development expenses

Expenses incurred for research activities and advance development are expensed immediately.

Starting January 1, 2018, expenses for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract are recognized as cost of sales when the completed development service is transferred to the customer. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Development costs are only recognized as intangible assets once the capitalization criteria of IAS 38 are met.

Capitalized development costs are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over a period of six years beginning when the intangible asset is ready for use. Amortization expense is reported in cost of sales.

Financial result

Interest income and expense are recognized in the period to which they relate.

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.

Goodwill

Goodwill is not amortized, but is tested for impairment annually and when there is an indication ("triggering event"). 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 the higher of fair value less costs of disposal and value in use of the cash-generating unit. Value in use is determined using the discounted cash flow method. 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 detailed five-year-forecast and on a perpetuity for the period beyond that timeframe. 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 group management report for further details. Past trends and historic experience are also used in developing the forecast. The discount rate reflects current market expectations and specific risks.

Other intangible assets and property, plant and equipment

Other intangible assets and property, plant and equipment are recognized at acquisition or production cost plus incidental acquisition costs and, where applicable, subsequent acquisition cost and are amortized or depreciated over their expected useful life on a straight-line basis, provided they have a determinable useful life. The expected useful lives of software and capitalized development costs are three and six years, respectively, and range from 15 to 25 years for buildings, from two to ten years for technical equipment and machinery and from three to eight years for other equipment. Impairment losses are recognized for impairments.

Leases

Lease payments classified as operating leases are expensed on a straight-line basis over the lease term. The Schaeffler Group's finance leases are immaterial.

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").

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.

Financial instruments

In 2018, the company accounted for financial instruments using the accounting policies described below.[4]

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.

[4] See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

IFRS 9 contains three fundamental categories for the classification of financial instruments: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). Under IFRS 9, financial assets are classified based on the company's business model for managing the financial assets and on their contractual cash flow characteristics.

Financial assets at fair value through profit or loss

This category mainly includes a portion of the trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) (see Note 4.15). Due to the short maturity of these receivables, their transaction price represents their fair value. The fair value of marketable securities, on the other hand, is derived from market prices.

Financial assets at fair value through other comprehensive income

Financial investments in strategic long-term minority investments are measured at fair value, and changes in fair value are recognized in other comprehensive income. Accumulated other comprehensive income is not reclassified to the consolidated income statement upon disposal.

Financial assets at amortized cost

This category comprises trade receivables (except those that are available for sale under the ABCP program), cash and cash equivalents, and other financial assets. These assets are measured at amortized cost less impairment losses recognized for expected credit losses. Schaeffler uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables. Under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using customer-specific probabilities of default and taking into account information about future conditions. Credit loss allowances for the remaining financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e. at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly, the credit loss allowance recognized has to be based on lifetime expected credit losses. 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. See the “Credit risk” section in the “Financial instruments” chapter for further details.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement) (see Note 5.2).

Financial liabilities

Except for derivative financial instruments, the Schaeffler Group measures its financial liabilities at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are generally classified and measured at fair value through profit or loss unless they are subject to hedge accounting.

Derivatives embedded in financial liabilities are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

Hedge accounting

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

In 2017, the company accounted for financial instruments using the following accounting policies:

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.

The Schaeffler Group classifies its financial instruments into the following categories:

Available-for-sale financial assets

These are measured at fair value. Changes in fair value are recognized in other comprehensive income (including the related deferred taxes). Fair values are largely 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.

Loans and receivables

Loans and receivables are measured at amortized cost less any impairment losses. 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 payment delays on the part 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. 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.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement).

Cash and cash equivalents are accounted for at cost.

Financial liabilities

Except for derivative financial instruments, the Schaeffler Group measures its financial liabilities at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are classified as trading and measured at fair value unless they are subject to hedge accounting. Embedded derivatives are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

Hedge accounting

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

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 and written down to net realizable value if lower.

Contract assets

In 2018, the company accounted for contract assets using the accounting policies described below. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Contract assets mainly result from revenue for customer-specific products recognized over time. This affects products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. Contract assets are reclassified to trade receivables when they represent an unconditional right to receive the consideration. This is the case when the invoice is issued to the customer. The Schaeffler Group uses the simplified impairment approach for contract assets; under this approach, a credit loss allowance is recognized based on lifetime expected credit losses.

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. In accordance with IAS 37, interest related to income taxes is recognized at the amount required to settle the current obligation as at the reporting date. Potential risks arising from tax audits are covered by a provision.

Assets and liabilities held for sale

Non-current assets or groups of non-current assets (incl. the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within twelve months. Such assets and liabilities are presented separately in the statement of financial position. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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 the Schaeffler Group is entitled to a refund or reduction of future contributions to the fund.

Actuarial gains and losses arising from defined benefit plans are recognized in other comprehensive income, and interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and presented in financial result on a net basis.

For defined contribution plans, the Schaeffler Group 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.

The German pension plans are measured based on the new "Heubeck-Richttafeln 2018 G" mortality tables starting in 2018.

Provisions

Provisions are recognized when the Schaeffler Group has a present legal or constructive obligation as a result of a past event, it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at best estimate. Non-current provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense and the impact of any changes in discount rates are presented within financial result.

Contract liabilities

In 2018, the company accounted for contract liabilities using the accounting policies described below. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Contract liabilities partly result from payments received from customers for development services. This revenue is recognized when the customer obtains control of the completed development services.

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 a binomial option pricing model. The fair value is recognized as personnel expense over the period between grant date and settlement date.

1.4 Change in accounting policy IAS 8

In September 2018, the IFRS Technical Committee of the Accounting Standards Committee of Germany ("Deutsches Rechnungslegungs Standards Committee" - DRSC) issued DRSC Interpretation 4 (IFRS) Accounting for Interest and Penalties Related to Income Taxes. The Interpretation addresses the accounting for interest and penalties pursuant to section 3 (4) Fiscal Code of Germany ("Abgabenordnung" - AO) related to actual income taxes as defined in IAS 12.5 ("interest and penalties related to income taxes") in financial statements prepared in accordance with IFRS as adopted by the EU. The Interpretation clarifies that interest and penalties pursuant to section 3 (4) AO related to income taxes should be accounted for under IAS 37. This has resulted in changes in the recognition, measurement, and presentation of interest and penalties related to income taxes. The change in accounting treatment represents a change in accounting policy in accordance with IAS 8. Its impact on the consolidated financial statements can be summarized as follows:

Impact IAS 8 – consolidated statement of financial position **No. 097**

January 1, 2017

in € millions	Balance as at January 01, 2017, before IAS 8 adjustments	Change in accounting policy IAS 8	Balance as at January 01, 2017
ASSETS			
Total non-current assets	5,979	0	5,979
Total current assets	5,585	0	5,585
Total assets	**11,564**	**0**	**11,564**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total shareholders' equity	**1,997**	**33**	**2,030**
Other reserves	-404	33	-371
Other	2,401	0	2,401
Total non-current liabilities	**6,361**	**-31**	**6,330**
Provisions	96	14	110
Income tax payables	163	-45	118
Other	6,102	0	6,102
Total current liabilities	**3,206**	**-2**	**3,204**
Provisions	354	24	378
Income tax payables	176	-26	150
Other	2,676	0	2,676
Total shareholders' equity and liabilities	**11,564**	**0**	**11,564**

Impact IAS 8 – consolidated statement of financial position **No. 098**

December 31, 2017

in € millions	Balance as at December 31, 2017, before IAS 8 adjustments	Change in accounting policy IAS 8	Balance as at December 31, 2017
ASSETS			
Total non-current assets	6,178	0	6,178
Total current assets	5,359	0	5,359
Total assets	**11,537**	**0**	**11,537**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total shareholders' equity	**2,548**	**33**	**2,581**
Other reserves	249	33	282
Other	2,299	0	2,299
Total non-current liabilities	**5,676**	**-32**	**5,644**
Provisions	173	15	188
Income tax payables	153	-47	106
Other	5,350	0	5,350
Total current liabilities	**3,313**	**-1**	**3,312**
Provisions	233	31	264
Income tax payables	162	-32	130
Other	2,918	0	2,918
Total shareholders' equity and liabilities	**11,537**	**0**	**11,537**

This change in accounting policy has no significant impact on the consolidated income statement.

1.5 New accounting pronouncements

New accounting pronouncements effective in 2018

The effects of applying IFRS 9 and IFRS 15 effective January 1, 2018, which are discussed below, have resulted in a change in accounting policy. In accordance with the transition requirements, the Schaeffler Group has applied the modified retrospective approach to transition to both IFRS 9 and IFRS 15, i.e. the standard was only applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of initially applying the standard was recognized as an adjustment to the opening balance of shareholders' equity as at January 1, 2018, the date of initial application.

Other amendments to International Financial Reporting Standards (IFRS) required to be applied for the first time have not had any significant impact on these financial statements.

IFRS 9

Classification and measurement of financial assets and financial liabilities

Classification and measurement of the part of the portfolio of trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) has changed from the previous measurement base, amortized cost (AC), to measurement at fair value through profit or loss (FVTPL). This has not resulted in any measurement differences. Investments previously measured at amortized cost under the exception allowed by IAS 39 because their fair value was not reliably determinable are now accounted for at fair value through other comprehensive income (FVOCI). Initial application of this accounting treatment has increased other reserves by EUR 24 m.

IFRS 9 largely carries forward the classification and measurement requirements of IAS 39 for financial liabilities. Although the Schaeffler Group has one modified financial liability, this has not impacted the amounts recognized in the financial statements.

Impairment model for financial assets

IFRS 9 has also introduced a new impairment model for financial assets accounted for at amortized cost. The standard has replaced the previous incurred loss model with an expected loss model. Initial application of the new impairment model has increased the Schaeffler Group's other reserves by EUR 4 m upon transition (see also Note 4.6 "Trade receivables").

Hedge accounting

In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply IFRS 9 at a later date, i.e. after January 1, 2018.

The carrying amounts of financial instruments by class of the consolidated statement of financial position and by category per IFRS 9 can be reconciled to the categories previously used under IAS 39 follows:

Financial instruments by class and category in accordance with IFRS 7.8 [1)] **No. 099**

in € millions	Category IFRS 7.8 per IFRS 9	12/31/2018 Carrying amount	01/01/2018 Carrying amount	Category IFRS 7.8 per IAS 39	12/31/2017 Carrying amount
Financial assets, by class					
Trade receivables	Amortised cost	1,914	2,131	LaR	2,127
Trade receivables – ABCP program [1)]	FVTPL	89	65	LaR	65
Other financial assets					
• Other investments [1)]	FVOCI	38	41	AfS	17
• Marketable securities	FVTPL	17	16	AfS	16
• Derivatives designated as hedging instruments	n.a.	43	58	n.a.	58
• Derivatives not designated as hedging instruments	FVTPL	31	85	HfT	85
• Miscellaneous other financial assets	Amortised cost	108	46	LaR	46
Cash and cash equivalents	Amortised cost	801	698	LaR	698
Financial liabilities, by class					
Financial debt	FLAC	3,348	3,068	FLAC	3,068
Trade payables	FLAC	1,967	1,867	FLAC	1,867
Refund liabilities	n.a.	236	213		0
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	40	11	n.a.	11
• Derivatives not designated as hedging instruments	FVTPL	27	25	HfT	25
• Miscellaneous other financial liabilities	FLAC	423	457	FLAC	670
Summary by category					
Financial assets at amortized cost (Amortized cost)		2,823	2,875	LaR	2,936
Financial assets at fair value through profit or loss (FVTPL)		137	166	HfT	85
Financial assets (equity instruments) at fair value through other comprehensive income (FVOCI)		38	41	AfS	33
Financial liabilities at amortized cost (FLAC)		5,738	5,392	FLAC	5,605
Financial liabilities at fair value through profit or loss (FVTPL)		27	25	HfT	25

[1)] The reclassifications under IFRS 9 relate to:
a) Trade receivables that are available for sale under the ABCP program (reclassified from LaR to FVTPL).
b) Other investments (reclassified from AfS to FVOCI equity instruments).

IFRS 15

New IFRS 15 Revenue from Contracts with Customers replaces existing revenue recognition guidance previously contained in several standards (IAS 18 Revenue and IAS 11 Construction Contracts) and interpretations (IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). Its initial application has mainly had the following impact on transition.

Development services

Starting January 1, 2018, revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This consideration is recognized as revenue when the customer obtains control of the completed development services. The related expenses are expensed as cost of sales when revenue is recognized. In the past, payments received from customers for development services were offset against the related development costs and the net amount was classified as research and development expenses.

Customer-specific products

Starting January 1, 2018, revenue is recognized over time for products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. This has resulted in revenue being recognized earlier than under the company's previous accounting policies.

Initial application of these changes has increased the Schaeffler Group's other reserves as at January 1, 2018, by EUR 7 m. This transition adjustment was adjusted retrospectively during the year.

Additionally, advance payments received under contracts with customers within the scope of IFRS 15 were reclassified to contract liabilities during the year. These had previously been reported in other liabilities. Furthermore, selling expenses (bonuses, rebates, discounts) are presented separately as refund liabilities. These had previously been reported in other financial liabilities.

The following summaries provide an overview of the impact of IFRS 15 on the consolidated financial statements as at December 31, 2018.

IFRS 15 – impact on consolidated statement of financial position **No. 100**

in € millions	12/31/2018	Impact IFRS 15	12/31/2018 before applying IFRS 15
ASSETS			
Contract assets	11	11	0
Other assets	86	1	85
Non-current assets	**6,828**	**12**	**6,816**
Inventories	2,183	-13	2,196
Contract assets	45	45	0
Current assets	**5,534**	**32**	**5,502**
Total assets	**12,362**	**44**	**12,318**
SHAREHOLDERS' EQUITY AND LIABILITIES			
• Other reserves	866	19	847
Shareholders' equity	**3,060**	**19**	**3,041**
Contract liabilities	2	2	0
Other financial liabilities	9	1	8
Deferred tax liabilities	131	9	122
Non-current liabilities	**5,780**	**12**	**5,768**
Provisions	244	-3	247
Contract liabilities	45	45	0
Other financial liabilities	481	-234	715
Refund liabilities	236	236	0
Other liabilities	320	-31	351
Current liabilities	**3,522**	**13**	**3,509**
Total shareholders' equity and liabilities	**12,362**	**44**	**12,318**

IFRS 15 – impact on consolidated income statement **No. 101**

in € millions	2018	Impact IFRS 15	2018 before applying IFRS 15
Revenue	14,241	69	14,172
Cost of sales	-10,558	-113	-10,445
Gross profit	**3,683**	**-44**	**3,727**
Research and development expenses	-847	58	-905
EBIT	**1,354**	**14**	**1,340**
Financial result	**-155**	**3**	**-158**
Income taxes	-300	-5	-295
Net income	**895**	**12**	**883**
Earnings per common share (basic/diluted, in €)	1.32	0.02	1.30
Earnings per common non-voting share (basic/diluted, in €)	1.33	0.02	1.31

New accounting pronouncements endorsed by the EU effective in 2019

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 2018, and none were adopted early.

In October 2017, the IASB issued Amendments to IFRS 9 that are effective as at January 1, 2019, and require retrospective application (endorsed by the EU in March 2018). These amendments address whether prepayment features with negative compensation meet the cash flow condition; their impact on the Schaeffler Group is insignificant.

In July 2018, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments in order to clarify the accounting for various uncertainties regarding the income tax treatment of positions and transactions. Based on current assessments, this clarification will not have a significant impact on the Schaeffler Group. The new interpretation is effective as at January 1, 2019 (endorsed by the EU in October 2018).

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the requirements of IAS 17 and the related Interpretations. The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Schaeffler Group has initially applied the standard for the year beginning on January 1, 2019.

IFRS 16 introduces a uniform lessee accounting model requiring lessees to capitalize leases in their statement of financial position. In the future, lessees will capitalize the right to use the leased asset and recognize a liability representing its obligation to make lease payments. The new standard substantially carries forward the lessor accounting requirements in IAS 17, continuing to require them to classify leases as operating leases or finance leases.

The Schaeffler Group is using the modified retrospective approach to transition to IFRS 16, i.e. the standard is only applied to the most recent reporting period presented in the financial statements (the year 2019). Prior year amounts are not adjusted. The company has elected to apply the exemptions for short-term leases with a term of up to twelve months and for leases of low-value assets. The Schaeffler Group intends to apply additional practical expedients.

The Schaeffler Group has examined the impact of applying IFRS 16 in a dedicated project. Following a systematic analysis, the project is currently in the final implementation stage of processes and systems changes. Based on the current status of the project, the Schaeffler Group expects the main impact of transitioning to the new standard to result from the future capitalization of real estate and vehicle leases previously classified as operating leases. The nature of expenses related to leases will change, since the Schaeffler Group will be recognizing depreciation on rights of use as well as interest expense on lease obligations.

Based on information currently available, the Schaeffler Group estimates the change in accounting for leases as a consequence of IFRS 16 to result in the recognition of additional lease liabilities and right of use assets of EUR 219 m as at January 1, 2019. The resulting depreciation on right of use assets for 2019 is estimated at EUR 60 m, and interest expense on lease liabilities at EUR 4 m. Based on the current status of the project, the Schaeffler Group does not expect any significant impact on its EBIT.

New accounting pronouncements not endorsed by the EU in 2019

In addition, the IASB has issued the following new standards and amendments to existing standards which had not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue. The company has not applied any of them early, and is currently not planning to apply any of them early.

New accounting pronouncements – not yet endorsed by the EU **No. 102**

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	01/01/2019	Amendments clarifying that long-term interests that are considered part of the net investment in an associate or joint venture are accounted for under IFRS 9 unless they are accounted for under the equity method	None
Amendments to IAS 19	Employee benefits	01/01/2019	Recalculation of current service cost and net interest for the remainder of the annual reporting period after an amendment, curtailment, or settlement of a pension plan during the year	Under examination [1]
Annual improvements 2015 – 2017		01/01/2019	Various amendments to IFRS 3, IFRS 11, IAS 12, IAS 23	Under examination [1]
Amendments to References to the Conceptual Framework in IFRS Standards		01/01/2020	Revised definitions of assets and liabilities and new guidelines on measurement and derecognition, presentation and disclosure	None
Amendments to IFRS 3	Business Combinations	01/01/2020	Issuance of a definition of a business	Under examination [1]
Amendments to IAS 1 and IAS 8		01/01/2020	Definition of material	Under examination [1]
IFRS 17	Insurance Contracts	01/01/2021	Principles for recognition, measurement, and presentation of as well as disclosures about insurance contracts	Under examination [1]
Amendments to IFRS 10, IAS 28		Undefined	Clarification of accounting for gains and losses on the sale or contribution of assets between an investor and its associate or joint venture	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 2018, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 152 (prior year: 151) subsidiaries; 51 (prior year: 50) entities are domiciled in Germany and 101 (prior year: 101) in other countries.

The companies acquired in 2017, autinity systems GmbH and afr-consulting GmbH (now Schaeffler Digital Solutions GmbH), were consolidated for the first time effective January 1, 2018. A total of eight entities were consolidated for the first time in 2018. Seven intra-group mergers have reduced the number of entities consolidated.

The impact of the changes in the scope of consolidation on the Schaeffler Group's net assets, financial position, and earnings was insignificant during the reporting period.

In the consolidated financial statements as at December 31, 2018, three (prior year: two) joint ventures and two associated companies (prior year: three) are accounted for at equity.

More on the Schaeffler Group's companies in Note 5.10

3. Notes to the consolidated income statement

3.1 Revenue

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

IFRS 15 – analysis of revenue by category **No. 103**

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2018	**2017 [1] [2]**	**2018**	**2017 [1] [2]**	**2018**	**2017 [1] [2]**	**2018**	**2017 [1]**
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue by type								
• Revenue from the sale of goods	8,767	8,839	1,859	1,880	3,353	3,117	13,979	13,836
• Revenue from the sales of tools	124	116	0	0	0	0	124	116
• Revenue from development services	58	0	0	0	0	0	58	0
• Revenue from other services	44	26	0	0	30	33	74	59
• Other revenue	4	10	0	0	2	0	6	10
Total	**8,997**	**8,991**	**1,859**	**1,880**	**3,385**	**3,150**	**14,241**	**14,021**
Revenue by region [3]								
• Europe	4,014	4,004	1,393	1,375	1,906	1,804	7,313	7,183
• Americas	1,938	1,932	340	403	596	575	2,874	2,910
• Greater China	1,910	1,927	76	57	575	472	2,561	2,456
• Asia/Pacific	1,135	1,128	50	45	308	299	1,493	1,472
Total	**8,997**	**8,991**	**1,859**	**1,880**	**3,385**	**3,150**	**14,241**	**14,021**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.
[2] Prior year information presented based on 2018 segment structure. Prior year amounts are based on a retrospective change in segment structure. See Note 5.5 “Segment information” to the consolidated financial statements for further details.
[3] By market (customer location).

The following overview shows receivables, contract assets, and contract liabilities from contracts with customers.

Contract balances **No. 104**

in € millions	12/31/2018	01/01/2018
Trade receivables	2,003	2,192
Contract assets	56	48
Contract liabilities	47	37
Revenue recognized in the reporting period [1]		
• that was included in the contract liability balance at the beginning of the year	34	-
• from performance obligations satisfied in previous years	9	-

[1] Amounts for the reporting period from January 1, 2018, to December 31, 2018.

Contract assets on hand as at December 31, 2018, resulted from revenue that has been recognized over time for customer-specific products.

Contract liabilities on hand as at December 31, 2018, represented payments received from customers for development services for which control had not yet been transferred to the customer as well as other advance payments received under contracts with customers.

As at December 31, 2018, the remaining performance obligations mainly represented outstanding performance obligations under development agreements. The related revenue is recognized when the customer obtains control of the development services. The company expects to recognize EUR 57 m in revenue in connection with these performance obligations, largely over the next 3 years.

There were no significant changes in the balances of contract assets and contract liabilities during the reporting period except for the reclassification of a portion of advance payments received to contract liabilities.

3.2 Other income

Other income **No. 105**

in € millions	2018	2017
Gains on reversal of provisions	35	38
Miscellaneous income	52	44
Total	**87**	**82**

Gains on reversal of provisions included EUR 23 m (prior year: EUR 6 m) in gains on the reversal of provisions for potential third party claims in connection with antitrust proceedings and other compliance cases.

3.3 Other expenses

Other expenses **No. 106**

in € millions	2018	2017
Exchange losses	6	35
Miscellaneous expenses	71	106
Total	**77**	**141**

Exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2018, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 6 m (prior year: EUR 35 m).

Miscellaneous other expenses included EUR 26 m (prior year: EUR 0 m) in expenditures related to the reorganization of the “Bearing & Components Technologies” unit and its integration into the Automotive OEM and Industrial divisions. In addition, EUR 22 m (prior year: EUR 0 m) in expenses were attributable to the reorganization of the company’s UK business activities. The prior year included EUR 39 m in restructuring expenses incurred to set up a shared service center in Europe.

3.4 Personnel expense and headcount

Average number of employees by region **No. 107**

	2018	2017
Europe	63,001	60,954
Americas	13,243	12,826
Greater China	12,829	11,981
Asia/Pacific	3,159	2,936
Total	**92,232**	**88,697**

The number of employees as at December 31, 2018 was 92,478, 2.6% above the prior year level of 90,151.

The Schaeffler Group’s personnel expense can be analyzed as follows:

Personnel expense **No. 108**

in € millions	2018	2017
Wages and salaries	3,743	3,606
Social security contributions	716	700
Other personnel expense	141	131
Total	**4,600**	**4,437**

The increase in personnel expense in 2018 was mainly attributable to pay increases arising from local collective agreements and to the expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions.

Other personnel expense includes EUR 138 m (prior year: EUR 128 m) in retirement benefit expenses.

3.5 Financial result

Schaeffler Group financial result **No. 109**

in € millions	2018	2017
Interest expense on financial debt [1]	-99	-123
Interest income on shareholder loans	-1	-17
Gains and losses on derivatives and foreign exchange	-43	-14
Interest income and expense on pensions and partial retirement obligations	-40	-38
Other	28	0
Total	**-155**	**-192**

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

Interest expense on financial debt amounted to EUR 99 m in 2018 (prior year: EUR 123 m) and included prepayment penalties of EUR 0 m (prior year: EUR 13 m) and EUR 0 m (prior year: EUR 5 m) in deferred transaction costs derecognized.

Net **foreign exchange** losses on financial assets and liabilities and net losses on **derivatives** amounted to EUR 1 m (prior year: EUR 17 m). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 43 m (prior year: EUR 14 m).

3.6 Income taxes

Income taxes **No. 110**

in € millions	2018	2017
Current income taxes	302	329
Deferred income taxes	-2	10
Total	**300**	**339**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2018.

The average domestic tax rate was 28.6% in 2018 (prior year: 28.6%). 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 12.7% (prior year: 12.7%).

The current income tax benefit related to prior years amounted to EUR 3 m (prior year: EUR 13 m) in 2018. The Schaeffler Group had a deferred tax benefit of EUR 44 m related to prior years (prior year: EUR 16 m) in 2018.

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 2018 is based on the Schaeffler Group's 28.6% (prior year: 28.6%) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation **No. 111**

in € millions	2018	2017
Earnings before income taxes	1,195	1,336
Expected tax expense	**342**	**382**
Addition/reduction due to deviating local tax bases	5	5
Foreign/domestic tax rate differences	-17	-22
Change in tax rate and law	1	-8
Non-recognition of deferred tax assets	18	7
Tax credits and other tax benefits	-15	-16
Non-deductible expenses and non-taxable income	16	24
Taxes for previous years	-47	-29
Other	-3	-4
Reported tax expense	**300**	**339**

Foreign/domestic tax rate differences primarily represent the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-deductible expenses and non-taxable income includes non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries.

Taxes for previous years mainly contain income tax benefits from reassessments of tax issues from prior years.

3.7 Earnings per share

Earnings per share **No. 112**

in € millions	**2018**	**2017**
Net income	895	997
Net income attributable to shareholders of the parent company	881	980
Earnings attributable to common shares	660	734
Earnings attributable to common non-voting shares	221	246
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	166
Earnings per common share (basic/diluted, in €)	**1.32**	**1.47**
Earnings per common non-voting share (basic/diluted, in €)	**1.33**	**1.48**

There were no dilutive items as at December 31, 2018, or in the prior year. Diluted earnings per share equal basic earnings per share.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

Effective January 1, 2018, the former Automotive Aftermarket business division was set up as the company's third division. In this context, the number of groups of cash-generating units to which goodwill has been allocated was increased from two to three. Goodwill was allocated based on relative value in use.

The carrying amounts of goodwill allocated to the groups of cash-generating units to which **goodwill** has been allocated were EUR 243 m for the Automotive OEM segment (prior year: EUR 243 m), EUR 76 m for the Automotive Aftermarket segment (prior year: EUR 76 m), and EUR 211 m (prior year: EUR 208 m) for the Industrial segment.

For purposes of determining value in use, cash flows beyond the detailed forecasting horizon of 2021 are based on the 2022 and 2023 planning years and, for periods after 2023, on an annuity calculated using an annual growth rate of 1.0% (prior year: 1.0%) for each segment." Depending on the underlying business and its country of operation, the Schaeffler Group used an assumed pre-tax interest rate of 12.1% as the weighted average cost of capital for the Automotive OEM segment and 12.9% for the Automotive Aftermarket segment (prior year: Automotive segment 12.6%) as well as 12.1% (prior year: 12.4%) for the Industrial segment. This corresponds to a post-tax interest rate of 8.9% for the Automotive OEM segment and 9.8% for the Automotive Aftermarket segment (prior year: Automotive segment 9.1%) as well as 8.9% (prior year: 9.0%) for the Industrial segment.

As the value in use of each of the groups of cash-generating units exceeded their carrying amount both for 2018 and the prior year, they were not impaired.

Internally generated intangible assets consisted largely of development costs of EUR 46 m (prior year: EUR 55 m), including EUR 1 m (prior year: EUR 35 m) in assets not yet available for use that were not yet subject to amortization.

Amortization of intangible assets totaled EUR 27 m (prior year: EUR 28 m) and was recognized in the following line items in the consolidated income statement: Cost of sales EUR 9 m (prior year: EUR 6 m), research and development expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 13 m (prior year: EUR 17 m).

Intangible assets **No. 113**

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2017	**527**	**1,082**	**310**	**1,919**
Additions	0	19	13	32
Disposals	0	-7	0	-7
Transfers	0	-1	1	0
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2017	**527**	**1,089**	**322**	**1,938**
Balance as at January 01, 2018	**527**	**1,089**	**322**	**1,938**
Additions	3	13	1	17
Disposals	0	-34	0	-34
Transfers	0	1	0	1
Foreign currency translation	0	0	0	0
Balance as at December 31, 2018	**530**	**1,069**	**323**	**1,922**
Accumulated amortization and impairment losses				
Balance as at January 01, 2017	**0**	**1,028**	**259**	**1,287**
Amortization	0	19	9	28
Disposals	0	-7	0	-7
Transfers	0	0	0	0
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2017	**0**	**1,036**	**266**	**1,302**
Balance as at January 01, 2018	**0**	**1,036**	**266**	**1,302**
Amortization	0	18	9	27
Disposals	0	-34	0	-34
Transfers	0	0	0	0
Foreign currency translation	0	0	0	0
Balance as at December 31, 2018	**0**	**1,020**	**275**	**1,295**
Net carrying amounts				
As at January 01, 2017	**527**	**54**	**51**	**632**
As at December 31, 2017	**527**	**53**	**56**	**636**
As at January 01, 2018	**527**	**53**	**56**	**636**
As at December 31, 2018	**530**	**49**	**48**	**627**

4.2 Property, plant and equipment

Property, plant and equipment **No. 114**

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2017	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Additions	39	372	109	735	1,255
Disposals	-2	-190	-71	-1	-264
Transfers	69	401	28	-498	0
Reclassification to IFRS 5	-3	0	0	0	-3
Foreign currency translation	-66	-269	-22	-22	-379
Balance as at December 31, 2017	**2,567**	**8,724**	**1,126**	**970**	**13,387**
Balance as at January 01, 2018	**2,567**	**8,724**	**1,126**	**970**	**13,387**
Adjustments IFRS 15	**0**	**-5**	**0**	**0**	**-5**
Balance as at January 01, 2018, including IFRS 15	**2,567**	**8,719**	**1,126**	**970**	**13,382**
Additions	46	361	82	769	1,258
Disposals	-8	-179	-67	-3	-257
Transfers	108	412	33	-554	-1
Reclassification to IFRS 5	-6	0	0	0	-6
Foreign currency translation	1	-9	2	0	-6
Balance as at December 31, 2018	**2,708**	**9,304**	**1,176**	**1,182**	**14,370**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2017	**1,358**	**6,091**	**817**	**5**	**8,271**
Depreciation	78	556	105	0	739
Impairment losses	0	0	0	0	0
Disposals	-1	-186	-70	0	-257
Transfers	0	0	0	0	0
Reclassification to IFRS 5	0	0	0	0	0
Foreign currency translation	-31	-184	-15	-1	-231
Balance as at December 31, 2017	**1,404**	**6,277**	**837**	**4**	**8,522**
Balance as at January 01, 2018	**1,404**	**6,277**	**837**	**4**	**8,522**
Adjustments IFRS 15	**0**	**-3**	**0**	**0**	**-3**
Balance as at January 01, 2018, including IFRS 15	**1,404**	**6,274**	**837**	**4**	**8,519**
Depreciation	82	619	92	0	793
Impairment losses	0	0	0	1	1
Disposals	-7	-175	-66	-1	-249
Transfers	0	0	0	0	0
Reclassification to IFRS 5	-4	0	0	0	-4
Foreign currency translation	1	-9	1	-1	-8
Balance as at December 31, 2018	**1,476**	**6,709**	**864**	**3**	**9,052**
Net carrying amounts					
As at January 01, 2017	**1,172**	**2,319**	**265**	**751**	**4,507**
As at December 31, 2017	**1,163**	**2,447**	**289**	**966**	**4,865**
As at January 01, 2018	**1,163**	**2,447**	**289**	**966**	**4,865**
As at December 31, 2018	**1,232**	**2,595**	**312**	**1,179**	**5,318**

As at December 31, 2018, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 465 m (prior year: EUR 451 m).

4.3 Investments in equity-accounted investees

Investments in equity-accounted investees consisted of EUR 158 m (prior year: EUR 0 m) in investments in joint ventures and EUR 2 m (prior year: EUR 3 m) in investments in associated companies.

The most significant joint venture is Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach, which was established in 2018.

The company is jointly controlled by its two limited partners, Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH.

90% of its shares are held by Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH holds a 10% interest. The joint venture's two shareholders have joint control because decisions about the relevant activities require the unanimous consent of both shareholders.

The general partner of Schaeffler Paravan Technologie GmbH & Co. KG is Schaeffler Paravan Management GmbH (no shareholdings).

The company has EUR 190 m in share capital, contributed in cash (EUR 180 m) and in kind (EUR 10 m).

On October 1, 2018, the joint venture acquired the Space Drive "Drive-by-Wire"-Technology (from Paravan GmbH and Roland Arnold GmbH & Co. KG) and the "Schaeffler Mover" activities from Schaeffler Technologies AG & Co. KG. The objective of the company is the further development of the "Drive-by-Wire"-Technology and the development and sale of mobility systems.

The following summarized financial information can be derived from the financial statements of Schaeffler Paravan Technologie GmbH & Co. KG for 2018 prepared in accordance with IFRS. The summarized financial information is shown at 100%.

Schaeffler Paravan Technologie GmbH & Co. KG **No. 115**

in € millions	**2018**
Current assets	3.6
• Liquid funds	1.0
Non-current assets	186.7
Total assets	**190.3**
Current liabilities	3.4
• Current financial liabilities	1.0
Non-current liabilities	1.7
• Non-current financial liabilities	1.0
Total liabilities	**5.1**
Revenue	0.9
Depreciation and amortization	-2.3
Earnings before income taxes	-4.4
Other comprehensive income	-0.3
Income taxes	0.0
Total comprehensive income after taxes	**-4.7**
Net assets	**185.2**
Proportionate sale of net assets	166.7
Elimination of proportionate share of gain on contribution in kind	-8.9
Carrying amount of investment	**157.8**

The impact of other equity-accounted joint ventures and of associated companies on the Schaeffler Group's net assets, financial position, and earnings as at the end of the reporting period was insignificant.

4.4 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. 116**

	12/31/2017 [1]						12/31/2018
in € millions	Net	Recognized in profit or loss	Recognized in equity	Recognized in other comprehensive income	Net	Deferred tax assets	Deferred tax liabilities
Intangible assets	-24	2	0	0	-22	2	-24
Property, plant and equipment	-38	-10	0	0	-48	99	-147
Financial assets	-1	-12	0	19	6	6	0
Inventories	95	-4	2	0	93	101	-8
Trade receivables and other assets	-32	56	-4	0	20	155	-135
Provisions for pensions and similar obligations	336	-6	0	11	341	405	-64
Other provisions and other liabilities	35	-31	0	0	4	148	-144
Interest- and loss carryforwards	21	4	0	0	25	25	0
Outside basis differences	-29	-1	0	0	-30	0	-30
Deferred taxes (gross)	**363**	**-2**	**-2**	**30**	**389**	**941**	**-552**
Netting						421	-421
Deferred taxes (net)	**363**	**-2**	**-2**	**30**	**389**	**520**	**-131**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

The group had gross carryforwards under the interest deduction cap of EUR 46 m (prior year: EUR 32 m) at the end of the reporting period. The company has recognized deferred tax assets on all interest carryforwards.

As at December 31, 2018, the Schaeffler Group had gross loss carryforwards of EUR 137 m (prior year: EUR 99 m) for corporation tax and EUR 35 m (prior year: EUR 9 m) for trade tax, including EUR 113 m (prior year: EUR 72 m) in corporation tax losses and EUR 24 m (prior year: EUR 9 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 44 m (prior year: EUR 22 m) of the corporation tax loss carryforwards on which no deferred tax assets were recognized can be carried forward for a limited period. The interest carryforwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 56 m (prior year: EUR 31 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 2,156 m (prior year: EUR 2,006 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 4 m (prior year: EUR 5 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

As at December 31, 2018, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 290 m (prior year: EUR 260 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

As at December 31, 2018, income tax receivables amounted to EUR 102 m (prior year: EUR 102 m) and did not include any non-current balances.

As at December 31, 2018, income tax payables amounted to EUR 172 m (prior year: EUR 236 m), including non-current balances of EUR 103 m (prior year: EUR 106 m).[5]

4.5 Inventories

Inventories **No. 117**

in € millions	12/31/2018	12/31/2017[1)]
Raw materials and supplies	442	393
Work in progress	597	571
Finished goods and merchandise	1,142	1,052
Advance payments	2	1
Total	**2,183**	**2,017**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

EUR 10,452 m (prior year: EUR 10,021 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2018.

The impairment allowance on inventories amounted to EUR 276 m (prior year: EUR 271 m) as at December 31, 2018.

4.6 Trade receivables

Trade receivables **No. 118**

in € millions	12/31/2018	12/31/2017[1)]
Trade receivables (gross)	**2,021**	**2,213**
Impairment allowances	-18	-21
Trade receivables (net)	**2,003**	**2,192**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Movements in impairment allowances on these trade receivables can be reconciled as follows:

Impairment allowances on trade receivables **No. 119**

in € millions	2018	2017 [1)]
Impairment allowances as at January 01 per IAS 39	**-21**	**-25**
Adjustment for initial application of IFRS 9	4	
Impairment allowances as at January 01 per IFRS 9	**-17**	
Additions	-5	-1
Allowances used to cover write-offs	1	2
Reversals	3	3
Impairment allowances as at December 31	**-18**	**-21**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

[5] In 2018, the Schaeffler Group has initially applied DRSC Interpretation 4 (IFRS) issued in September 2018, resulting in a retrospective adjustment of the prior year amounts (see Note 1.4 for further details).

Aging of trade receivables No. 120

in € millions		12/31/2018	12/31/2017[1]
Carrying amount		**2,021**	**2,213**
Not past due		**1,868**	**2,033**
Past due	up to 60 days	**102**	**134**
	61 – 120 days	**17**	**14**
	121 – 180 days	**7**	**10**
	181 – 360 days	**12**	**7**
	› 360 days	**15**	**15**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

As at December 31, 2018, trade receivables outstanding with a carrying amount of EUR 166 m (prior year: EUR 123 m) net of retained credit risk had been sold under the ABCP program (see Note 5.2).

No trade receivables were pledged as security for lines of credit as at December 31, 2018 (prior year: EUR 195 m).

As at December 31, 2017, trade receivables of EUR 2,033 m were neither impaired nor past due. Receivables totaling EUR 134 m were past due but not impaired. These balances were mainly up to 60 days overdue. Trade accounts receivable subject to specific impairment allowances had a gross carrying amount of EUR 46 m as at December 31, 2017, and the related impairment allowance was EUR -21 m.

More on the Schaeffler Group’s exposure to credit, currency, and liquidity risk in Note 4.15

4.7 Other financial assets and other assets

Other financial assets (non-current/current) No. 121

			12/31/2018			12/31/2017[1]
in € millions	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	38	0	38	17	0	17
Derivative financial assets	39	34	73	69	74	143
Miscellaneous other financial assets	29	97	126	25	37	62
Total	**106**	**131**	**237**	**111**	**111**	**222**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

As at December 31, 2018, **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 comprise rights arising from the sale of receivables.

In addition, the presentation of investments in equity-accounted investees on the statement of financial position has been changed to presentation in a separate line item retrospectively to January 1, 2017 (prior year: EUR 3 m).

More on the Schaeffler Group’s exposure to currency and liquidity risk in Note 4.15

Other assets (non-current/current) **No. 122**

			12/31/2018			12/31/2017
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	46	0	46	46	0	46
Tax receivables	1	224	225	1	202	203
Miscellaneous other assets	39	43	82	24	34	58
Total	**86**	**267**	**353**	**71**	**236**	**307**

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.

4.8 Cash and cash equivalents

As at December 31, 2018, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 379 m (prior year: EUR 293 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 or other legal or contractual restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

4.9 Assets held for sale and liabilities associated with assets held for sale

Assets held for sale of EUR 2 m relate to the planned sale of a property and the building on it that is scheduled to close in the first quarter of 2019.

The property held for sale as at December 31, 2017 was sold in the first quarter of 2018.

4.10 Shareholders' equity

Shareholders' equity **No. 123**

in € millions	12/31/2018	12/31/2017 [1)2)]
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	866	282
Accumulated other comprehensive income (loss)	-907	-822
Equity attributable to shareholders of the parent company	**2,973**	**2,474**
Non-controlling interests	87	107
Total shareholders' equity	**3,060**	**2,581**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Change in accounting policy for interest and penalties related to income taxes. See Note 1.4 "Change in accounting policy IAS 8" to the consolidated financial statements for further details.

Schaeffler AG's **share capital** of EUR 666 m remains unchanged.

It is divided into 666 million no-par-value bearer shares, each representing an interest in share capital of EUR 1.00. The no-par-value shares are divided into 500 million common shares and 166 million common non-voting 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.

The common shares are held by IHO Verwaltungs GmbH. The common non-voting shares 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, 2018.

Capital reserves remained unchanged at EUR 2,348 m as at December 31, 2018.

The change in **other reserves** in 2018 was largely 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 2018, a dividend of EUR 361 m will be proposed to the Schaeffler AG annual general meeting. EUR 91 m of these dividends relate to the common non-voting shares. This represents a total dividend of EUR 0.55 (prior year: EUR 0.55) per common non-voting share and EUR 0.54 (prior year: EUR 0.54) 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 consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments, and remeasurements of pensions and similar obligations.

As at December 31, 2018, **non-controlling interests** represented third-party interests in the equity of Schaeffler India Ltd. EUR 25 m were reclassified from non-controlling interests to other reserves in connection with the merger of INA Bearings India Private Limited and LuK India Private Limited with Schaeffler India Ltd. completed during the year.

4.11 Current and non-current financial debt

Financial debt (current/non-current) **No. 124**

			12/31/2018			12/31/2017
in € millions	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year	Total
Bonds	0	2,019	2,019	0	1,994	1,994
Facilities Agreement	160	986	1,146	0	983	983
Capital investment loan	0	183	183	0	89	89
Other financial debt	0	0	0	2	0	2
Total	**160**	**3,188**	**3,348**	**2**	**3,066**	**3,068**

The increase in financial debt compared to December 31, 2017, is largely due to an additional EUR 94 m drawn under the capital investment loan to finance the long-term logistics projects and EUR 160 m drawn under the Revolving Credit Facility.

As at December 31, 2018, the group's debt consisted of a loan tranche with a principal of EUR 1.0 bn, a Revolving Credit Facility with a principal of EUR 1.3 bn, a capital investment loan with a principal of EUR 250 m, and four bond series with a principal totaling the equivalent of approximately EUR 2.0 bn.

The Schaeffler Group had the following loans outstanding as at December 31, 2018:

Schaeffler Group loans **No. 125**

		12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	
Tranche	Currency	Principal in millions		Carrying amount in € millions			Coupon	Maturity
Term Loan	EUR	1,000	1,000	993	991	Euribor [1] + 1.20%	Euribor [1] + 1.20%	09/30/2023
Revolving Credit Facility [2]	EUR	1,300	1,300	153	-8	Euribor [1] + 0.80%	Euribor [1] + 0.80%	09/30/2023
Capital investment loan [3]	EUR	250	250	183	89	Euribor [1] + 1.00%	Euribor [1] + 1.00%	12/15/2022
Total				**1,329**	**1,072**			

[1] Euribor Floor of 0.00%.
[2] EUR 173 m (December 31, 2017: EUR 12 m) were drawn down as at December 31, 2018, including EUR 13 m in the form of ancillary facilities such as letters of credit.
[3] EUR 184 m (December 31, 2017: EUR 90 m) were drawn down as at December 31, 2018.

In addition, the Schaeffler Group had further lines of credit in the equivalent of approximately EUR 134 m (prior year: approximately EUR 154 m), primarily in the U.S. and China. Approximately EUR 118 m of these facilities were unutilized as at December 31, 2018 (prior year: approximately EUR 111 m).

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. 126**

		12/31/2018	12/31/2017	12/31/2018	12/31/2017		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966 [1]	EUR	400	400	399	398	2.50%	05/15/2020
XS1067864022 [1]	EUR	500	500	499	498	3.50%	05/15/2022
US806261AM57 [1]	USD	600	600	525	502	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	596	3.25%	05/15/2025
Total				**2,019**	**1,994**		

[1] Bond has reached its contractual call date and can be redeemed at any time at the issuer‘s discretion.

The differences between principal and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying amount of the revolving credit facility consisted of the amount drawn and unamortized transaction costs.

An additional EUR 23 m (prior year: EUR 22 m) in interest accrued on the bonds up to December 31, 2018, were reported in other financial liabilities (see Note 4.14).

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the leverage covenant is not met, which would result in the debt becoming due immediately. As in the prior year, the company has complied with the leverage covenant throughout 2018 as stipulated in the debt agreements.

4.12 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 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 the Schaeffler 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, the Schaeffler Group guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

U.S. and United Kingdom

Additional significant defined benefit pension plans cover employees in the U.S. and in the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2018, approximately 95% (prior year: 76%) of pension obligations in the U.S. and approximately 120% (prior year: 113%) 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, 2018:

Amounts recognized in the statement of financial position for pensions and similar obligations **No. 127**

	12/31/2018					12/31/2017				
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-2,068	-13	0	-92	-2,173	-1,990	-51	-1	-82	-2,124
Pension asset (plan assets net of related liabilities)	0	3	38	5	46	13	0	28	5	46
Net defined benefit liability	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**

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. 128**

					12/31/2018					12/31/2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,271	-58	0	-203	-1,532	-1,206	-76	0	-201	-1,483
Present value of defined benefit obligations (deferred members)	-167	-23	-111	-4	-305	-154	-24	-159	-4	-341
Present value of defined benefit obligations (pensioners)	-808	-113	-79	-27	-1,027	-802	-110	-57	-29	-998
Present value of defined benefit obligations (total)	**-2,246**	**-194**	**-190**	**-234**	**-2,864**	**-2,162**	**-210**	**-216**	**-234**	**-2,822**
Fair value of plan assets	178	184	228	147	737	185	159	243	157	744
Net pension obligation recognized in the statement of financial position	-2,068	-10	38	-87	-2,127	-1,977	-51	27	-77	-2,078
Net defined benefit liability	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**

Movements in the net defined pension benefit liability in 2018 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 **No. 129**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/ asset (+) as at January 01	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**
Benefits paid	58	1	1	6	66	59	1	0	7	67
Service cost	-68	0	-2	-14	-84	-70	0	0	-15	-85
Net interest on net defined benefit liability	-37	-1	0	0	-38	-34	-2	0	-2	-38
Employer contributions	-4	34	0	5	35	-2	0	0	16	14
Employee contributions	0	0	0	0	0	0	0	0	0	0
Transfers in/out	0	11	0	0	11	0	-2	0	0	-2
Remeasurement of net defined benefit liability	-40	-2	12	-6	-36	92	6	19	3	120
Changes in foreign exchange rates	0	-2	0	-1	-3	0	4	0	3	7
Net defined benefit liability (-)/ asset (+) as at December 31	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**

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 obligations January 01/December 31 **No. 130**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Present value of defined benefit obligations as at January 01	**-2,162**	**-210**	**-216**	**-234**	**-2,822**	**-2,190**	**-226**	**-231**	**-234**	**-2,881**
Benefits paid	62	11	9	21	103	62	10	9	14	95
Current service cost	-68	0	0	-14	-82	-70	0	0	-14	-84
Past service cost	0	0	-2	0	-2	0	0	0	-1	-1
Interest cost	-41	-7	-6	-5	-59	-37	-9	-6	-6	-58
Employee contributions	-12	-1	0	0	-13	-11	-1	0	0	-12
Transfers in/out	0	13	0	0	13	1	0	0	0	1
Gains (+) / losses (-) – changes in financial assumptions	0	12	11	-4	19	85	-11	-7	7	74
Gains (+) / losses (-) – changes in demographic assumptions	-29	1	1	-3	-30	0	2	10	0	12
Gains (+) / losses (-) – experience adjustments	4	-2	11	4	17	-2	-1	0	-6	-9
Changes in foreign exchange rates	0	-11	2	1	-8	0	26	9	6	41
Present value of defined benefit obligations as at December 31	**-2,246**	**-194**	**-190**	**-234**	**-2,864**	**-2,162**	**-210**	**-216**	**-234**	**-2,822**

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. 131**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Fair value of plan assets as at January 01	**185**	**159**	**243**	**157**	**744**	**168**	**168**	**239**	**145**	**720**
Benefits paid	-4	-10	-8	-15	-37	-3	-9	-9	-7	-28
Interest income on plan assets	4	6	6	5	21	3	7	6	4	20
Employee contributions	12	1	0	0	13	11	1	0	0	12
Employer contributions	-4	34	0	5	35	-2	0	0	16	14
Transfers in/out	0	-2	0	0	-2	-1	-2	0	0	-3
Return on plan assets excluding interest income	-15	-13	-11	-3	-42	9	16	16	2	43
Changes in foreign exchange rates	0	9	-2	-2	5	0	-22	-9	-3	-34
Fair value of plan assets as at December 31	**178**	**184**	**228**	**147**	**737**	**185**	**159**	**243**	**157**	**744**

The Schaeffler Group plans to contribute EUR 9 m to plan assets in 2019.

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. 132**

	12/31/2018					12/31/2017				
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Equity instruments	88	18	54	4	164	98	61	66	14	239
Debt instruments	37	166	46	84	333	32	100	47	134	313
Real estate	0	0	26	3	29	0	0	24	3	27
Cash	28	0	2	0	30	30	-2	1	0	29
(Reimbursement) insurance policies	25	0	0	7	32	25	0	0	6	31
Mixed funds	0	0	100	49	149	0	0	105	0	105
Total	**178**	**184**	**228**	**147**	**737**	**185**	**159**	**243**	**157**	**744**

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 on defined benefit pension plans **No. 133**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	68	0	0	14	82	70	0	0	14	84
Past service cost	0	0	2	0	2	0	0	0	1	1
• plan amendments	0	0	2	0	2	0	0	0	1	1
Gains (-)/losses (+) on settlements	0	0	0	0	0	0	0	0	0	0
Service cost	**68**	**0**	**2**	**14**	**84**	**70**	**0**	**0**	**15**	**85**
Interest cost	41	7	6	5	59	37	9	6	6	58
Interest income	-4	-6	-6	-5	-21	-3	-7	-6	-4	-20
Net interest on net defined benefit liability/asset	**37**	**1**	**0**	**0**	**38**	**34**	**2**	**0**	**2**	**38**
Gains (-)/losses (+) – changes in financial assumptions	0	-12	-11	4	-19	-85	11	7	-7	-74
Gains (-)/losses (+) – changes in demographic assumptions	29	-1	-1	3	30	0	-2	-10	0	-12
Gains (-)/losses (+) – experience adjustments	-4	2	-11	-4	-17	2	1	0	6	9
Return on plan assets excluding interest income	15	13	11	3	42	-9	-16	-16	-2	-43
Remeasurements of net defined benefit liability/asset	**40**	**2**	**-12**	**6**	**36**	**-92**	**-6**	**-19**	**-3**	**-120**
Total comprehensive (income) loss on defined benefit obligations	**145**	**3**	**-10**	**20**	**158**	**12**	**-4**	**-19**	**14**	**3**

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 consolidated income statement **No. 134**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	40	0	0	10	50	41	0	0	10	51
Research and development expenses	13	0	0	1	14	13	0	0	1	14
Selling expenses	5	0	0	2	7	5	0	0	3	8
Administrative expenses	10	0	2	1	13	11	0	0	1	12
Included in EBIT	**68**	**0**	**2**	**14**	**84**	**70**	**0**	**0**	**15**	**85**
Interest expense	41	7	6	5	59	37	9	6	6	58
Interest income on plan assets	-4	-6	-6	-5	-21	-3	-7	-6	-4	-20
Included in financial result	**37**	**1**	**0**	**0**	**38**	**34**	**2**	**0**	**2**	**38**
Total	**105**	**1**	**2**	**14**	**122**	**104**	**2**	**0**	**17**	**123**

Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 18.8 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 20.1 years (prior year: 19.7 years), 10.8 years (prior year: 11.7 years), and 20.9 years (prior year: 22.8 years), respectively.

Over the next ten years, the company expects to make the following payments for the defined benefit obligations it has as at year-end:

Payments expected in coming years **No. 135**

in € millions	Payments expected
2019	92
2020	98
2021	105
2022	111
2023	116
2024–2028	624

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. 136**

					2018					2017
	Germany	U.S.	United Kingdom	Other countries	Total [1]	Germany	U.S.	United Kingdom	Other countries	Total [1]
Discount rate as at December 31	1.9%	4.3%	2.9%	2.7%	2.2%	1.9%	3.7%	2.6%	2.8%	2.2%
Future salary increases	3.3%	n.a. [2]	n.a. [2]	3.0%	3.2%	3.3%	n.a. [2]	n.a. [2]	3.2%	3.2%
Future pension increases	1.8%	2.5%	3.3%	0.1%	1.9%	1.8%	2.5%	3.3%	0.1%	1.9%

[1] Average discount rate for the Schaeffler Group.
[2] 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. Starting in 2018, the "RICHTTAFELN 2018 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. During the comparative period, 2017, the company used the "RICHTTAFELN 2005 G". The change to the new "RICHTTAFELN" has increased pension obligations and reduced shareholders' equity by EUR 28 m in 2018.

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. 137**

						2018					2017
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	-378	-19	-34	-24	-455	-352	-22	-42	-24	-440
	Minus 1.0%	519	23	45	29	616	490	27	56	29	602
Future salary increases	Plus 1.0%	50	n.a. [1]	n.a. [1]	18	68	47	n.a. [1]	n.a. [1]	18	65
	Minus 1.0%	-43	n.a. [1]	n.a. [1]	-16	-59	-41	n.a. [1]	n.a. [1]	-15	-56
Future pension increases	Plus 1.0%	219	0	19	3	241	217	0	27	3	247
	Minus 1.0%	-162	0	-17	-2	-181	-162	0	-23	-2	-187

[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 106 m (prior year: EUR 102 m) in Germany, EUR 6 m (prior year: EUR 6 m) in the U.S., and EUR 8 m (prior year: EUR 9 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 2018, the Schaeffler Group incurred EUR 32 m (prior year: EUR 22 m) in expenses related to defined contribution plans. At EUR 14 m (prior year: EUR 15 m), the majority of this amount relates to plans in the U.S.

4.13 Provisions

Provisions **No. 138**

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2018	**97**	**46**	**83**	**18**	**208**	**452**
Additions	59	39	34	9	27	168
Utilization	-52	-1	-21	-11	-50	-135
Reversals	-6	-1	-23	-4	-38	-72
Foreign currency translation	0	0	0	0	3	3
Balance as at December 31, 2018	**98**	**83**	**73**	**12**	**150**	**416**

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

Provisions (non-current/current) **No. 139**

			12/31/2018			**12/31/2017**
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	76	22	98	73	24	97
Restructuring	50	33	83	45	1	46
Warranties	0	73	73	0	83	83
Other taxes	0	12	12	0	18	18
Other	46	104	150	70	138	208
Total	**172**	**244**	**416**	**188**	**264**	**452**

Provisions for employee benefits consisted primarily of EUR 52 m (prior year: EUR 57 m) in provisions for long-time service awards and partial retirement programs primarily classified as non-current.

Restructuring provisions consisted mainly of EUR 39 m for the reorganization of the indirect functions at various locations under the “Shared Services” initiative in Europe. Implementation of these measures is expected to be completed by 2022. Additional restructuring provisions of EUR 22 m were recognized for the reorganization of the company’s UK business activities. The company also recognized EUR 26 m in provisions for the reorganization of the “Bearing & Components Technologies” unit (BCT), which had previously acted as an internal supplier, and its integration into the Automotive OEM and Industrial divisions. These provisions amounted to EUR 17 m as at the reporting date.

Warranty provisions consisted, in particular, of provisions for specific cases for which an outflow of resources within one year is considered probable.

Other provisions include, inter alia, provisions for potential third party claims in connection with antitrust proceedings of EUR 31 m (prior year: EUR 55 m). The decrease in other provisions compared to the prior year is primarily attributable to the reversal of a provision for a compliance case. On July 25, 2018, the relevant authorities issued a reprimand, thus completing their investigation of this compliance case, for which the Schaeffler Group had previously recognized a provision. EUR 21 m of the provision has been reversed to profit or loss.

Non-current provisions decreased by EUR 16 m to EUR 172 m (prior year: EUR 188 m), primarily due to the reversal of the provision for a compliance case as discussed above.

Current provisions declined by EUR 20 m to EUR 244 m (prior year: EUR 264 m). The decline resulted mainly from the reversal of various provisions for legal cases as well as warranty provisions.

4.14 Other financial liabilities and other liabilities

Other financial liabilities (non-current/current) **No. 140**

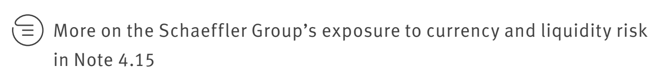
			12/31/2018			12/31/2017 [1]
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	2	283	285	2	299	301
Derivative financial liabilities	2	65	67	0	36	36
Miscellaneous other financial liabilities	5	133	138	22	347	369
Total	**9**	**481**	**490**	**24**	**682**	**706**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Amounts payable to staff included primarily profit sharing accruals.

Derivative financial liabilities included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The change was primarily attributable to an adverse trend in market value.

Miscellaneous other financial liabilities mainly consisted of payments received from customers for receivables sold under the ABCP program (see Note 5.2), accrued interest, and third party claims in connection with the EU antitrust proceedings finalized in March 2014. In the prior year, current miscellaneous other financial liabilities included selling expenses (bonuses, rebates, discounts); these are presented separately as refund liabilities in the statement of financial position starting in 2018.


More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.15

Other liabilities (non-current/current) **No. 141**

			12/31/2018			12/31/2017 [1]
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amonts payable to staff	0	123	123	0	152	152
Social security contributions payable	0	46	46	1	41	42
Advance payments received	0	8	8	0	34	34
Other tax payables	0	123	123	0	114	114
Miscellaneous other liabilities	2	20	22	6	26	32
Total	**2**	**320**	**322**	**7**	**367**	**374**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Amounts payable to staff primarily contained accrued vacation and overtime accounts.

Social security contributions payable consisted mainly of unpaid contributions to social security schemes.

Advance payments received in connection with contracts with customers within the scope of IFRS 15 were reclassified to contract liabilities during the year.

Other tax payables included, in particular, value-added taxes payable and payroll withholding taxes payable.

4.15 Financial instruments

Please refer to the "General information" chapter for a breakdown of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8.

Financial instruments by class in accordance with IFRS 7.25-30 **No. 142**

	12/31/2018		12/31/2017 [1]	
in € millions	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class				
Trade receivables	1,914	1,914	2,192	2,192
Trade receivables – ABCP program	89	89	0	0
Other financial assets				
• Other investments	38	38	17	
• Marketable securities	17	17	16	16
• Derivatives designated as hedging instruments	43	43	58	58
• Derivatives not designated as hedging instruments	31	31	85	85
• Miscellaneous other financial assets	108	108	46	46
Cash and cash equivalents	801	801	698	698
Financial liabilities, by class				
Financial debt	3,348	3,364	3,068	3,165
Trade payables	1,967	1,967	1,867	1,867
Refund liabilities	236	236	0	0
Other financial liabilities				
• Derivatives designated as hedging instruments	40	40	11	11
• Derivatives not designated as hedging instruments	27	27	25	25
• Miscellaneous other financial liabilities	423	423	670	670

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

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

Other investments include the following unconsolidated investments (shares in incorporated companies and cooperatives):

Investments designated as at FVOCI **No. 143**

	Fair value as at 12/31/2018
in € millions	Fair value
Investments in SupplyOn AG	7
Investment in Gemeinschaftskraftwerk GmbH	2
Investment in IAV GmbH	28
Other investments	1
Total	**38**

Since these investments are of a strategic long-term nature, they are designated as at fair value through other comprehensive income. Fair value is measured using an EBIT multiple methodology using sector- and size-specific EBIT multiples. All inputs are observable in the market. There were no partial disposals of such investments in 2018, and no accumulated gains or losses were reclassified within equity. Marketable securities consist primarily of debt 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. As a result of the rating upgrade by Standard & Poor's, the in rem security under the Facilities Agreement and the bond agreements was released in September 2018.

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

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period, as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates).
  The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

The 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. 144**

in € millions	Level 1	Level 2	Total
December 31, 2018			
Marketable securities	17	-	17
Derivatives designated as hedging instruments	-	43	43
Derivatives not designated as hedging instruments	-	31	31
Trade receivables – ABCP program	-	89	89
Other investments	-	38	38
Total financial assets	**17**	**201**	**218**
Financial debt	2,020	1,344	3,364
Derivatives designated as hedging instruments	0	40	40
Derivatives not designated as hedging instruments	0	27	27
Total financial liabilities	**2,020**	**1,411**	**3,431**
December 31, 2017 [1]			
Marketable securities	16	-	16
Derivatives designated as hedging instruments	-	58	58
Derivatives not designated as hedging instruments	-	85	85
Total financial assets	**16**	**143**	**159**
Financial debt	2,071	1,094	3,165
Derivatives designated as hedging instruments	-	11	11
Derivatives not designated as hedging instruments	-	25	25
Total financial liabilities	**2,071**	**1,130**	**3,201**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

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:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 **No. 145**

					2018	**2017** [1]
	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Financial assets (equity instruments) at fair value through other comprehensive income	-	-	-	-	-	1
Financial assets at fair value through profit or loss	6	-38	-	-	-32	-91
Financial assets at amortized cost	16	-	-2	9	23	-24
Financial liabilities at amortized cost	-101	-	-	-31	-132	-67
Total	**-79**	**-38**	**-2**	**-22**	**-141**	**-181**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

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 loss on financial assets and liabilities at fair value through profit and loss of EUR 32 m (prior year: held for trading: EUR 91 m) relates primarily to derivatives. EUR 18 m (prior year: EUR 1 m) of this net loss is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 43 m (prior year: EUR 14 m).

Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

The Schaeffler Group’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 the Schaeffler Group’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, credit 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 the Schaeffler Group’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, receivable sale programs, 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 an RCF of EUR 1.3 bn currently bearing interest at Euribor plus 0.80% as well as other bilateral lines of credit.

The Schaeffler Group's contractual payments of interest and principal on financial debt, trade payables, refund liabilities, miscellaneous other financial liabilities, and derivative liabilities are summarized as follows:

Cash flows related to non-derivative and derivative financial liabilities **No. 146**

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2018					
Non-derivative financial liabilities	**5,974**	**6,310**	**2,878**	**2,798**	**634**
• Financial debt	3,348	3,671	242	2,795	634
• Trade payables	1,967	1,975	1,975	0	0
• Refund liabilities	236	236	236	0	0
• Other financial liabilities	423	428	425	3	0
Derivative financial liabilities	**67**	**67**	**65**	**2**	**0**
Total	**6,041**	**6,377**	**2,943**	**2,800**	**634**
December 31, 2017					
Non-derivative financial liabilities	**5,605**	**6,007**	**2,590**	**2,236**	**1,181**
• Financial debt	3,068	3,469	74	2,214	1,181
• Trade payables	1,867	1,867	1,867	0	0
• Other financial liabilities	670	671	649	22	0
Derivative financial liabilities	**36**	**36**	**36**	**0**	**0**
Total	**5,641**	**6,043**	**2,626**	**2,236**	**1,181**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans and bonds. Contractual cash flows for derivative financial liabilities consist of the undiscounted expected cash flows translated at closing rates.

Credit risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is referred to as credit risk. Regardless of any credit insurance, the maximum credit risk to the Schaeffler Group is represented by the carrying amount of the underlying financial asset.

Credit risk arising on trade receivables is managed by constantly monitoring customers' financial status, creditworthiness, and payment history. Additional measures to manage credit risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline. The company considers a receivable impaired when there is substantial objective evidence. Objective evidence consists of certain events indicating that a default has occurred, such as involvement of a collection agency, collection procedures, foreclosure, and insolvency proceedings. The company determines an individual impairment percentage based on the nature of the event that has occurred and applies that rate to the relevant receivable. Receivables are not derecognized until either the insolvency proceedings are completed or Schaeffler no longer expects to collect the receivable. As at December 31, 2018, the contractual amount outstanding of receivables subject to enforcement measures amounted to EUR 14 m. For expected credit losses, the Schaeffler Group uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables; under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using rating-specific probabilities of default obtained from an external scoring provider that take into account information about future conditions. Expected credit losses are calculated by applying these term-weighted probabilities of default to receivables with medium credit risk that are not impaired. For countries without credit insurance, the company establishes homogeneous portfolios per country and uses the average country-specific probability of default to calculate expected credit losses.

The company uses the following credit risk rating classes to calculate expected credit losses:

Expected credit losses on trade receivables by risk class No. 147

in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
			12/31/2018
Risk class 1: high credit quality	1,164	0	0%
Risk class 2 – 3: medium credit quality	823	5	1%
Risk class 4: secured	17	0	0%
Risk class 5: negative credit quality and/or insolvent	17	13	76%
Total	**2,021**	**18**	**1%**

Customers with sound credit quality are assigned to risk class 1. The Schaeffler Group serves these customers without any restrictions. The Schaeffler Group anticipates that expected credit losses on these receivables will be insignificant. Risk classes 2 to 3 contain customers with medium credit quality, partly covered by credit insurance. The company only calculates expected credit losses for receivables that are not insured. Risk class 4 consists of export customers to whom the company makes deliveries against letters of credit or based on cash against documents. No credit losses are expected for this class. Risk class 5 comprises customers that are insolvent or have negative credit quality. Deliveries to customers in this group can only be made upon provision of security or against prepayment with the approval of credit management; as a result, no expected credit losses are recognized for this group of customers. Specific impairment allowances are recognized for receivables in risk class 5 based on objective evidence. As at the reporting date, EUR 17 m of the receivables in risk class 5 are considered impaired while receivables in the other risk classes are not impaired.

As at December 31, 2018, 35% of trade receivables were covered by commercial credit insurance. For EUR 707 m in receivables covered by credit insurance, neither specific impairment allowances nor expected credit losses are recognized, while impairment allowances are recognized on EUR 2 m in receivables covered by credit insurance.

Trade receivables in the Automotive OEM division are subject to a concentration of risk on several automobile manufacturers (see Note 5.5) totaling 35.8% (prior year: 39.0%) of trade receivables.

Credit loss allowances for other financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e. at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly because the external rating has deteriorated, the credit loss allowance recognized has to be based on lifetime expected credit losses. Carrying amount of bank deposits and other financial assets can be summarized by rating class as follows:

Credit rating of cash and cash equivalents No. 148

in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
			12/31/2018
BBB- to AAA	744	0	0%
B- to BB+	55	1	1%
C to CCC+	0	0	-
D	0	0	-
External rating not available	2	0	0%
Total	**801**	**1**	**0%**

Due to investment grade ratings and the credit risk monitoring system in place, Schaeffler Group's cash and cash equivalents and other financial assets (of EUR 108 m) carry low credit risk, which makes tracking their credit risk unnecessary. For all other financial assets, the company does not consider credit risk to be significantly increased unless financial assets are more than 30 days past due or the probability of default changes (relatively) by more than 20%. No cash and cash equivalents were impaired as at the reporting date. The probabilities of default used to determine expected credit losses for cash and cash equivalents and for other financial assets are based on credit default swap spreads quoted in the market; these credit spreads take into account forward-looking macro-economic factors. Expected credit losses for these items were insignificant as at the reporting date.

Credit 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 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 allowances, 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 obligations.

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.

The Schaeffler Group's financial debt can be summarized by type of interest as follows:

Variable and fixed interest financial debt **No. 149**

	12/31/2018	12/31/2017
in € millions	Carrying amount	
Variable interest instruments	**1,329**	**1,072**
• Financial debt	1,329	1,072
Fixed interest instruments	**2,019**	**1,996**
• Financial debt	2,019	1,996

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, 2018, would affect (increase/decrease) net income and shareholder's equity as follows:

Sensitivity analysis: Shift in yield curve **No. 150**

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2018				
Variable interest instruments	-7	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	0	27	0	0
Total	**-7**	**27**	**0**	**0**
As at December 31, 2017				
Variable interest instruments	-6	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	-22	82	0	0
Total	**-28**	**82**	**0**	**0**

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. 151**

in € millions	USD	CNY	RON	PLN
December 31, 2018				
Estimated currency risk from operations	848	613	-244	172
Forward exchange contracts	-653	-511	177	-130
Remaining currency risk from operations	**195**	**102**	**-67**	**42**
December 31, 2017				
Estimated currency risk from operations	807	573	-201	174
Forward exchange contracts	-606	-470	160	-131
Remaining currency risk from operations	**201**	**103**	**-41**	**43**

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 the Schaeffler Group'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 the Schaeffler Group's finance organization. The most significant currency risk exposures in these countries arise on the Chinese renminbi and the U.S. dollar and amount to an estimated EUR 80 m and EUR 57 m, respectively (prior year: Chinese renminbi and Indian rupee of EUR 58 m each).

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 mainly 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, 2018, 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. 152**

	12/31/2018		12/31/2017	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	16	-66	9	-59
CNY	16	-54	23	-39
RON	-6	21	-1	16
HUF	-1	10	9	11
PLN	3	-14	0	-13

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2018, 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 400 m (prior year: USD 400 m).

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, 2018. 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. 153**

in € millions	12/31/2018 Net income (loss)	12/31/2018 Share-holders' equity	12/31/2017 Net income (loss)	12/31/2017 Share-holders' equity
Foreign exchange gains and losses on financial debt	-35	-17	-33	-16
Foreign exchange gains and losses on derivatives	35	4	33	11
Total	**0**	**-13**	**0**	**-5**

Foreign exchange gains and losses on financial debt affecting shareholders' equity relate to a hedge of a net investment in a foreign operation.

Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the Schaeffler Group's risk management system. Notional amounts and fair values of derivative financial instruments as at the reporting date were as follows:

Summary of derivative financial instruments **No. 154**

in € millions	12/31/2018 Notional value	12/31/2018 Fair value	12/31/2017 Notional value	12/31/2017 Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,637	35	2,039	73
• thereof: hedge accounting	741	12	983	39
Cross-currency swaps	402	31	384	18
• thereof: hedge accounting	402	31	384	18
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,670	67	1,698	36
• thereof: hedge accounting	1,368	40	693	11
Cross-currency swaps	-	-	-	-
• thereof: hedge accounting	-	-	-	-

As at December 31, 2018, the Schaeffler Group held the following instruments to hedge its currency risk:

Hedging instruments **No. 155**

	Maturity Less than 1 year	Maturity More than 1 year
Currency risk		
Forward exchange contracts		
Notional amount of hedging instruments (in € millions)	4.184	123
Average rates of forward exchange contracts		
EUR:USD	1.1906	1.2385
EUR:CNY	8.0885	8.4547
EUR:HUF	320.5170	-
EUR:RON	4.7740	-
Cross-currency swap		
Notional amount of hedging instruments (in € millions)	7	356
Average rate of curency swap EUR:USD	1.0631	1.2746

The Schaeffler Group measures the effectiveness of the hedging relationship between the hedged item and the hedging instrument using interest rates, terms to maturity, interest repricing dates, maturity dates, and notional and principal amounts. The hedging ratio between the hedged item and the hedging instrument is 100%. The company uses the hypothetical derivative method to test whether the designated derivative effectively hedges the cash flows of the hedged item. Possible sources of ineffectiveness include counterparty credit risk and changes in the timing of hedged transactions. No ineffectiveness occurred during the period.

Cash flow hedges

A portion of the Schaeffler Group's forward exchange contracts and cross-currency swaps in certain currencies are accounted for as cash flow hedges with perfect effectiveness. 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. 156**

in € millions	2018	2017
Balance as at January 01	**33**	**-34**
Additions	-26	33
Reclassified to income statement		
• to other income	-33	0
• to other expense	0	34
Balance as at December 31	**-26**	**33**

The Schaeffler Group also applies cash flow hedge accounting to the foreign currency hedge of its bond issued in U.S. dollars using cross-currency swaps with a notional amount of USD 400 m (prior year: USD 400 m). As a result, accumulated gains of EUR 0.3 m (prior year: EUR 3 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, 2018. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2019 to 2023.

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. 157**

in € millions	2018	2017
Balance as at January 01	**-12**	**-15**
Additions	16	-43
Reclassified to income statement		
• to financial income	-16	0
• to financial expense	0	46
Balance as at December 31	**-12**	**-12**

Net investment in a foreign operation

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 under a net investment hedge (principal of USD 200 m; prior year: USD 200 m). This mitigates the group's translation risk on the U.S. subsidiaries. As a result, foreign exchange gains of EUR 5 m (prior year: EUR 13 m) on designated financial debt were recognized in other comprehensive income in 2018 and reported in accumulated other comprehensive income (translation reserve) as at December 31, 2018. The hedging relationship did not produce any ineffectiveness that would have had to be recognized separately. Investments in the group's other subsidiaries are not hedged.

The 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 translation reserve related to net investments **No. 158**

in € millions	2018	2017
Balance as at January 01	**13**	**-10**
Additions	-8	23
Reclassified to income statement		
• to financial income	0	0
• to financial expense	0	0
Balance as at December 31	**5**	**13**

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 IFRS 9, which is not the case for the Schaeffler Group.

Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions (“Deutscher Rahmenvertrag fuer Finanztermingeschaefte” – DRV) or on the master agreement of the International Swaps and Derivatives Association (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, except for the embedded options, are as follows:

Offsetting financial assets and financial liabilities **No. 159**

in € millions	12/31/2018	12/31/2017
Financial assets		
Gross amount of financial assets	66	92
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	66	92
Amounts subject to master netting arrangements		
• Derivatives	-42	-32
Net amount of financial assets	24	60
Financial liabilities		
Gross amount of financial liabilities	67	36
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	67	36
Amounts subject to master netting arrangements		
• Derivatives	-42	-32
Net amount of financial liabilities	25	4

4.16 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 1 of the year in which the tranche is granted. Due to the listing, however, the grant date of the 2015 tranche is October 9, 2015. In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group’s senior management. For eligible senior management, the performance period of the 2016 tranche begins retroactively on January 1, 2016. However, the grant date of the 2016 tranche is October 1, 2016. The grant date of the 2017 tranche is January 1, 2017, except for one member of the Board of Managing Directors, whose grant date is July 17, 2017. The grant date of the 2018 tranche is January 1, 2018, except for one member of the Board of Managing Directors, whose grant date is March 2, 2018.

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 beneficiary remains employed with the Schaeffler Group 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 to what extent these PSUs have vested, 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.

Obligations under the PSUP included in non-current provisions as at December 31, 2018, amounted to EUR 6.4 m (prior year: EUR 9.8 m). Current provisions amounted to EUR 1.8 m as at December 31, 2018 (prior year: EUR 0 m). Net gains from the pro-rata reversal of provisions for the PSUP for 2018 totaled EUR 1.6 m (prior year: net expenses from additions to provisions for the PSUP EUR 6.3 m). There were 3,583,456 PSUs (prior year: 2,417,229 PSUs) in total as at December 31, 2018. All PSUs granted were still outstanding as at December 31, 2018.

The average fair value of a PSU granted was EUR 5.21 (prior year: EUR 11.71) as at December 31, 2018. PSUs included in the base number as well as those subject to the FCF-based performance target are measured based on the price of Schaeffler AG common non-voting shares 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 of PSUs with a TSR-based performance target is 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 TSR-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 reflects the following input parameters:

Binomial model – input parameters **No. 160**

	12/31/2018	12/31/2017
Average risk-free interest rate for the remaining performance period	0.91%	-0.50%
Expected dividend yield of Schaeffler AG common non-voting shares	7.37%	3.38%
Expected volatility of Schaeffler AG common non-voting shares	36.83%	28.61%
Expected volatility of the benchmark index	14.80%	10.32%
Expected correlation between the benchmark index and Schaeffler AG common non-voting shares	0.53	0.46

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.

4.17 Capital management

The Schaeffler Group has a strategy of pursuing profitable long-term growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and maintain financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term 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. Capital management also strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the development of the ratio of net financial debt to equity including non-controlling interests (gearing ratio). The gearing ratio was 83.2% as at December 31, 2018 (prior year: 91.8%).

The Schaeffler Group has an effective cash management system in place and has diversified its external financing in terms of, for instance, instruments and maturities. The Schaeffler Group can currently utilize cash and cash equivalents, cash flow from operations, various loan facilities, and debt and equity funding via the capital markets to meet its short-, medium-, and long-term financing needs. The next maturity date of bonds or credit facilities is in 2020. Currency risk is continually monitored and reported at the corporate level. Currency risk is aggregated across the group and hedged using hedging instruments.

In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to an ABCP program of revolving sales of trade receivables with a committed volume of EUR 200 m (prior year: EUR 150 m) (see Note 5.2). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

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. Credit ratings assigned by external rating agencies are key to this ability. In 2018, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's, Moody's, and Fitch. As a basis for executing its growth strategy, the company intends to maintain the investment grade rating it initially gained in 2016 for the long-term.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The inputs to the calculation of the leverage covenant are defined in the debt agreements and cannot be derived directly from amounts in the consolidated financial statements. As in the prior year, the company has complied with the leverage covenant throughout 2018 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group also expects to comply with the leverage covenant in subsequent years.

In addition to the leverage covenant contained in the debt agreements, the Schaeffler Group regularly calculates further financial indicators. The gearing ratio discussed above and the net debt to EBITDA ratio are two such further financial indicators. The net debt to EBITDA ratio – the ratio of net financial debt to EBITDA (earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation and amortization) – is calculated as follows:

Net financial debt to EBITDA ratio **No. 161**

in € millions	12/31/2018	12/31/2017[1]
Current financial debt	160	2
Non-current financial debt	3,188	3,066
Financial debt	**3,348**	**3,068**
Cash and cash equivalents	801	698
Net financial debt	**2,547**	**2,370**
Earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization and impairment losses (EBITDA)[2]	**2,175**	**2,295**
Net financial debt to EBITDA ratio[3]	**1.2**	**1.0**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] EBITDA before special items amounts to EUR 2,202 m (prior year: EUR 2,351 m).
[3] Net financial debt to EBITDA ratio incl. special items (footnote 1).

5. Other disclosures

5.1 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.

The cash outflow for the investment in the newly established joint venture Schaeffler Paravan Technologie GmbH & Co. KG amounted to EUR 161 m. Further cash outflows of EUR 2 m represented the payment of the 2nd tranche of the purchase price for the acquisition of autinity systems GmbH. These were partially offset by EUR 1 m in proceeds received on the disposal of the company's interest in the joint venture PStec Automation and Service GmbH.

EUR 2 m in loans provided to Schaeffler Paravan Technologie GmbH & Co. KG are shown in other investing activities in the statement of cash flows.

Summary of changes in financial debt **No. 162**

				Financial debt	Cross-currency swaps held for hedging purposes		Total
in € millions	Bonds	Facilities agreement	Capital investment loan	Other financial debt	Financial assets	Financial liabilities	
Balance as at January 01, 2018	**1,994**	**983**	**89**	**2**	**-13**	**0**	**3,055**
Changes from financing cash flows							
Receipts from loans	0	235	94	75	0	0	404
Repayments of loans	0	-75	0	-77	0	0	-152
Total changes from cash flows	**0**	**160**	**94**	**-2**	**0**	**0**	**252**
Changes arising from obtaining or losing control of subsidiaries or other businesses	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Effect of changes in foreign exchange rates	**24**	**0**	**0**	**0**	**0**	**0**	**24**
Changes in fair values	**0**	**0**	**0**	**0**	**-16**	**0**	**-16**
Other non-cash changes	**1**	**3**	**0**	**0**	**0**	**0**	**4**
Balance as at December 31, 2018	**2,019**	**1,146**	**183**	**0**	**-29**	**0**	**3,319**

5.2 Involvement with unconsolidated structured entities

The Schaeffler Group sells a portion of its trade receivables to a structured entity under an ABCP program (asset-backed commercial paper). The structured entity obtains its funding primarily from the capital markets. The receivables are sold on a revolving basis at their face value less variable reserves and a variable fee discount. The structured entity has engaged the Schaeffler Group to service the receivables in return for an arm's-length fee. The structured entity has the right to remove the Schaeffler Group as the servicer and to engage someone else to service the receivables. The Schaeffler Group has concluded that it does not control the structured entity and, therefore, does not consolidate it.

The sold receivables (see Note 4.6) and the related liabilities are recognized to the extent of the credit risk retained (continuing involvement).

The following balances relate to the Schaeffler Group's involvement with the structured entity as at December 31, 2018:

Balances – involvement with the structured entity **No. 163**

in € millions	12/31/2018	12/31/2017[1]
Carrying amount of receivables transferred	166	123
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	25	14
Payments received from customers on receivables sold and not yet passed on to the structured entity (recognized as other financial liabilities in the statement of financial position)	60	42
Carrying amount of receivables (classified as trade receivables) and the other liability resulting from the continuing involvement (classified in other financial liabilities in the statement of financial position)	4	2

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

In 2018, the committed financing volume under the ABCP program was expanded to a total of EUR 200 m (prior year: EUR 150 m), resulting in a cash inflow from operating activities of EUR 50 m (prior year: EUR 150 m).

5.3 Leases

Future minimum lease payments under non-cancelable operating rental and lease agreements are due as follows:

Rental and lease agreements **No. 164**

in € millions	12/31/2018	12/31/2017
Less than one year	59	57
Between one and five years	73	65
More than five years	9	11
Total	**141**	**133**

The obligations consisted primarily of rental agreements for real estate and lease agreements relating to company vehicles and IT and logistics.

In 2018, the Schaeffler Group recognized EUR 98 m (prior year: EUR 89 m) in expenses related to operating rental and lease agreements in profit or loss, including expenses for incidental costs and service agreements.

5.4 Contingent liabilities

As at December 31, 2018, the Schaeffler Group had contingent liabilities of EUR 74 m (prior year: EUR 74 m). These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts for the automotive sector. 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 in connection with 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 as well as for potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but can currently not be estimated.

5.5 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 AG 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.

Up to December 31, 2017, the Schaeffler Group divided its business into the two divisions Automotive and Industrial. In order to make the company even more customer-oriented in a fast-changing market and competitive environment, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a stand-alone division with its own CEO as of January 1, 2018. As a consequence, the Schaeffler Group has been dividing its business into three divisions – **Automotive OEM, Automotive Aftermarket, and Industrial** – since January 1, 2018. The Automotive OEM division business was organized into the four **business divisions (BD) Engine Systems, Transmission Systems, E-Mobility,** and **Chassis Systems**. The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific.**

The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses was reviewed and adjusted during the year. To ensure that the information on the Automotive OEM division, Automotive Aftermarket division, and Industrial division segments is comparable, prior year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

The following summary describes the operations of each of the Schaeffler Group's three reportable segments:

Automotive OEM

Business consisting of sale of goods and providing development and other services to customers in the automotive sector. These include primarily manufacturers of passenger cars and commercial vehicles (OEM) and automotive suppliers (Tier 1 and Tier 2). The Automotive OEM division is working on a wide range of technologies for the various drive concepts, markets, and regions and delivers appropriate solutions for the most varied requirements of the automotive industry. This includes precision components and systems for engines, transmissions, and chassis of vehicles with drive trains based on the internal combustion engine just as much as applications for hybrid and electric vehicles.

- The **Engine Systems BD** develops and provides components and systems for engines. These precision products are key to helping engines consume less fuel and comply with increasingly stringent emissions standards while also increasing driving comfort and driving dynamics and extending maintenance intervals and service life. The portfolio includes products such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and the thermal management module. The Engine Systems BD generated EUR 2,783 m in revenue during the year (prior year: EUR 2,786 m).
- The **Transmission Systems BD** develops and provides innovative components and systems for transmissions. More and more, the emphasis in this business division is shifting toward automatic transmissions which are replacing the conventional manual transmission. Applications for electrified drive concepts round out the range of transmissions for the future. The BD also possesses extensive expertise in the field of torsional vibration dampers. The Transmission Systems BD generated EUR 4,170 m in revenue during the year (prior year: EUR 4,204 m).
- The **E-Mobility BD** offers its customers solutions for the entire spectrum of electrification options – from 48-volt mild hybrids and plug-in hybrids through to all-electric vehicles. Its wide-ranging know-how makes the Automotive OEM division an expert partner to its customers. The product portfolio includes hybrid modules, electric axle drives, electromechanical actuators, and in the future electric motors and electric solutions for the entire drive train, as well. The E-Mobility BD generated EUR 486 m in revenue during the year (prior year: EUR 416 m).
- The **Chassis Systems BD** develops and provides components and systems for chassis. Its wide variety of products ranges from wheel bearings through to mechatronic systems for active chassis and will also include steering systems in the future. The Chassis Systems BD generated EUR 1,558 m in revenue during the year (prior year: EUR 1,585 m).

Automotive Aftermarket

The Automotive Aftermarket division is responsible for the Schaeffler Group's global business with spare vehicle parts. Customers include almost all major international and national trading companies which in turn supply the Schaeffler Group's products to other distribution levels all the way down to the repair shop. The Automotive Aftermarket division is largely supplied from the Automotive OEM division's manufacturing locations. In addition, it successfully cooperates with all relevant trade cooperatives around the world in which a large number of its customers are organized. Like the Automotive OEM and Industrial divisions, the Automotive Aftermarket division operates under the Schaeffler corporate brand but distributes its

products under the product brands LuK, INA, and FAG. It provides innovative repair solutions in original-equipment quality for clutch and clutch release systems, engine and transmission applications, and chassis applications. All components are optimally tuned to work together and allow for fast and professional replacement.

Whether for clutches, vibration damping, or transmission components – being a specialist for the drive train, the Automotive Aftermarket division offers intelligent repair solutions to the spare parts market under the LuK brand. Thanks to comprehensive systems expertise, these solutions enable repair shops to perform maintenance efficiently. The repair solutions Schaeffler offers under the INA brand represent a spectrum of products for the key engine systems that is unprecedented in width. Whether for the valve train, timing drive, front end auxiliary drive, or cooling system – INA products are based on the expertise gained from the development and volume production of original equipment. The FAG brand products make the Automotive Aftermarket division the specialist for chassis technology in the spare parts market for every aspect of the wheel drive, axle and wheel suspension, stabilizers, steering systems, and engine and transmission mounts. Top material and manufacturing quality ensure well-thought out repair solutions that are tailored to exactly suit repair shop needs. In addition, the service brand REPXPERT focuses especially on comprehensive services for repair shops.

The Europe region generated EUR 1,393 m in revenue during the year (prior year: EUR 1,375 m), the Americas region generated EUR 340 m in revenue during the year (prior year: EUR 403 m), the Greater China region generated EUR 76 m during the year (prior year: EUR 57 m), and the Asia/Pacific region generated EUR 50 m in revenue during the year (prior year: EUR 45 m).

Industrial

The Industrial division distributes components and systems for rotary and linear movements as well as services such as maintenance products and monitoring systems. It offers goods and services ranging from high-volume standard products to individual specialized solutions and from mechanical components through to mechatronic systems and digital services. The common denominator of these products and services is the technological expertise and the know-how covering the customer's entire system. The management model of the Industrial division follows a regional approach based on the regions Europe, Americas, Greater China, and Asia/Pacific. Within the regions, the direct business with customers is grouped into eight sector clusters: (1) wind, (2) raw materials, (3) aerospace, (4) railway, (5) offroad, (6) two-wheelers, (7) power transmission, and (8) industrial automation. In addition, the business with distributors is managed by the Industrial Distribution unit. In the field of Industry 4.0, the Industrial division offers several platform designs for comprehensively improving systems. Whether in the drive train, in machine tools, predictive maintenance for wind power, or condition monitoring for trains.

The Europe region generated EUR 1,906 m in revenue during the year (prior year: EUR 1,804 m), the Americas region generated EUR 596 m in revenue during the year (prior year: EUR 575 m), the Greater China region generated EUR 575 m during the year (prior year: EUR 472 m), and the Asia/Pacific region generated EUR 308 m in revenue during the year (prior year: EUR 299 m).

Information on the operating activities of the three 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.

Reconciliation to earnings before income taxes **No. 165**

in € millions	2018	2017 [1) 2)]
EBIT Automotive OEM [2)]	682	951
EBIT Automotive Aftermarket [2)]	319	333
EBIT Industrial [2)]	353	244
EBIT	**1,354**	**1,528**
Financial result	-155	-192
Income (loss) from equity-accounted investees	-4	0
Earnings before income taxes	**1,195**	**1,336**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Prior year information presented based on 2018 segment structure.

In 2018, the Schaeffler Group generated revenue of EUR 1,485 m (prior year: EUR 1,485 m) from one key customer, representing 10.4% (prior year: 10.6%) of total group revenue and 15.8% (prior year: 15.9%) of Automotive OEM segment revenue.

In addition to the divisions and functions, the Schaeffler Group's multi-dimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive OEM division, Automotive Aftermarket division, and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2018:

Information about geographical areas **No. 166**

	2018	2017 [1]	12/31/2018	12/31/2017 [1]
in € millions		Revenue [2]		Non-current assets [3]
Europe	7,313	7,183	3,584	3,344
Americas	2,874	2,910	823	769
Greater China	2,561	2,456	1,155	1,027
Asia/Pacific	1,493	1,472	383	361
Total	**14,241**	**14,021**	**5,945**	**5,501**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] Revenue by market (customer locations). Prior year information presented based on 2018 segment structure.
[3] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, China, and the U.S. had revenue of EUR 2,645 m (prior year: EUR 2,639 m), EUR 2,493 m (prior year: EUR 2,394 m), and EUR 1,873 m (prior year: EUR 1,881 m) as well as non-current assets of EUR 2,202 m (prior year: EUR 2,017 m), EUR 1,155 m (prior year: EUR 1,027 m), and EUR 452 m (prior year: EUR 422 m), respectively.

Reconciliation of EBIT to EBIT before special items **No. 167**

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2018	2017 [1)2)]	2018	2017 [1)2)]	2018	2017 [1)2)]	2018	2017 [1]
in € millions		Automotive OEM		Automotive Aftermarket		Industrial		Total
EBIT	**682**	**951**	**319**	**333**	**353**	**244**	**1,354**	**1,528**
• in % of revenue	7.6	10.6	17.2	17.7	10.4	7.7	9.5	10.9
Special items	**11**	**22**	**-3**	**25**	**19**	**9**	**27**	**56**
• Legal cases	-13	-3	-3	20	-5	0	-21	17
• Restructuring	24	25	0	5	24	9	48	39
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**693**	**973**	**316**	**358**	**372**	**253**	**1,381**	**1,584**
• in % of revenue	7.7	10.8	17.0	19.0	11.0	8.0	9.7	11.3

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] Prior year amounts are based on a retrospective change in segment structure.

5.6 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.

The remuneration of the Board of Managing Directors of Schaeffler AG for 2018 in accordance with IAS 24 totaled EUR 15 m (prior year: EUR 19 m), including EUR 11 m (prior year: EUR 12 m) in short-term benefits. Expenses of EUR 3 m (prior year: EUR 2 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 1 m (prior year: EUR 1 m), and share-based payments totaled EUR -1 m (prior year: EUR 4 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 18 m (prior year: EUR 17 m) in 2018.

In addition, the company has committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and has also committed to pay EUR 300 thousand in advance to one of these Managing Directors for 2019; these

payments will be offset against payment of the long-term bonuses granted in 2017, 2018, and 2019.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2018 under the Performance Share Unit Plan (PSUP) implemented in 2015: 252,760 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 12.48 and EUR 10.63, respectively), 126,383 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 12.48 and EUR 10.63, respectively) and 126,383 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 7.92 and EUR 6.00, respectively).

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 277,722 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively), 138,864 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively) and 138,864 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.99 and EUR 4.58, respectively). Please refer to the remuneration report for a detailed discussion of the PSUP.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.5 m (prior year: EUR 1.6 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 dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 3 m in 2018 (prior year: EUR 4 m).

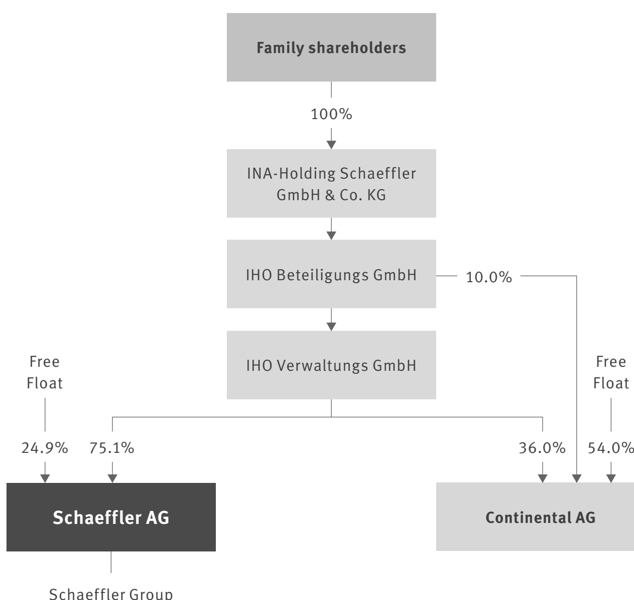
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 21 m as at December 31, 2018 (prior year: EUR 13 m).

As at December 31, 2018, 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 0.5 m (prior year: EUR 0.6 m). Key management personnel and close members of their family received interest of EUR 0.0 m (prior year: EUR 0.0 m) on these bonds. Additionally, bonds issued in prior years with a value of EUR 0 m (prior year: EUR 0 m) held by key management personnel and close members of their family were redeemed.

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 **No. 168**
as at December 31, 2018



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 2018.

In 2018 and 2017, Schaeffler Group companies had various business relationships with the group's related entities.

On April 20, 2018, the Schaeffler AG annual general meeting declared a total dividend of EUR 361 m in respect of 2017, including EUR 270 m on the common shares held by IHO Verwaltungs GmbH.

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. Transactions with related entities arose largely from business relationships with the Continental Group.

Receivables and payables from transactions with related entities **No. 169**

	12/31/2018	12/31/2017[1]	12/31/2018	12/31/2017
in € millions		Receivables		Payables
Related entities	32	25	17	17

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Expenses and income from transactions with related entities **No. 170**

	2018	2017	2018	2017[1]
in € millions		Expenses		Income
Related entities	100	85	135	129

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Receivables from transactions with related entities include EUR 32 m (prior year: EUR 25 m) in trade receivables.

5.7 Auditors' fees

Schaeffler AG incurred the following fees for services rendered by the global network of KPMG and KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG):

Auditors' fees **No. 171**

	2018	2017	2018	2017
in € millions		KPMG		thereof KPMG AG
Financial statement audit services	6.9	6.9	4.1	4.0
Other attestation services	0.3	0.3	0.2	0.2
Tax advisory services	0.8	1.7	0.7	1.6
Other services	0.2	0.1	0.1	0.0
Total	**8.2**	**9.0**	**5.1**	**5.8**

KPMG AG is considered Schaeffler AG's auditor. The fees paid to KPMG AG related to services rendered to Schaeffler AG and its German subsidiaries.

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 pursuant to section 161 AktG in December 2018 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.9 Events after the reporting period

The agreement to acquire a 100% interest in Elmotec Statomat Holding GmbH entered into on November 28, 2018, closed on January 31, 2019. Elmotec Statomat Holding GmbH is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represents a step toward expanding the Schaeffler Group's manufacturing expertise in the field of construction of electric motors and implementing its electric mobility strategy. The consideration to be transferred for the acquisition, which is payable in cash, falls in a range between EUR 55 m and EUR 65 m. The amount of the consideration transferred depends on the amounts of financial debt, net working capital, and further liabilities and provisions in the closing balance sheet of Elmotec Statomat as well as on changes in receivables over a period of two years beginning on the closing date of the acquisition.

As neither the financial statements of Elmotec Statomat Holding GmbH for 2018 nor a purchase price allocation are available at the time of preparation of the Schaeffler Group's consolidated financial statements, no other reportable information is available.

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2018.

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. 172**

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated I. Germany (51)			
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH	Starnberg	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG [1) 3)]	Buehl	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG [1) 3)]	Schweinfurt	DE	100.00
FAG Industrial Services GmbH [2)]	Herzogenrath	DE	100.00
INA - Drives & Mechatronics AG & Co. KG [1) 3)]	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2)]	Herzogenaurach	DE	100.00
LuK GmbH & Co. KG [1) 3)]	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG [1) 3)]	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG [1) 3)]	Unna	DE	100.00
PD Qualifizierung und Beschäftigung GmbH [2)]	Schweinfurt	DE	100.00
Schaeffler AS Auslandsholding GmbH [2)]	Buehl	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG [1) 3)]	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Bio-Hybrid GmbH	Herzogenaurach	DE	100.00
Schaeffler Bühl Auslandsholding GmbH [2)]	Buehl	DE	100.00
Schaeffler Bühl Beteiligungs GmbH [2)]	Buehl	DE	100.00
Schaeffler Bühl Holding GmbH [2)]	Buehl	DE	100.00
Schaeffler Bühl Verwaltungs GmbH [2)]	Buehl	DE	100.00
Schaeffler Consulting GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Digital Solutions GmbH	Chemnitz	DE	100.00
Schaeffler Engineering GmbH [2)]	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Friction Verwaltungs GmbH	Buehl	DE	100.00
Schaeffler Grundstücksverwaltungsgesellschaft mbH	Buehl	DE	100.00
Schaeffler IAB Beteiligungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler IAB Verwaltungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Immobilien AG & Co. KG [1) 3)]	Herzogenaurach	DE	100.00
Schaeffler Invest GmbH	Herzogenaurach	DE	100.00
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.00
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00
Schaeffler Raytech Verwaltungs GmbH	Morbach	DE	100.00
Schaeffler Schweinfurt Beteiligungs GmbH [2)]	Schweinfurt	DE	100.00
Schaeffler Technologies AG & Co. KG [1) 3)]	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Sechs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH [2)]	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 [1) 3)]	Herzogenaurach	DE	100.00
II. Foreign (101)			
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
Schaeffler Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Schaeffler Schweiz GmbH	Romanshorn	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 (Xiangtan) Co., Ltd.	Xiangtan	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
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Production CZ s.r.o.	Lanskroun	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 Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	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
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Savaria Kft.	Szombathely	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
Schaeffler India Ltd.	Mumbai	IN	74.13
INA Invest S.r.l.	Momo	IT	100.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Water Pump Bearing 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
SIA "Schaeffler Baltic"	Riga	LV	100.00
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Puebla	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Cuautitian Izcalli	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	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	Sandnes	NO	100.00
Schaeffler Peru S.A.C.	Lima	PE	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	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 SR d.o.o.	Belgrad	RS	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
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler 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	100.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	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 Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Aerospace USA Corporation	Danbury	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
Schaeffler Holding LLC	Danbury	US	100.00
Schaeffler Transmission Systems LLC	Wooster	US	100.00
Schaeffler Transmission, LLC	Wooster	US	100.00
Schaeffler Venezuela, C.A.	Caracas	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. Joint ventures **Germany (3)**			
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [3]	Hanover	DE	50.00
Schaeffler Paravan Technologie GmbH & Co. KG [3]	Herzogenaurach	DE	90.00

C. Associated companies **Foreign (2)**			
Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00

1) Exemption under section 264b HGB.
2) Exemption under section 264 (3) HGB.
3) Schaeffler AG or another consolidated entity is the general partner.

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 Chairperson),
Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann,
Prof. Dr. Bernd Gottschalk, Andrea Grimm*, Susanne Lau*
(as of August 8, 2018), Norbert Lenhard*, Dr. Siegfried Luther,
Dr. Reinold Mittag*, Barbara Resch*, 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 member left the Supervisory Board in 2018

Stefanie Schmidt* (until June 30, 2018)

Supervisory Board committees

Mediation committee

Georg F.W. Schaeffler (Chairman), Norbert Lenhard,
Maria-Elisabeth Schaeffler-Thumann 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

Robin Stalker (Chairman; since July 1, 2018), Dr. Siegfried Luther
(Chairman; until June 30, 2018), Dr. Reinold Mittag,
Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich

Nomination committee

Georg F. W. Schaeffler (Chairman), Dr. Holger Engelmann,
Prof. Dr. Bernd Gottschalk and Maria-Elisabeth Schaeffler-Thumann

Technology committee (since October 5, 2018)

Prof. Dr. Hans-Jörg Bullinger (Chairman), Norbert Lenhard,
Georg F. W. Schaeffler, Salvatore Vicari, Jürgen Wechsler,
Prof. KR Ing. Siegfried Wolf, Jürgen Worrich und
Prof. Dr.-Ing. Tong Zhang

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), Dietmar Heinrich (Chief Financial
Officer), Andreas Schick (Chief Operating Officer;
since April 1, 2018), Corinna Schittenhelm (Chief Human
Resources Officer), Michael Söding (CEO Automotive
Aftermarket; since January 1, 2018), Dr. Stefan Spindler
(CEO Industrial), Matthias Zink (CEO Automotive OEM)

The following members left the Board of Managing Directors in 2018

Oliver Jung (Chief Operating Officer; until March 31, 2018),
Prof. Dr. Peter Pleus (CEO Automotive OEM; until
December 31, 2018)

* Employee representative on the Supervisory Board.

5.12 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 19, 2019, 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 19, 2019

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld Chief Executive Officer	Prof. Dr.-Ing. Peter Gutzmer
Dietmar Heinrich	Andreas Schick
Corinna Schittenhelm	Michael Söding
Dr. Stefan Spindler	Matthias Zink

Independent Auditors' Report

To Schaeffler AG, Herzogenaurach

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Schaeffler AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018, to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Schaeffler AG for the financial year from January 1, 2018, to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration which is included in the "Corporate Governance" section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1, 2018, to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance declaration mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditors' report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018, to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recognition and Measurement of Warranty Provisions

For the accounting and valuation methods applied, please refer to Note 1.3 to the consolidated financial statements. The valuation principles are described in Note 4.13.

The Financial Statement Risk The calculation of provisions for warranty obligations is associated with unavoidable estimation uncertainties, is complex, and is subject to a high risk of change. The approach and assessment depend, among other things, on the discovery of identified defects, on the actual amount of damages, and on other factors within the framework of settlement procedures.

There is a risk to the financial statements that the recognition and measurement of provisions for warranty obligations may not be appropriate.

Our Audit Approach First, we assessed whether the recognition criteria for the warranty provisions as of December 31, 2018, had been met and whether the warranty cases had been fully identified. In this regard, we had the legal department and other departments explain to us potential significant legal cases arising from warranty matters, inspected minutes of relevant meetings of the Board of Managing Directors and obtained attorney confirmations. In addition, we have inspected the underlying written correspondence and detailed documentation on the events and claims for damages relating to individual material cases.

Subsequently, we had the Board of Managing Directors, the Quality Department, and the Finance Department explain to us the assumptions underlying the valuation of the warranty provisions. In this context, we have understood the scope of the related deliveries as well as the estimated cost of replacements and exchanges for the individual warranty cases inspected.

Our Observations The assessments made with regard to warranty and goodwill obligations are appropriate.

Identification of Performance Obligations and Timing of Revenue Recognition

For the accounting and valuation methods applied, please refer to Notes 1.3 and 1.5 to the consolidated financial statements.

The Financial Statement Risk Group revenues for the fiscal year 2018 amounted to EUR 14.2 bn.

Under IFRS 15, the Schaeffler Group recognizes revenue when (or as) it satisfies a performance obligation under a contract with a customer by transferring a promised good or rendering a promised service. An asset or a service is deemed to have been transferred when the customer obtains control of this asset or service. In accordance with the transfer of control, revenue is to be recognized either at a point in time or over the period of time to which the Schaeffler Group expects to be entitled to consideration. The types of revenue and the way in which control is transferred are presented in Note 1.3 to the consolidated financial statements.

Due to the judgement involved in assessing the criteria for the existence of a performance obligation and in assessing the transfer of control, there is a risk to the financial statements that revenue will be incorrectly deferred as of the balance sheet date and that the disclosures in the notes to the consolidated financial statements required by IFRS 15 are incomplete or inappropriate.

Our Audit Approach Due to the first-time application of IFRS 15, we have focused our audit on the assessment of the performance obligations and revenue recognition criteria made by management. To this end, we have acknowledged the requirements of the Group-wide accounting guideline. We assessed the proper implementation of the accounting guidelines on the basis of a risk-based sample of contracts.

In order to assess the appropriateness and completeness of the information, we had the Board of Managing Directors and Corporate Accounting explain to us the approach followed in the implementation project. In particular, we have:

- assessed the identification and analysis of significant impacts of transition arising from the first-time application of IFRS 15,
- assessed decisions involving judgement such as the criteria for identifying performance obligations for development services or the criterion of alternative use of customer-specific products,

as well as reconciled the qualitative and quantitative IFRS 15 disclosures to the analyses and evidence provided to us and assessed them for consistency with regard to our understanding of the impact of transition.

Our Observations The Schaeffler Group's approach to the identification of performance obligations and the application of the criteria for the transfer of control are appropriate. The disclosures required by IFRS 15 are presented appropriately in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

- the corporate governance declaration, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditors' report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, any matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditors' report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure of the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected group auditors by the annual general meeting on April 20, 2018. We were engaged by the Supervisory Board on July 4, 2018. We have been the group auditors of Schaeffler AG without interruption since the financial year 2015.

We declare that the opinions expressed in this auditors' report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to the consolidated financial statements, we audited the annual financial statements of Schaeffler AG and conducted various annual audits of financial statements of subsidiaries.
As part of our audit, we performed a review of interim financial statements, as well as audited parts of the internal control system (ICS). In addition, we audited the combined separate non-financial report of Schaeffler AG as well as performed statutory or contractual audits, including audits in accordance with the EEG, EMIR audits in accordance with section 20 WpHG previous version (section 32 (1) WpHG revised version), concept audit for divisional consolidation, comfort letter in connection with the debt issuance program and confirmations of compliance with contractual conditions. We provided a coaching in connection with the non-financial report. We also provided tax advice to certain employees of Schaeffler AG in connection with their relocation to foreign subsidiaries of Schaeffler AG.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Angelika Alt-Scherer.

Munich, February 20, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Alt-Scherer	Koeplin
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

* This auditor's report, prepared in accordance with § 322 HGB ["Handelsgesetzbuch": "German Commercial Code"], refers to the complete consolidated financial statements, comprising the income statement (Gewinnund Verlustrechnung), statement of comprehensive income (Gesamtergebnisrechnung), statement of financial position (Bilanz), statement of cash flows (Kapitalflussrechnung), statement of changes in equity (Eigenkapitalveränderungsrechnung) and notes (Anhang), together with the group management report of Schaeffler AG for the financial year from January 1 to December 31, 2018. The group management report is not included in this Offering Memorandum. The above-mentioned auditor's 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, 2017, prepared in accordance with IFRS

1. Consolidated income statement

No. 088

in € millions	Note	2017	2016	Change in %
Revenue	3.1	14,021	13,338	5.1
Cost of sales		-10,175	-9,552	6.5
Gross profit		**3,846**	**3,786**	**1.6**
Research and development expenses		-846	-751	12.6
Selling expenses		-970	-915	6.0
Administrative expenses		-443	-428	3.5
Other income	3.2	82	41	100
Other expenses	3.3	-141	-177	-20.3
Earnings before financial result and income taxes (EBIT)		**1,528**	**1,556**	**-1.8**
Financial income	3.5	108	220	-50.9
Financial expenses	3.5	-300	-561	-46.5
Financial result	**3.5**	**-192**	**-341**	**-43.7**
Earnings before income taxes		**1,336**	**1,215**	**10.0**
Income taxes	3.6	-339	-343	-1.2
Net income		**997**	**872**	**14.3**
Attributable to shareholders of the parent company		980	859	14.1
Attributable to non-controlling interests		17	13	30.8
Earnings per common share (basic/diluted, in €)	3.7	1.47	1.29	14.0
Earnings per common non-voting share (basic/diluted, in €)	3.7	1.48	1.30	13.8

2. Consolidated statement of comprehensive income

No. 089

in € millions	Note	2017 before taxes	2017 taxes	2017 after taxes	2016 before taxes	2016 taxes	2016 after taxes
Net income		**1,336**	**-339**	**997**	**1,215**	**-343**	**872**
Foreign currency translation differences for foreign operations		-270	0	-270	59	0	59
Net change from hedges of net investments in foreign operations	4.14	33	-10	23	-10	3	-7
Effective portion of changes in fair value of cash flow hedges [1]	4.14	71	-21	50	-9	3	-6
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss		**-166**	**-31**	**-197**	**40**	**6**	**46**
Remeasurement of net defined benefit liability	4.11	120	-39	81	-223	63	-160
Total other comprehensive income (loss) that will not be reclassified to profit or loss		**120**	**-39**	**81**	**-223**	**63**	**-160**
Total other comprehensive income (loss)		**-46**	**-70**	**-116**	**-183**	**69**	**-114**
Total comprehensive income (loss)		**1,290**	**-409**	**881**	**1,032**	**-274**	**758**
Total comprehensive income (loss) attributable to shareholders of the parent company		1,271	-400	871	1,012	-267	745
Total comprehensive income (loss) attributable to non-controlling interests		19	-9	10	20	-7	13

[1] Incl. losses of EUR 58 m (prior year: EUR 54 m) reclassified to profit and loss.

3. Consolidated statement of financial position

No. 090

in € millions	Note	12/31/2017	12/31/2016	Change in %
ASSETS				
Intangible assets	4.1	636	632	0.6
Property, plant and equipment	4.2	4,865	4,507	7.9
Other financial assets	4.6	114	217	-47.5
Other assets	4.6	71	51	39.2
Deferred tax assets	4.3	492	572	-14.0
Total non-current assets		**6,178**	**5,979**	**3.3**
Inventories	4.4	2,017	1,905	5.9
Trade receivables	4.5	2,192	2,218	-1.2
Other financial assets	4.6	111	55	> 100
Other assets	4.6	236	218	8.3
Income tax receivables	4.3	102	93	9.7
Cash and cash equivalents	4.7	698	1,071	-34.8
Assets held for sale	4.8	3	25	-88.0
Total current assets		**5,359**	**5,585**	**-4.0**
Total assets		**11,537**	**11,564**	**-0.2**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		666	666	0.0
Capital reserves		2,348	2,348	0.0
Other reserves		249	-404	-
Accumulated other comprehensive income (loss)		-822	-713	15.3
Equity attributable to shareholders of the parent company		**2,441**	**1,897**	**28.7**
Non-controlling interests		107	100	7.0
Total shareholders' equity	**4.9**	**2,548**	**1,997**	**27.6**
Provisions for pensions and similar obligations	4.11	2,124	2,182	-2.7
Provisions	4.12	173	96	80.2
Financial debt	4.10	3,066	3,704	-17.2
Income tax payables	4.3	153	163	-6.1
Other financial liabilities	4.13	24	86	-72.1
Other liabilities	4.13	7	6	16.7
Deferred tax liabilities	4.3	129	124	4.0
Total non-current liabilities		**5,676**	**6,361**	**-10.8**
Provisions	4.12	233	354	-34.2
Financial debt	4.10	2	3	-33.3
Trade payables	4.14	1,867	1,625	14.9
Income tax payables	4.3	162	176	-8.0
Other financial liabilities	4.13	682	696	-2.0
Other liabilities	4.13	367	344	6.7
Liabilities held for sale	4.8	0	8	-
Total current liabilities		**3,313**	**3,206**	**3.3**
Total shareholders' equity and liabilities		**11,537**	**11,564**	**-0.2**

4. Consolidated statement of cash flow

No. 091

in € millions	Note	2017	2016	Change in %
Operating activities				
EBIT		1,528	1,556	-1.8
Interest paid		-121	-279	-56.6
Interest received		10	98	-89.8
Income taxes paid		-345	-327	5.5
Depreciation, amortization, and impairment losses		767	737	4.1
(Gains) losses on disposal of assets		2	4	-50.0
Changes in:				
• Inventories		-206	-88	› 100
• Trade receivables	5.2	-86	-205	-58.0
• Trade payables		261	271	-3.7
• Provisions for pensions and similar obligations		31	-29	-
• Other assets, liabilities, and provisions	4.13	-63	138	-
Cash flows from operating activities		**1,778**	**1,876**	**-5.2**
Investing activities				
Proceeds from disposals of property, plant and equipment		9	4	› 100
Capital expenditures on intangible assets		-32	-29	10.3
Capital expenditures on property, plant and equipment		-1,241	-1,117	11.1
Acquisition of subsidiaries	5.1	-47	0	-
Proceeds from disposal of subsidiaries		20	0	-
Other investing activities		1	1	0.0
Cash used in investing activities		**-1,290**	**-1,141**	**13.1**
Financing activities				
Dividends paid to shareholders and non-controlling interests		-330	-329	0.3
Receipts from loans		440	1,000	-56.0
Repayments of loans	5.1	-940	-2,910	-67.7
Other financing activities		0	1,773	- 100
Cash used in financing activities		**-830**	**-466**	**78.1**
Net increase (decrease) in cash and cash equivalents		**-342**	**269**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents		-31	3	-
Cash and cash equivalents as at beginning of period		1,071	799	34.0
Cash and cash equivalents as at December 31		**698**	**1,071**	**-34.8**

5. Consolidated statement of changes in equity

No. 092

in € millions	Share capital	Capital reserves	Other reserves	Accumulated other comprehensive income (loss): Translation reserve	Hedging reserve	Defined benefit plan remeasurement reserve	Total	Equity attributable to shareholders [1]	Non-controlling interests	Total
Balance as at January 01, 2016	**666**	**2,348**	**-935**	**-79**	**-29**	**-491**	**-599**	**1,480**	**88**	**1,568**
Net income			859					859	13	872
Other comprehensive income (loss)				52	-6	-160	-114	-114	0	-114
Total comprehensive income (loss)			**859**	**52**	**-6**	**-160**	**-114**	**745**	**13**	**758**
Dividends			-328					-328	-1	-329
Total amount of transactions with shareholders			**-328**					**-328**	**-1**	**-329**
Balance as at December 31, 2016	**666**	**2,348**	**-404**	**-27**	**-35**	**-651**	**-713**	**1,897**	**100**	**1,997**
Balance as at January 01, 2017	666	2,348	-404	-27	-35	-651	-713	1,897	100	1,997
Net income			980					980	17	997
Other comprehensive income (loss)				-240	50	81	-109	-109	-7	-116
Total comprehensive income (loss)			**980**	**-240**	**50**	**81**	**-109**	**871**	**10**	**881**
Dividends			-328					-328	-2	-330
Transactions with non-controlling interests			1					1	-1	0
Total amount of transactions with shareholders			**-327**					**-327**	**-3**	**-330**
Balance as at December 31, 2017	666	2,348	249	-267	15	-570	-822	2,441	107	2,548

[1] Equity attributable to shareholders of the parent company.

See Note 4.9 to the consolidated financial statements for further details

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 093

	2017	2016	2017	2016	2017	2016
in € millions		Automotive		Industrial		Total
Revenue	10,869	10,338	3,152	3,000	14,021	13,338
Cost of sales	-7,915	-7,389	-2,260	-2,163	-10,175	-9,552
Gross profit	2,954	2,949	892	837	3,846	3,786
EBIT	1,283	1,373	245	183	1,528	1,556
• in % of revenue	11.8	13.3	7.8	6.1	10.9	11.7
Depreciation, amortization, and impairment losses	-585	-543	-182	-194	-767	-737
Inventories [1)]	1,287	1,231	730	674	2,017	1,905
Trade receivables [1)]	1,736	1,730	456	488	2,192	2,218
Property, plant and equipment [1)]	3,779	3,421	1,086	1,086	4,865	4,507
Additions to intangible assets and property, plant and equipment	1,039	904	248	211	1,287	1,115

Prior year information presented based on 2017 segment structure.
[1)] Amounts as at December 31.

See Note 5.5 to the consolidated financial statements for further details

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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, 2017, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the "Schaeffler Group"). The Schaeffler Group is a global automotive and industrial supplier.

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 Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Federal Gazette.

1.2 Basis of preparation

In accordance with section 315e (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2017, have been compiled in accordance with International Financial Reporting Standards 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 determined 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 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.

Estimation uncertainty and management judgment

In compiling financial statements, 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
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets
- determination of valuation allowances on inventories
- assessment of the recoverability of deferred tax assets
- evaluation of control over structured entities
- accounting for post employment employee benefits, especially selecting actuarial assumptions
- recognition and measurement of provisions
- share-based payment and
- determination of fair values of financial debt and derivatives

Except for 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 2017. The discount rate used to measure defined benefit pension obligations was increased to reflect higher interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.11). In addition, the provisions for restructuring and for antitrust proceedings (see Note 4.12) were updated to reflect current information.

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 that are directly or indirectly controlled by Schaeffler AG have been consolidated in the company's consolidated financial statements. Subsidiaries are consolidated in the consolidated financial statements from the date the Schaeffler Group obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. 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 compiling the consolidated financial statements. Intercompany profits or losses on intra-group transactions 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

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

Selected foreign exchange rates No. 094

Currencies		12/31/2017	12/31/2016	2017	2016
1 € in		Closing rates		Average rates	
CNY	China	7.80	7.32	7.63	7.35
INR	India	76.61	71.45	73.51	74.38
KRW	South Korea	1,279.61	1,270.57	1,275.98	1,284.51
MXN	Mexico	23.66	21.79	21.33	20.66
USD	U.S.	1.20	1.05	1.13	1.11

Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies 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. Non-monetary items are translated at historical rates.

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 the financial result.

Foreign entities

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

Revenue 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 the Schaeffler Group,
- the costs associated with the transaction can be measured reliably,
- the Schaeffler Group does not retain continuing managerial involvement with the goods, and
- the amount of revenue can be measured reliably.

Revenue is recognized at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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.

Functional costs

Income and expenses are allocated to the various functional areas. Depreciation, amortization, and impairment losses on intangible assets and property, plant and equipment are allocated to the functional area in which the asset is utilized.

Research and development expenses

Expenses incurred for research activities, advance development, and to produce customer-specific applications are expensed immediately.

Development costs are only recognized as intangible assets once the capitalization criteria of IAS 38 are met.

Capitalized development costs are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over a period of six years beginning when the intangible asset is ready for use. Amortization expense is reported in cost of sales.

Financial result

Interest income and expense are recognized in the period to which they relate.

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.

Goodwill

Goodwill is not amortized, but is tested for impairment annually and when there is an indication ("triggering event"). 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. The recoverable amount is the higher of fair value less costs of disposal and value in use of the cash-generating unit. Value in use is determined using the discounted cash flow method. 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 detailed three-year-forecast and on a perpetuity for the period beyond that timeframe. 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 investment. Please refer to the report on expected developments in the group management report for further details. Past trends and historic experience are also used in developing the forecast. The discount rate reflects current market expectations and specific risks.

Other intangible assets and property, plant and equipment

Other intangible assets and property, plant and equipment are recognized at acquisition or production cost plus incidental acquisition costs and, where applicable, subsequent acquisition cost and are amortized or depreciated over their expected useful life on a straight-line basis, provided they have a determinable useful life. The expected useful lives of software and capitalized development costs are three and six years, respectively, and range from 15 to 25 years for buildings, from two to ten years for technical equipment and machinery, and from three to eight years for other equipment. Impairment losses are recognized for impairments.

Leases

Lease payments classified as operating leases are expensed on a straight-line basis over the lease term. The Schaeffler Group's finance leases are immaterial.

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").

The Schaeffler Group initially determines the recoverable amount under the value in use concept using the discounted cash flow method. If the value in use does not exceed the carrying amount of the cash-generating unit, the recoverable amount is then determined using fair value less costs of disposal.

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.

The Schaeffler Group classifies its financial instruments into the following categories:

Available-for-sale financial assets

These are measured at fair value. Changes in fair value are recognized in other comprehensive income (including the related deferred taxes). Fair values are largely 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.

Loans and receivables

Loans and receivables are measured at amortized cost less any impairment losses. 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 payment delays on the part 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. 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.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the default risks retained (continuing involvement) (see Note 5.2).

Cash and cash equivalents are accounted for at cost.

Financial liabilities

Except for derivative financial instruments, the Schaeffler Group measures its financial liabilities at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are classified as trading and measured at fair value unless they are subject to hedge accounting.

Embedded derivatives are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

Hedge accounting

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is reported directly in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

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 and written down to net realizable value if lower.

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.

Assets and liabilities held for sale

Non-current assets or groups of non-current assets (including the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within twelve months. Such assets and liabilities are presented separately in the statement of financial position. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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 as part of its company pension model.

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 the market rate of return for 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 the Schaeffler Group is entitled to a refund or reduction of future contributions to the fund.

Actuarial gains and losses arising from defined benefit plans are recognized in other comprehensive income, while interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and presented in the financial result on a net basis.

For defined contribution plans, the Schaeffler Group 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

Provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense and the impact of any changes in discount rates are presented within the 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 a binomial option pricing model. The fair value is recognized as personnel expense over the period between the grant date and settlement date.

1.4 New accounting pronouncements

Certain amendments to IAS 7 Statement of Cash Flows and IAS 12 Income Taxes are effective starting in 2017. A new reconciliation of changes in liabilities arising from financing activities has been disclosed to meet the requirements of IAS 7. The amendments to IAS 12 have not had any impact on these financial statements.

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 2017, and none were adopted early.

IFRS 9

In July 2014, the IASB issued its standard IFRS 9 Financial Instruments which replaces the requirements of IAS 39. The standard is effective for annual reporting periods beginning on or after January 01, 2018. The company will use the modified retrospective approach to transition to IFRS 9, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of applying the standard retrospectively will be recognized as an adjustment to the opening balance of shareholders' equity at January 01, 2018, the date of initial application.

The Schaeffler Group has examined the impact of applying IFRS 9 in a dedicated project.

IFRS 9 introduces a new approach to the classification and measurement of financial assets. The classification criteria are the cash flow criterion and the business model for managing the financial assets. The Schaeffler Group has reviewed all of its financial assets with respect to whether they meet the cash flow criterion and assigned them to the relevant business models. Classification and measurement of the part of the portfolio of trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) (see Note 5.2) will change from the current measurement base, amortized cost (AC), to measurement at fair value through profit or loss (FVTPL). This will not result in any significant measurement differences. Investments and marketable securities currently classified as available for sale (AfS) will be classified as at fair value through other comprehensive income (FVTOCI). This will not result in any measurement differences. Investments currently measured at amortized cost under the exception allowed by IAS 39 because their fair value was not reliably determinable will be accounted for at fair value, which is expected to increase other reserves by approx. EUR 24 m upon initial application.

IFRS 9 largely carries forward the classification and measurement requirements of IAS 39 for financial liabilities. Although the Schaeffler Group has one modified financial liability, the analysis performed to date indicates that this is not expected to affect the amount recognized under IFRS 9.

IFRS 9 also introduces a new impairment model for financial assets accounted for at amortized cost or at fair value through other comprehensive income. The standard replaces the current incurred loss model with an expected loss model. Credit loss allowances recognized for trade receivables are based on credit losses expected over the entire life of the receivable, determined using customer-specific probabilities of default and taking into account information about future conditions. Credit loss allowances for other financial assets, primarily cash and cash equivalents, should be measured and recognized at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly, the credit loss allowance recognized has to reflect lifetime expected credit losses. The Schaeffler Group expects initial application to increase other reserves by up approx. EUR 4 m.

The hedge accounting requirements were also revised under IFRS 9 to allow financial statements to better reflect the company's risk management strategy. The standard requires extensive additional quantitative and qualitative note disclosures as well. In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply the hedge accounting requirements of IFRS 9 at a later date, i.e. after January 01, 2018.

IFRS 15

The new IFRS 15 Revenue from Contracts with Customers replaces existing revenue recognition guidance previously contained in several standards (IAS 18 Revenue and IAS 11 Construction Contracts) and interpretations (IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). The standard is effective for annual reporting periods beginning on or after January 01, 2018. The Schaeffler Group will initially apply the standard for the year beginning on January 01, 2018. The company will use the modified retrospective approach to transition to IFRS 15, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of shareholders' equity at January 01, 2018, the date of initial application.

The Schaeffler Group has examined the impact of applying IFRS 15 in a dedicated project. Areas where initial application is currently expected to result in a significant impact are discussed below.

The Schaeffler Group expects initial application to increase other reserves by approx. EUR 4 m.

Customer tools

The new requirements regarding customers obtaining control of goods or services will result in changes regarding tools for initial series production. The Schaeffler Group has concluded that it has a distinct performance obligation vis-à-vis the customer for tools for initial series production with forecasted revenue of approx. EUR 4 m and is, therefore, required to recognize revenue when the customer obtains control. Consequently, tools for initial series production currently capitalized as assets under construction will be classified as unfinished goods in the opening statement of financial position as at January 01, 2018. This will result in the recognition of revenue and cost of sales when the customer obtains control of the completed tools for initial series production in future periods.

Initial application of this accounting treatment will not result in a significant change in other reserves.

Development services

IFRS 15 will require revenue to be recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. Revenue is recognized when the customer obtains control of the completed development services (revenue recognition at a point in time). Therefore, any costs incurred for these development projects will be accounted for in cost of sales and the reimbursements received from customers as revenues.

Due to these changes, the Schaeffler Group will recognize development services in progress as inventories of EUR 22 m as well as contract liabilities for consideration received from customers of EUR 25 m in its opening statement of financial position as at January 01, 2018. These balances will lead to the recognition of revenue and cost of sales when the customer obtains control of the completed development services in future periods.

The Schaeffler Group expects initial application of this accounting treatment to decrease other reserves by EUR 3 m.

Customer-specific products

IFRS 15 will require revenue to be recognized over time for customer-specific products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin.

Products are customer-specific if the Schaeffler Group can sell them to only one customer. This will result in revenue being recognized earlier than under the company's current accounting policies. EUR 29 m in contract assets for revenue recognized over time for customer-specific products will be capitalized in the opening statement of financial position as at January 01, 2018. Inventories will decrease by EUR 22 m.

The Schaeffler Group expects initial application of this accounting treatment to increase other reserves by EUR 7 m.

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the requirements of IAS 17. The standard is effective for annual reporting periods beginning on or after January 01, 2019. Earlier application is permitted, but the Schaeffler Group does not plan to apply the standard early.

IFRS 16 introduces a uniform lessee accounting model requiring lessees to capitalize leases in their statement of financial position. Under this model, lessees are required to recognize assets (for the right of use) and lease liabilities for any lease agreements with a term of more than 12 months. The Schaeffler Group will initially apply the standard for the year beginning on January 01, 2019. The company will use the modified retrospective approach to transition to IFRS 16, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2019). The impact of initial application is expected to relate largely to leased real estate. The Schaeffler Group is currently assessing the impact on the consolidated financial statements of applying IFRS 16.

New accounting pronouncements not endorsed by the EU

In addition, the IASB has issued the following new standards and amendments to existing standards which had not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue. The company has not applied any of them early, and is currently not planning to apply any of them early.

New accounting pronouncements – not yet endorsed by the EU No. 095

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Annual improvements 2014–2016		01/01/2018	Various improvements to IFRS 1, IFRS 12, and IAS 28	none
Amendments to IFRS 2	Classification of Share-based Payment Transactions	01/01/2018	Changes regarding arrangements with a net settlement feature and modifications that may change classification	Under examination [1)]
Amendments to IAS 40	Transfers of Investment Property	01/01/2018	Clarifications regarding the requirements for the transfer of investment property	none
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	Clarifications regarding the date of the transaction for the purpose of determining the exchange rate for foreign currency transactions involving the recognition of non-monetary assets or liabilities for advance consideration paid or received before the related assets, income, or expenses are recognized.	Under examination [1)]
Amendments to IFRS 9	Financial Instruments	01/01/2019	Amendments regarding whether instruments with prepayment features with negative compensation meet the cash flow condition, clarification regarding modification of financial liabilities	none
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	01/01/2019	Amendments clarifying that long-term interests that are considered part of the net investment in an associate or joint venture are accounted for under IFRS 9 unless they are accounted for under the equity method.	none
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	Clarification regarding various aspects of uncertainty over income tax treatment	Under examination [1)]
IFRS 17	Insurance Contracts	01/01/2021	Principles for recognition, measurement, and presentation of as well as disclosures about insurance contracts	Under examination [1)]
Amendments to IFRS 10, IAS 28		undefined	Clarification of accounting for gains and losses on the sale or contribution of assets between an investor and its associate or joint venture	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 2017, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 151 (prior year: 152) subsidiaries; 50 (prior year: 51) entities are domiciled in Germany and 101 (prior year: 101) in other countries.

The scope of consolidation of Schaeffler AG did not change significantly compared to the consolidated financial statements of the Schaeffler Group as at December 31, 2016.

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

A further five (prior year: one) companies were not consolidated as at December 31, 2017, since they were insignificant to the results of operations, financial position, and net assets of the Schaeffler Group.

More on the Schaeffler Group's companies in Note 5.10

3. Notes to the consolidated income statement

3.1 Revenue

Revenue No. 096

in € millions	2017	2016
Revenue from the sale of goods	13,828	13,167
Other revenue	193	171
Total	**14,021**	**13,338**

Other revenue primarily includes EUR 116 m (prior year: EUR 96 m) in revenue from the sale of tools and machines constructed by the company as well as EUR 59 m (prior year: EUR 64 m) from services.

3.2 Other income

Other income No. 097

in € millions	2017	2016
Gains on reversal of provisions	38	13
Miscellaneous income	44	28
Total	**82**	**41**

3.3 Other expenses

Other expenses No. 098

in € millions	2017	2016
Exchange losses	35	9
Miscellaneous expenses	106	168
Total	**141**	**177**

Foreign exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2017, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 35 m (prior year: EUR 9 m).

Miscellaneous other expenses include EUR 39 m (prior year: EUR 0 m) in restructuring expenses incurred to set up a shared service center in Europe. In addition, EUR 16 m (prior year: EUR 86 m) in expenses were attributable to potential third-party claims in connection with antitrust proceedings and other compliance cases. The prior year contained EUR 45 m in expenses related to the stepped-up efficiency measures aimed at revitalizing the Industrial division under the second wave of the program “CORE”.

3.4 Personnel expense and headcount

Average number of employees by region No. 099

	2017	2016
Europe	60,954	59,609
Americas	12,826	12,563
Greater China	11,981	10,778
Asia/Pacific	2,936	2,783
Total	**88,697**	**85,733**

The number of employees at December 31, 2017, was 90,151, 4.0% above the prior year level of 86,662.

The Schaeffler Group's personnel expense consisted of the following:

Personnel expense No. 100

in € millions	2017	2016
Wages and salaries	3,606	3,388
Social security contributions	700	665
Other personnel expense	131	114
Total	**4,437**	**4,167**

The increase in personnel expense in 2017 is mainly attributable to pay increases arising from local collective agreements and to the targeted expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions. In order to further strengthen its innovative ability, the company focused on recruiting new personnel in its research and development departments, especially in Germany.

Other personnel expense includes EUR 128 m (prior year: EUR 110 m) in retirement benefit expenses.

3.5 Financial result

Schaeffler Group financial result No. 101

in € millions	2017	2016
Interest expense on financial debt [1]	-123	-286
Interest income on shareholder loans	0	49
Gains and losses on derivatives and foreign exchanges	-17	-33
Fair value changes on embedded derivatives	-14	-30
Interest income and expense on pensions and partial retirement obligations	-38	-45
Other	0	4
Total	**-192**	**-341**

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

Interest expense on financial debt amounted to EUR 123 m in 2017 (prior year: EUR 286 m) and included prepayment penalties of EUR 13 m (prior year: EUR 48 m) and EUR 5 m (prior year: EUR 31 m) for the early amortization of transaction costs.

In 2016, IHO Verwaltungs GmbH prepaid its loans payable to Schaeffler AG in full. As a result, the Schaeffler Group no longer earned any **interest income on loans to shareholders** in 2017 (prior year: EUR 49 m).

Net **foreign exchange** losses on financial assets and liabilities and net losses on **derivatives** amounted to EUR 17 m (prior year: EUR 33 m). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross-currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 14 m (prior year: EUR 30 m), comprising EUR 8 m (prior year: EUR 79 m) in losses related to prepayment options written off as part of the cost of refinancing transactions in 2017 and EUR 6 m (prior year: EUR 49 m in gains) resulting from changes in the fair value of the remaining prepayment options.

3.6 Income taxes

Income taxes No. 102

in € millions	2017	2016
Current income taxes	329	345
Deferred income taxes	10	-2
Total	**339**	**343**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2017.

The average domestic tax rate was 28.6% in 2017 (prior year: 28.6%). 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 12.7% (prior year: 12.7%).

The current income tax benefit related to prior years amounted to EUR 13 m (prior year: EUR 13 m) in 2017. The Schaeffler Group had a deferred tax benefit of EUR 16 m related to prior years (prior year: deferred tax expense of EUR 6 m) in 2017.

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 2017 is based on the Schaeffler Group's 28.6% (prior year: 28.6%) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation No. 103

in € millions	2017	2016
Earnings before income taxes	1,336	1,215
Expected tax expense	**382**	**348**
Addition/reduction due to deviating local tax bases	5	5
Foreign/domestic tax rate differences	-22	-19
Change in tax rate and law	-8	-2
Non-recognition of deferred tax assets	7	4
Tax credits and other tax benefits	-16	-11
Non-deductible expenses and non-taxable income	24	32
Taxes for previous years	-29	-7
Other	-4	-7
Reported tax expense	**339**	**343**

Foreign/domestic tax rate differences primarily represent the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-deductible expenses and non-taxable income includes non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries.

Taxes for previous years mainly contain income tax benefits from reassessments of tax issues from prior years.

3.7 Earnings per share

Earnings per share No. 104

in € millions	2017	2016
Net income	997	872
Net income attributable to shareholders of the parent company	980	859
Earnings attributable to common shares (basic/diluted)	734	644
Earnings attributable to common non-voting shares (basic/diluted)	246	215
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	166
Earnings per common share (basic/diluted, in €)	**1.47**	**1.29**
Earnings per common non-voting share (basic/diluted, in €)	**1.48**	**1.30**

There were no dilutive items at December 31, 2017, or in the prior year. Diluted earnings per share equal basic earnings per share.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

The carrying amounts of **goodwill** allocated to cash-generating units were unchanged at EUR 319 m (prior year: EUR 319 m) for the Automotive segment and EUR 208 m (prior year: EUR 208 m) for the Industrial segment.

For purposes of determining value in use, cash flows beyond the detailed forecasting horizon of 2020 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, the Schaeffler Group used an assumed pre-tax interest rate of 12.6% (prior year: 12.6%) as the weighted average cost of capital for the Automotive segment and 12.4% (prior year: 12.6%) for the Industrial segment. This corresponds to a post-tax interest rate of 9.1% for the Automotive segment (prior year: 8.9%) and 9.0% for the Industrial segment (prior year: 8.9%).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2017 and the prior year, they were not impaired.

Internally generated intangible assets consisted largely of development costs of EUR 55 m (prior year: EUR 47 m), including EUR 35 m (prior year: EUR 22 m) in assets not yet available for use that were not yet subject to amortization.

Amortization of intangible assets totaled EUR 28 m (prior year: EUR 31 m) and was recognized in the following line items in the consolidated income statement: cost of sales EUR 6 m (prior year: EUR 8 m), research and development expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 17 m (prior year: EUR 18 m).

Intangible assets No. 105

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2016	**483**	**1,072**	**293**	**1,848**
Additions from initial consolidation of subsidiaries	44	1	0	45
Additions	0	12	17	29
Disposals	0	-4	0	-4
Transfers	0	0	0	0
Foreign currency translation	0	1	0	1
Balance as at December 31, 2016	**527**	**1,082**	**310**	**1,919**
Balance as at January 01, 2017	527	1,082	310	1,919
Additions from initial consolidation of subsidiaries	0	0	0	0
Additions	0	19	13	32
Disposals	0	-7	0	-7
Transfers	0	-1	1	0
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2017	527	1,089	322	1,938
Accumulated amortization and impairment losses				
Balance as at January 01, 2016	**0**	**1,013**	**246**	**1,259**
Additions from initial consolidation of subsidiaries	0	0	0	0
Amortization	0	18	13	31
Disposals	0	-3	0	-3
Transfers	0	0	0	0
Foreign currency translation	0	0	0	0
Balance as at December 31, 2016	**0**	**1,028**	**259**	**1,287**
Balance as at January 01, 2017	0	1,028	259	1,287
Additions from initial consolidation of subsidiaries	0	0	0	0
Amortization	0	19	9	28
Disposals	0	-7	0	-7
Transfers	0	0	0	0
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2017	0	1,036	266	1,302
Net carrying amounts				
As at January 01, 2016	**483**	**59**	**47**	**589**
As at December 31, 2016	**527**	**54**	**51**	**632**
As at January 01, 2017	527	54	51	632
As at December 31, 2017	527	53	56	636

4.2 Property, plant and equipment

Property, plant and equipment No. 106

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2016	**2,448**	**7,836**	**1,050**	**663**	**11,997**
Additions from initial consolidation of subsidiaries	0	1	0	0	1
Disposals of subsidiaries	-4	-51	-2	0	-57
Additions	44	379	83	580	1,086
Disposals	-3	-176	-45	-3	-227
Transfers	61	419	-3	-477	0
Reclassification to IFRS 5	-18	-36	-2	0	-56
Foreign currency translation	2	38	1	-7	34
Balance as at December 31, 2016	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Balance as at January 01, 2017	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
Additions	39	372	109	735	1,255
Disposals	-2	-190	-71	-1	-264
Transfers	69	401	28	-498	0
Reclassification to IFRS 5	-3	0	0	0	-3
Foreign currency translation	-66	-269	-22	-22	-379
Balance as at December 31, 2017	**2,567**	**8,724**	**1,126**	**970**	**13,387**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2016	**1,290**	**5,719**	**805**	**3**	**7,817**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	-2	-41	-2	0	-45
Depreciation	78	540	80	0	698
Impairment losses	2	4	1	1	8
Disposals	-3	-173	-42	0	-218
Transfers	0	24	-24	0	0
Reclassification to IFRS 5	-12	-28	-2	0	-42
Foreign currency translation	5	46	1	1	53
Balance as at December 31, 2016	**1,358**	**6,091**	**817**	**5**	**8,271**
Balance as at January 01, 2017	**1,358**	**6,091**	**817**	**5**	**8,271**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
Depreciation	78	556	105	0	739
Impairment losses	0	0	0	0	0
Disposals	-1	-186	-70	0	-257
Transfers	0	0	0	0	0
Reclassification to IFRS 5	0	0	0	0	0
Foreign currency translation	-31	-184	-15	-1	-231
Balance as at December 31, 2017	**1,404**	**6,277**	**837**	**4**	**8,522**
Net carrying amounts					
As at January 01, 2016	**1,158**	**2,117**	**245**	**660**	**4,180**
As at December 31, 2016	**1,172**	**2,319**	**265**	**751**	**4,507**
As at January 01, 2017	**1,172**	**2,319**	**265**	**751**	**4,507**
As at December 31, 2017	**1,163**	**2,447**	**289**	**966**	**4,865**

At December 31, 2017, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment to the amount of EUR 451 m (prior year: EUR 320 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. 107

	12/31/2017		12/31/2016	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	2	-28	3	-22
Property, plant and equipment	104	-147	98	-175
Financial assets	2	-4	2	-13
Inventories	101	-5	110	-4
Trade receivables and other assets	65	-108	64	-108
Provisions for pensions and similar obligations	375	-44	406	-35
Other provisions and other liabilities	142	-113	189	-82
Interest- and loss carryforwards	21	0	15	0
Deferred taxes (gross)	**812**	**-449**	**887**	**-439**
Netting	-320	320	-315	315
Deferred taxes (net)	**492**	**-129**	**572**	**-124**

The group had gross carryforwards under the interest deduction cap of EUR 32 m (prior year: EUR 10 m) at the end of the reporting period. The company has recognized deferred tax assets on all interest carryforwards.

At December 31, 2017, the Schaeffler Group had gross loss carryforwards of EUR 99 m (prior year: EUR 115 m) for corporation tax and EUR 9 m (prior year: EUR 9 m) for trade tax, including EUR 72 m (prior year: EUR 92 m) in corporation tax losses and EUR 9 m (prior year: EUR 9 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 22 m (prior year: EUR 51 m) of the corporation tax loss carryforwards on which no deferred tax assets were recognized can be carried forward for a limited period. The interest carryforwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 31 m (prior year: EUR 7 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 2,006 m (prior year: EUR 1,694 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 5 m (prior year: EUR 1 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2017, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 260 m (prior year: EUR 328 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, 2017, income tax receivables amounted to EUR 102 m (prior year: EUR 93 m) and did not include any non-current balances.

At December 31, 2017, income tax payables amounted to EUR 315 m (prior year: EUR 339 m), including non-current balances of EUR 153 m (prior year: EUR 163 m).

Non-current income tax payables included EUR 47 m (prior year: EUR 46 m) in interest on additional tax payments for prior years. Current income tax payables included EUR 30 m (prior year: EUR 27 m) in interest on additional tax payments for prior years.

4.4 Inventories

Inventories		No. 108
in € millions	12/31/2017	**12/31/2016**
Raw materials and supplies	393	358
Work in progress	571	468
Finished goods and merchandise	1,052	1,078
Advance payments	1	1
Total	**2,017**	**1,905**

EUR 10,021 m (prior year: EUR 9,413 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2017.

The impairment allowance on inventories amounted to EUR 271 m (prior year: EUR 260 m) as at December 31, 2017.

4.5 Trade receivables

Trade receivables		No. 109
in € millions	12/31/2017	**12/31/2016**
Trade receivables (gross)	**2,213**	**2,243**
Impairment allowances	-21	-25
Trade receivables (net)	**2,192**	**2,218**

Movements in impairment allowances on these trade receivables can be reconciled as follows:

Impairment allowances on trade receivables		No. 110
in € millions	2017	**2016**
Impairment allowances as at January 01	**-25**	**-28**
Additions	-1	-3
Allowances used to cover write-offs	2	3
Reversals	3	3
Impairment allowances as at December 31	**-21**	**-25**

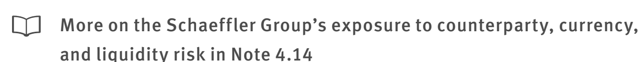
Trade receivables of EUR 2,033 m (prior year: EUR 2,079 m) were neither past due nor impaired as at December 31, 2017.

Also as at December 31, 2017, trade receivables of EUR 133 m (prior year: EUR 113 m) were past due but not impaired. These balances were mainly up to 60 days overdue.

Trade accounts receivable subject to specific impairment allowances had a gross carrying amount of EUR 46 m (prior year: EUR 51 m), and the related impairment allowance was EUR -21 m (prior year: EUR -25 m).

At December 31, 2017, trade receivables outstanding with a carrying amount of EUR 123 m (prior year: EUR 0 m) net of retained default risks had been sold under the ABCP program (see Note 5.2).

EUR 195 m (prior year: EUR 201 m) in receivables were pledged as security for a line of credit as at December 31, 2017.

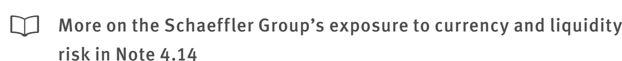

More on the Schaeffler Group's exposure to counterparty, currency, and liquidity risk in Note 4.14

4.6 Other financial assets and other assets

Other financial assets (non-current/current) No. 111

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	2	0	2	3	0	3
Derivative financial assets	69	74	143	175	29	204
Miscellaneous other financial assets	43	37	80	39	26	65
Total	**114**	**111**	**225**	**217**	**55**	**272**

At December 31, 2017, **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.


More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.14

Other assets (non-current/current) No. 112

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	46	0	46	21	0	21
Tax receivables	1	202	203	1	171	172
Miscellaneous other assets	24	34	58	29	47	76
Total	**71**	**236**	**307**	**51**	**218**	**269**

Tax receivables consisted predominantly of value-added tax refunds receivable.

The majority of **miscellaneous other assets** represented the non-current and current portions of prepaid assets and deferred charges.

4.7 Cash and cash equivalents

At December 31, 2017, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 293 m (prior year: EUR 325 m) held by subsidiaries in Argentina, Brazil, Chile, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Taiwan, Thailand, Venezuela, Vietnam and other countries. These subsidiaries are subject to exchange restrictions or other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

4.8 Assets held for sale and liabilities associated with assets held for sale

Assets held for sale of EUR 3 m relate to the planned sale of land scheduled to close in the first quarter of 2018.

The decrease in assets and liabilities held for sale compared to the prior year is due to the complete disposal of the fine blanking activities of Schaeffler Schweiz GmbH, which had been classified as a disposal group as at December 31, 2016, in the second quarter of 2017.

4.9 Shareholders' equity

Shareholders' equity No. 113

in € millions	12/31/2017	12/31/2016
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	249	-404
Accumulated other comprehensive income (loss)	-822	-713
Equity attributable to shareholders of the parent company	**2,441**	**1,897**
Non-controlling interests	107	100
Total shareholders' equity	**2,548**	**1,997**

Schaeffler AG's **share capital** of EUR 666 m remains unchanged.

It is divided into 666 million no-par-value bearer shares, each representing an interest in share capital of EUR 1.00. The no-par-value shares are divided into 500 million common shares and 166 million common non-voting 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.

The common shares are held by IHO Verwaltungs GmbH. The common non-voting shares 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, 2017.

Capital reserves remained unchanged at EUR 2,348 m as at December 31, 2017.

The change in **other reserves** in 2017 was largely 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 2017, a dividend of EUR 361 m will be proposed to the Schaeffler AG annual general meeting. EUR 91 m of these dividends relate to the common non-voting shares. This represents a total dividend of EUR 0.55 (prior year: EUR 0.50) per common non-voting share and EUR 0.54 (prior year: 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 consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments, and remeasurements of pensions and similar obligations.

At December 31, 2017, **non-controlling interests** represented third-party interests in the equity of Schaeffler India Ltd. (previously FAG Bearings India Ltd.), India. The remaining interests in the two Thai companies Schaeffler (Thailand) Co., Ltd. and Schaeffler Holding (Thailand) Co., Ltd. were acquired during the year.

4.10 Current and non-current financial debt

Financial debt (current/non-current) No. 114

			12/31/2017			12/31/2016
in € millions	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year	Total
Bonds	0	1,994	1,994	0	2,719	2,719
Facilities Agreement	0	983	983	0	982	982
Capital investment loans	0	89	89	0	0	0
Other financial debt	2	0	2	3	3	6
Total	**2**	**3,066**	**3,068**	**3**	**3,704**	**3,707**

The decrease in financial debt compared to December 31, 2016, resulted primarily from the early redemption of the USD bond with a principal of USD 700 m, a coupon of 4.25%, and an original maturity of May 2021 in full on May 24, 2017. The redemption was funded using available liquidity and by utilizing EUR 350 m of the revolving credit facility. On November 23, 2017, the Schaeffler Group reduced the amount drawn under the revolving credit facility to a remaining balance of EUR 150 m by repaying EUR 200 m from available liquidity. On December 27, 2017, the Schaeffler Group repaid the remaining balance of EUR 150 m outstanding under the revolving credit facility in full.

On December 15, 2017, Schaeffler AG signed a loan agreement to finance long-term logistics projects. These logistics projects, which form part of the "European Distribution Center" (EDC) project, are the central distribution center "EDC Central" (Kitzingen) and the European assembly and packaging center known as the "Aftermarket Kitting Operation" (AKO). The total amount of the loan is EUR 250 m, of which EUR 90 m (prior year: EUR 0 m) were drawn as at December 31, 2017. The loan has a term until 2022 plus certain renewal options.

At December 31, 2017, the group's debt consisted of a loan tranche with a principal of EUR 1.0 bn, four bond series totaling the equivalent of approx. EUR 2.0 bn, a revolving line of credit (revolving credit facility, RCF) with a principal of EUR 1.3 bn, and a capital investment loan with a principal of EUR 250 m.

The Schaeffler Group had the following loans outstanding at December 31, 2017:

Schaeffler Group loans — No. 115

		12/31/2017	**12/31/2016**	12/31/2017	**12/31/2016**	12/31/2017	**12/31/2016**	
Tranche	Currency	Principal in millions		Carrying amount in € millions		Coupon		Maturity
Term Loan	EUR	1,000	1,000	991	992	Euribor [1] + 1.20%	Euribor [1] + 1.20%	07/18/2021
Revolving Credit Facility [2]	EUR	1,300	1,300	-8	-10	Euribor [1] + 0.80%	Libor [1] + 0.80%	07/18/2021
Capital investment loan [3]	EUR	250	0	89	0	Euribor [1] + 1.00%	n/a	12/15/2022
Total				1,072	**982**			

[1] Euribor Floor of 0.00%.
[2] EUR 12 m (December 31, 2016: EUR 13 m) were drawn down as at December 31, 2017, primarily in the form of letters of credit.
[3] EUR 90 m (December 31, 2016: EUR 0 m) were drawn down as at December 31, 2017.

In addition, the Schaeffler Group had further committed lines of credit in the equivalent of approx. EUR 154 m (prior year: approx. EUR 160 m), primarily for the U.S. and China. Approx. EUR 111 m (prior year: approx. EUR 160 m) of these committed facilities were unutilized at December 31, 2017.

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. 116

		12/31/2017	**12/31/2016**	12/31/2017	**12/31/2016**		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966	EUR	400	400	398	397	2.50%	05/15/2020
US806261AJ29 [1]	USD	0	700	0	658	4.25%	05/15/2021
XS1067864022	EUR	500	500	498	498	3.50%	05/15/2022
US806261AM57	USD	600	600	502	571	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	595	3.25%	05/15/2025
Total				1,994	**2,719**		

[1] Redeemed in full on May 24, 2017.

The differences between principal 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 22 m (prior year: EUR 27 m) in interest accrued on the bonds up to December 31, 2017, were reported in other financial liabilities (see Note 4.13).

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the leverage covenant is not met, which would result in the debt becoming due immediately. As in prior years, the company has complied with the leverage covenant throughout 2017 as stipulated in the debt agreements.

The shares in two subsidiaries as well as intra-group loan receivables were pledged as collateral under the loan and bond agreements.

4.11 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler Group provides to its employees include both defined benefit plans and and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit 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 employment is terminated, and other post employment benefits. The company's pension obligations essentially 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 commitments based on pension units largely result from the Schaeffler Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension units 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. Current 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, the Schaeffler Group guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

U.S. and United Kingdom

Additional significant defined benefit 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 2017, approx. 76% (prior year: 74%) of pension obligations in the U.S. and approx. 113% (prior year: 104%) 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 obligations

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, 2017:

Amounts recognized in the statement of financial position for pensions and similar obligations No. 117

					12/31/2017					12/31/2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,990	-51	-1	-82	-2,124	-2,029	-58	-4	-91	-2,182
Pension asset (plan assets net of related liabilities)	13	0	28	5	46	7	0	12	2	21
Net defined benefit liability	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**

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. 118

					12/31/2017					12/31/2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,206	-76	0	-201	-1,483	-1,224	-84	0	-204	-1,512
Present value of defined benefit obligations (deferred members)	-154	-24	-159	-4	-341	-141	-27	-166	-4	-338
Present value of defined benefit obligations (pensioners)	-802	-110	-57	-29	-998	-825	-115	-65	-26	-1,031
Present value of defined benefit obligations (total)	**-2,162**	**-210**	**-216**	**-234**	**-2,822**	**-2,190**	**-226**	**-231**	**-234**	**-2,881**
Fair value of plan assets	185	159	243	157	744	168	168	239	145	720
Net defined benefit liability	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**

Movements in the net defined pension benefit liability in 2017 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 No. 119

					2017					2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/ asset (+) as at January 01	**-2,022**	**-58**	**8**	**-89**	**-2,161**	**-1,771**	**-59**	**25**	**-103**	**-1,908**
Benefits paid	59	1	0	7	67	58	1	0	9	68
Service cost	-70	0	0	-15	-85	-56	0	0	-19	-75
Net interest on net defined benefit liability	-34	-2	0	-2	-38	-42	-2	1	-2	-45
Employer contributions	-2	0	0	16	14	12	0	0	12	24
Employee contributions	0	0	0	0	0	1	0	0	0	1
Transfers in/out	0	-2	0	0	-2	0	-2	0	0	-2
Remeasurement of net defined benefit liability	92	6	19	3	120	-224	6	-15	10	-223
Business combinations/disposals	0	0	0	0	0	0	0	0	2	2
Changes in foreign exchange rates	0	4	0	3	7	0	-2	-3	2	-3
Net defined benefit liability (-)/ asset (+) as at December 31	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**

The increase in **service cost** to EUR 85 m (prior year: EUR 75 m) in 2017 was mainly driven by the decrease in the discount rate for Germany as at December 31, 2016, to 1.7% from 2.3% as at the end of 2015. 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 obligations

The opening and closing balances of the present value of the defined benefit obligations as at the end of the reporting period can be reconciled as follows:

Reconciliation of present value of defined benefit obligations January 01/December 31 No. 120

					2017					2016
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Present value of defined benefit obligations as at January 01	**-2,190**	**-226**	**-231**	**-234**	**-2,881**	**-1,919**	**-223**	**-204**	**-248**	**-2,594**
Benefits paid	62	10	9	14	95	61	11	10	18	100
Current service cost	-70	0	0	-14	-84	-56	0	0	-18	-74
Past service cost	0	0	0	-1	-1	0	0	0	-1	-1
Interest cost	-37	-9	-6	-6	-58	-45	-9	-7	-6	-67
Employee contributions	-11	-1	0	0	-12	-8	-1	0	-1	-10
Transfers in/out	1	0	0	0	1	0	0	0	0	0
Gains (+) / losses (-) – changes in financial assumptions	85	-11	-7	7	74	-235	0	-58	4	-289
Gains (+) / losses (-) – changes in demographic assumptions	0	2	10	0	12	0	4	0	-1	3
Gains (+) / losses (-) – experience adjustments	-2	-1	0	-6	-9	12	-1	0	2	13
Business combinations/disposals	0	0	0	0	0	0	0	0	20	20
Changes in foreign exchange rates	0	26	9	6	41	0	-7	28	-3	18
Present value of defined benefit obligations as at December 31	**-2,162**	**-210**	**-216**	**-234**	**-2,822**	**-2,190**	**-226**	**-231**	**-234**	**-2,881**

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. 121

					2017					2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**168**	**168**	**239**	**145**	**720**	**148**	**164**	**229**	**145**	**686**
Benefits paid	-3	-9	-9	-7	-28	-3	-10	-10	-9	-32
Interest income on plan assets	3	7	6	4	20	3	7	8	4	22
Employee contributions	11	1	0	0	12	9	1	0	1	11
Employer contributions	-2	0	0	16	14	12	0	0	12	24
Transfers in/out	-1	-2	0	0	-3	0	-2	0	0	-2
Return on plan assets excluding interest income	9	16	16	2	43	-1	3	43	5	50
Business combinations/disposals	0	0	0	0	0	0	0	0	-18	-18
Changes in foreign exchange rates	0	-22	-9	-3	-34	0	5	-31	5	-21
Fair value of plan assets as at December 31	**185**	**159**	**243**	**157**	**744**	**168**	**168**	**239**	**145**	**720**

The Schaeffler Group plans to contribute EUR 9 m to plan assets in 2018.

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. 122

					12/31/2017					12/31/2016
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Equity instruments	98	61	66	14	239	84	68	64	17	233
Debt instruments	32	100	47	134	313	28	99	47	112	286
Real estate	0	0	24	3	27	0	0	23	8	31
Cash	30	-2	1	0	29	32	1	2	1	36
(Reimbursement) insurance policies	25	0	0	6	31	24	0	0	7	31
Mixed funds	0	0	105	0	105	0	0	103	0	103
Total	**185**	**159**	**243**	**157**	**744**	**168**	**168**	**239**	**145**	**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 on defined benefit pension plans No. 123

					2017					**2016**
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	70	0	0	14	84	56	0	0	18	74
Past service cost	0	0	0	1	1	0	0	0	1	1
• plan amendments	0	0	0	1	1	0	0	0	1	1
Gains (-)/losses (+) on settlements	0	0	0	0	0	0	0	0	0	0
Service cost	**70**	**0**	**0**	**15**	**85**	**56**	**0**	**0**	**19**	**75**
Interest cost	37	9	6	6	58	45	9	7	6	67
Interest income	-3	-7	-6	-4	-20	-3	-7	-8	-4	-22
Net interest on net defined benefit liability/asset	**34**	**2**	**0**	**2**	**38**	**42**	**2**	**-1**	**2**	**45**
Gains (-)/losses (+) – changes in financial assumptions	-85	11	7	-7	-74	235	0	58	-4	289
Gains (-)/losses (+) – changes in demographic assumptions	0	-2	-10	0	-12	0	-4	0	1	-3
Gains (-)/losses (+) – experience adjustments	2	1	0	6	9	-12	1	0	-2	-13
Return on plan assets excluding interest income	-9	-16	-16	-2	-43	1	-3	-43	-5	-50
Remeasurements of net defined benefit liability/asset	**-92**	**-6**	**-19**	**-3**	**-120**	**224**	**-6**	**15**	**-10**	**223**
Total comprehensive (income) loss on defined benefit obligations	**12**	**-4**	**-19**	**14**	**3**	**322**	**-4**	**14**	**11**	**343**

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 consolidated income statement No. 124

					2017					2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	41	10	1	13	65	33	0	0	12	45
Research and development expenses	13	2	0	1	16	11	0	0	1	12
Selling expenses	5	2	0	6	13	4	0	0	3	7
Administrative expenses	11	1	0	2	14	8	0	0	2	10
Included in EBIT	**70**	**15**	**1**	**22**	**108**	**56**	**0**	**0**	**18**	**74**
Interest expense	37	9	6	6	58	45	9	7	6	67
Interest income on plan assets	-3	-7	-6	-4	-20	-3	-7	-8	-4	-22
Included in financial result	**34**	**2**	**0**	**2**	**38**	**42**	**2**	**-1**	**2**	**45**
Total	**104**	**17**	**1**	**24**	**146**	**98**	**2**	**-1**	**20**	**119**

Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 18.7 years (prior year: 19.3 years) at year-end. In the most significant countries, Germany, the U.S., and the United Kingdom, the duration averages 19.7 years (prior year: 20.3 years), 11.7 years (prior year: 11.9 years), and 22.8 years (prior year: 24.0 years), respectively.

Over the next ten years, the company expects to make the following payments for the defined benefit obligations it has as at year-end:

Payments expected in coming years No. 125

in € millions	Payments expected
2018	88
2019	92
2020	99
2021	105
2022	111
2023–2027	587

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. 126

	2017					2016				
	Germany	U.S.	United Kingdom	Other countries	Total [1]	Germany	U.S.	United Kingdom	Other countries	Total [1]
Discount rate as at December 31	1.9%	3.7%	2.6%	2.8%	2.2%	1.7%	4.2%	2.8%	2.6%	2.1%
Future salary increases	3.3%	n.a. [2]	n.a. [2]	3.2%	3.2%	3.3%	n.a. [2]	n.a. [2]	3.2%	3.3%
Future pension increases	1.8%	2.5%	3.3%	0.1%	1.9%	1.8%	2.5%	3.3%	0.1%	1.9%

[1] Average discount rate for the Schaeffler Group.
[2] 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. 127

		2017					2016				
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	-352	-22	-42	-24	-440	-382	-25	-46	-25	-478
	Minus 1.0%	490	27	56	29	602	508	30	63	30	631
Future salary increases	Plus 1.0%	47	n.a. [1]	n.a. [1]	18	65	50	n.a. [1]	n.a. [1]	17	67
	Minus 1.0%	-41	n.a. [1]	n.a. [1]	-15	-56	-44	n.a. [1]	n.a. [1]	-15	-59
Future pension increases	Plus 1.0%	217	0	27	3	247	230	0	30	2	262
	Minus 1.0%	-162	0	-23	-2	-187	-190	0	-25	-1	-216

[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 102 m (prior year: EUR 106 m) in Germany, EUR 6 m (prior year: EUR 6 m) in the U.S., and EUR 9 m (prior year: EUR 9 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 plans

In 2017, the Schaeffler Group incurred EUR 22 m (prior year: EUR 20 m) in expenses related to defined contribution plans. At EUR 15 m (prior year: EUR 13 m), the majority of this amount relates to plans in the U.S.

4.12 Provisions

Provisions — No. 128

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2017	**94**	**58**	**70**	**22**	**206**	**450**
Additions	52	39	66	5	68	230
Utilization	-47	-33	-30	-3	-79	-192
Reversals	-1	-18	-21	-6	-24	-70
Foreign currency translation	-1	0	-2	0	-9	-12
Balance as at December 31, 2017	**97**	**46**	**83**	**18**	**162**	**406**

Provisions consisted of the following non-current and current portions. Non-current provisions are due in one to five years.

Provisions (non-current/current) — No. 129

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	73	24	97	39	55	94
Restructuring	45	1	46	14	44	58
Warranties	0	83	83	0	70	70
Other taxes	0	18	18	0	22	22
Other	55	107	162	43	163	206
Total	**173**	**233**	**406**	**96**	**354**	**450**

Provisions for employee benefits consisted primarily of EUR 57 m (prior year: EUR 60 m) in provisions for long-time service awards and partial retirement programs primarily classified as non-current.

Restructuring provisions consisted mainly of EUR 39 m in provisions related to setting up a shared service center in Europe. Implementation of these measures will start in 2018 and is expected to be completed by 2022.

Warranty provisions consisted almost entirely of provisions for specific cases for which an outflow of resources within one year is considered probable.

Other provisions include, inter alia, provisions for potential third-party claims in connection with antitrust proceedings and other compliance cases of EUR 55 m (prior year: EUR 103 m). These provisions were classified as both current and non-current. The decrease in other provisions compared to the prior year

is primarily attributable to the utilization of the provision for potential third-party claims in connection with the EU antitrust proceedings finalized in March 2014 of EUR 29 m.

Non-current provisions increased by EUR 77 m to EUR 173 m (prior year: EUR 96 m), primarily due to the provisions related to setting up a shared service center in Europe as discussed above.

Current provisions declined by EUR 121 m to EUR 233 m (prior year: EUR 354 m). The reason for this decline was twofold: The provision for potential third-party claims in connection with the EU antitrust proceedings finalized in March 2014 was utilized, and restructuring provisions related to the realignment of the Industrial division (first and second wave program "CORE") recognized in the last two years were nearly fully utilized and partially reversed.

4.13 Other financial liabilities and other liabilities

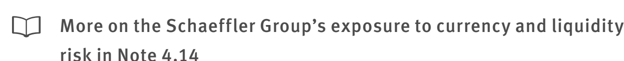
Other financial liabilities (non-current/current) — No. 130

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	2	299	301	0	262	262
Derivative financial liabilities	0	36	36	5	70	75
Miscellaneous other financial liabilities	22	347	369	81	364	445
Total	**24**	**682**	**706**	**86**	**696**	**782**

Amounts payable to staff included primarily profit sharing accruals.

Derivative financial liabilities included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The change was primarily attributable to a favorable trend in market value.

The decrease in **miscellaneous other financial liabilities** mainly reflects the payment of part of the third-party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, the consideration payable in connection with the acquisition of Compact Dynamics GmbH was paid in full (see Note 5.1). Payments received from customers for receivables sold under the ABCP program (see Note 5.2) and higher accrued selling costs (customer bonuses, rebates, early-payment discounts) had an offsetting effect.


More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.14

Other liabilities (non-current/current) — No. 131

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amonts payable to staff	0	152	152	0	138	138
Social security contributions payable	1	41	42	2	40	42
Advance payments received	0	34	34	0	25	25
Other tax payables	0	114	114	0	121	121
Miscellaneous other liabilities	6	26	32	4	20	24
Total	**7**	**367**	**374**	**6**	**344**	**350**

Amounts payable to staff primarily contained accrued vacation and overtime accounts.

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.

4.14 Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8 are summarized below. Investments in associated companies and derivatives subject to hedge accounting are also shown, although they do not fall into 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. 132

		12/31/2017		12/31/2016	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	2,192	2,192	2,218	2,218
Other financial assets					
• Investments in associates [1]	n.a.	3	-	3	-
• Other investments [2]	AfS	17	-	14	-
• Marketable securities	AfS	16	16	17	17
• Derivatives designated as hedging instruments	n.a.	58	58	63	63
• Derivatives not designated as hedging instruments	HfT	85	85	141	141
• Miscellaneous other financial assets	LaR	46	46	34	34
Cash and cash equivalents	LaR	698	698	1,071	1,071
Financial liabilities, by class					
Financial debt	FLAC	3,068	3,165	3,707	3,820
Trade payables	FLAC	1,867	1,867	1,625	1,625
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	11	11	40	40
• Derivatives not designated as hedging instruments	HfT	25	25	35	35
• Miscellaneous other financial liabilities	FLAC	670	670	707	707
Summary by category					
Available-for-sale financial assets (AfS)		33	-	31	-
Financial assets held for trading (HfT)		85	-	141	-
Loans and receivables (LaR)		2,936	-	3,323	-
Financial liabilities at amortized cost (FLAC)		5,605	-	6,039	-
Financial liabilities held for trading (HfT)		25	-	35	-

[1] Equity-accounted investees.
[2] Investments accounted for at cost.

The carrying amounts of trade receivables, miscellaneous other financial assets, cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments 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 2017, 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 4.10). Collateral has generally been provided for the term of the loan and bond agreements and may be enforced if the creditors are entitled to call the debt, for instance if financial covenants are not met.

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

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates).
  The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

The 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. 133

in € millions	Level 1	Level 2	Total
December 31, 2017			
Marketable securities	16	-	16
Derivatives designated as hedging instruments	-	58	58
Derivatives not designated as hedging instruments	-	85	85
Total financial assets	**16**	**143**	**159**
Financial debt	2,071	1,094	3,165
Derivatives designated as hedging instruments	0	11	11
Derivatives not designated as hedging instruments	0	25	25
Total financial liabilities	**2,071**	**1,130**	**3,201**
December 31, 2016			
Marketable securities	17	-	17
Derivatives designated as hedging instruments	-	63	63
Derivatives not designated as hedging instruments	-	141	141
Total financial assets	**17**	**204**	**221**
Financial debt	2,813	1,007	3,820
Derivatives designated as hedging instruments	-	40	40
Derivatives not designated as hedging instruments	-	35	35
Total financial liabilities	**2,813**	**1,082**	**3,895**

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:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 No. 134

					2017	2016
	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Available-for-sale financial assets	-	1	-	-	1	0
Financial assets and liabilities held for trading	40	-131	-	-	-91	-9
Loans and receivables	11	-	2	-37	-24	44
Financial liabilities at amortized cost	-125	-	-	58	-67	-343
Total	**-74**	**-130**	**2**	**21**	**-181**	**-308**

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 loss on financial assets and liabilities held for trading of EUR 91 m (prior year: EUR 9 m) relates entirely to derivatives. EUR 1 m (prior year: EUR 4 m) of this net loss is included in the financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 14 m (prior year: EUR 30 m).

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 department 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 the Schaeffler Group'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 Schaeffler Group 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 detail 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 risks).

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 the Schaeffler Group's reputation.

Liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Both the liquidity status and liquidity forecast are reported regularly to the Chief Financial Officer.

The Schaeffler Group uses equity, cash pooling arrangements, intercompany loans, receivable sale programs, 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 (RCF) of EUR 1.3 bn currently bearing interest at Euribor plus 0.80% 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. 135

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2017					
Non-derivative financial liabilities	**5,605**	**6,007**	**3,662**	**1,164**	**1,181**
• Financial debt	3,068	3,469	1,146	1,142	1,181
• Trade payables	1,867	1,867	1,867	0	0
• Other non-derivative financial liabilities	670	671	649	22	0
Derivative financial liabilities	**36**	**36**	**36**	**0**	**0**
Total	**5,641**	**6,043**	**3,698**	**1,164**	**1,181**
December 31, 2016					
Non-derivative financial liabilities	**6,039**	**6,704**	**2,400**	**2,506**	**1,798**
• Financial debt	3,707	4,363	136	2,429	1,798
• Trade payables	1,625	1,625	1,625	0	0
• Other non-derivative financial liabilities	707	716	639	77	0
Derivative financial liabilities	**75**	**75**	**70**	**5**	**0**
Total	**6,114**	**6,779**	**2,470**	**2,511**	**1,798**

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 some or all of their payment obligations. To mitigate this risk, such contracts are only entered into with selected banks.

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 allowances, 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 automobile manufacturers (see Note 5.5). Receivables from ten automobile manufacturers make up 39.0% (prior year: 38.4%) 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.

The Schaeffler Group's financial debt can be summarized by type of interest as follows:

Variable and fixed interest financial debt No. 136

	12/31/2017	12/31/2016
in € millions	Carrying amount	
Variable interest instruments	**1,072**	**983**
• Financial debt	1,072	983
Fixed interest instruments	**1,996**	**2,724**
• Financial debt	1,996	2,724

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, 2017, would affect (increase/decrease) net income and shareholders' equity as follows:

Sensitivity analysis: Shift in yield curve No. 137

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2017				
Variable interest instruments	-6	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	-22	82	0	0
Total	**-28**	**82**	**0**	**0**
As at December 31, 2016				
Variable interest instruments	-7	0	0	0
Derivatives designated as hedging instruments	0	0	-2	2
Derivatives not designated as hedging instruments	-22	6	0	0
Total	**-29**	**6**	**-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, and 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. 138

in € millions	USD	CNY	RON	PLN
December 31, 2017				
Estimated currency risk from operations	807	573	-201	174
Forward exchange contracts	-606	-470	160	-131
Remaining currency risk from operations	**201**	**103**	**-41**	**43**
December 31, 2016				
Estimated currency risk from operations	730	533	-197	157
Forward exchange contracts	-573	-413	143	-119
Remaining currency risk from operations	**157**	**120**	**-54**	**38**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance department. 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 department. The most significant currency risk exposures in these countries

arise on the Chinese renminbi and the Indian rupee and amount to an estimated EUR 58 m (prior year: U.S. dollar of EUR 76 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 mainly 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, 2017, 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. 139

	12/31/2017		**12/31/2016**	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	9	-59	15	-67
CNY	23	-39	19	-39
HUF	9	11	6	10
PLN	0	-13	0	-12

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2017, 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 400 m (prior year: USD 800 m). Changes in the fair value of those cross-currency swaps not subject to hedge accounting (notional amount of USD 0 m; prior year: USD 400 m) were recognized directly in profit or loss in 2017.

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, 2017. 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. 140

	12/31/2017		**12/31/2016**	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-33	-16	-76	-47
Foreign exchange gains and losses on derivatives	33	11	80	7
Total	**0**	**-5**	**4**	**-40**

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 risks

Other price risks 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. 141

	12/31/2017		12/31/2016	
in € millions	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	2,039	73	1,458	32
• thereof: hedge accounting	983	39	439	6
Cross-currency swaps	384	18	759	108
• thereof: hedge accounting	384	18	380	57
Financial liabilities				
Currency hedging				
Forward exchange contracts	1,698	36	2,106	75
• thereof: hedge accounting	693	11	1,166	40
Cross-currency swaps	0	0	57	0
• thereof: hedge accounting	0	0	57	0

Cash flow hedges

A portion of the Schaeffler Group's forward exchange contracts and cross-currency swaps in certain currencies are accounted for as cash flow hedges with perfect effectiveness. 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. 142

in € millions	2017	2016
Balance as at January 01	**-34**	**3**
Additions	33	-34
Reclassified to income statement		
• to other income	0	-3
• to other expense	34	0
Balance as at December 31	**33**	**-34**

The Schaeffler Group also applies cash flow hedge accounting to the foreign currency hedge of its bond issued in U.S. dollars using cross-currency swaps with a nominal value of USD 400 m (prior year: USD 400 m). As a result, accumulated gains of EUR 3 m (prior year: gains of EUR 27 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, 2017. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2018 to 2023.

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. 143

in € millions	2017	2016
Balance as at January 01	**-15**	**-42**
Additions	-43	-51
Reclassified to income statement		
• to financial income	0	0
• to financial expense	46	78
Balance as at December 31	**-12**	**-15**

Net investment in a foreign operation

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 under a net investment hedge (principal of USD 200 m; prior year: USD 500 m). This mitigates the group's translation risk on the U.S. subsidiaries. As a result, foreign exchange gains of EUR 13 m (prior year: losses of EUR 10 m) on designated financial debt were recognized in other comprehensive income in 2017 and reported in accumulated other comprehensive income (translation reserve) as at December 31, 2017. 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 Association (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, except for the embedded options, are as follows:

Offsetting financial assets and financial liabilities No. 144

in € millions	12/31/2017	12/31/2016
Financial assets		
Gross amount of financial assets	92	139
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	92	139
Amounts subject to master netting arrangements		
• Derivatives	-36	-62
Net amount of financial assets	56	77
Financial liabilities		
Gross amount of financial liabilities	36	75
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	36	75
Amounts subject to master netting arrangements		
• Derivatives	-36	-62
Net amount of financial liabilities	0	13

4.15 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. Due to the listing, however, the grant date of the 2015 tranche is October 09, 2015. In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group's senior management. For eligible senior management, the performance period of the 2016 tranche begins retroactively on January 01, 2016. However, the grant date of the 2016 tranche is October 01, 2016. The grant date of the 2017 tranche is January 01, 2017, except for one member of the Board of Managing Directors, whose grant date is July 17, 2017.

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 beneficiary remains employed with the Schaeffler Group 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 to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the performance 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.

Obligations under the PSUP as at December 31, 2017, amounted to EUR 9.8 m (prior year: EUR 3.5 m) and were included in non-current provisions. Net expenses arising from the PSUP for 2017 totaled EUR 6.3 m (prior year: EUR 2.8 m). There were 2,417,229 PSUs (prior year: 1,310,594 PSUs) in total as at December 31, 2017. All PSUs granted were still outstanding as at December 31, 2017.

The average fair value of a PSU granted was EUR 11.71 (prior year: EUR 11.31) as at December 31, 2017. PSUs included in the base number as well as those subject to the FCF-based performance target are measured based on the price of Schaeffler AG common non-voting shares 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 of PSUs with a TSR-based performance target is 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 TSR-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 reflects the following input parameters:

Binomial model – input parameters		No. 145
	12/31/2017	12/31/2016
Average risk-free interest rate for the remaining performance period	-0.50%	-0.35%
Expected dividend yield of Schaeffler AG common non-voting shares	3.38%	2.49%
Expected volatility of Schaeffler AG common non-voting shares	28.61%	34.27%
Expected volatility of the benchmark index	10.32%	18.75%
Expected correlation between the benchmark index and Schaeffler AG common non-voting shares	0.46	0.61

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.

4.16 Capital management

The Schaeffler Group has a strategy of pursuing profitable long-term growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and create financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term 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. Capital management also strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the development of the ratio of net financial debt to equity including non-controlling interests (gearing ratio). The gearing ratio was 93.0% at December 31, 2017 (prior year: 132.0%).

The Schaeffler Group has an effective cash management system in place and has diversified its external financing in terms of, for instance, instruments and maturities. The Schaeffler Group can currently utilize cash and cash equivalents, cash flow from operations, various loan facilities, and debt and equity funding via the capital markets to meet its short-, medium-, and long-term financing needs. The next maturity date of bonds or credit facilities is in 2020. Currency risk is continually monitored and reported at corporate level. Currency risk is aggregated across the group and hedged using hedging instruments.

In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to an ABCP program of revolving sales of trade receivables with a committed volume of EUR 150 m (prior year: EUR 0 m) (see Note 5.2). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

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. Credit ratings assigned by external rating agencies are key to this ability. In 2017, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's and Moody's and, since April 25, 2017, from Fitch Ratings as well. As a basis for executing its growth strategy, the company intends to maintain the investment grade rating it initially gained in 2016 for the long term.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The inputs to the calculation of the leverage covenant are defined in the debt agreements and cannot be derived directly from amounts in the consolidated financial statements. As in prior years, the company has complied with the leverage covenant throughout 2017 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group also expects to comply with the leverage covenant in subsequent years.

In addition to the leverage covenant contained in the debt agreements, the Schaeffler Group regularly calculates further financial indicators. The gearing ratio discussed above and the net debt to EBITDA ratio are two such further financial indicators. The net debt to EBITDA ratio – the ratio of net financial debt to EBITDA (earnings before financial result, income taxes, depreciation, amortization, and impairment losses) – is calculated as follows:

Net financial debt to EBITDA ratio		No. 146
in € millions	12/31/2017	12/31/2016
Current financial debt	2	3
Non-current financial debt	3,066	3,704
Financial debt	**3,068**	**3,707**
Cash and cash equivalents	698	1,071
Net financial debt	**2,370**	**2,636**
Earnings before financial result, income taxes, depreciation, and amortization and impairment losses (EBITDA) [1]	**2,295**	**2,293**
Net financial debt to EBITDA ratio [2]	**1.0**	**1.1**

[1] EBITDA incl. EUR 56 m (prior year: EUR 144 m) in special items.
[2] Net financial debt to EBITDA ratio incl. special items (footnote 1).

5. Other disclosures

5.1 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.

In connection with the repayment of the USD bond series, Schaeffler AG also terminated a portion of the cross-currency swaps designed to hedge the currency fluctuations before maturity. The termination resulted in cash inflows of EUR 38 m due to exchange rate changes. These cash inflows from the hedging instrument as well as the cash outflows from the hedged item are presented under repayments of loans.

The purchase price for the acquisition of Compact Dynamics GmbH of EUR 45 m was paid in full in 2017. Further cash outflows of EUR 2 m represented the payment of the 1st tranche of the purchase price for the acquisition of autinity GmbH. A 2nd tranche of EUR 2 m was payable in January 2018. These outflows were partially offset by proceeds of EUR 4 m on the disposal of Schaeffler Motorenelemente AG & Co. KG and EUR 16 m on the sale of the fine blanking activities of Schaeffler Schweiz GmbH. The inflow of the EUR 2 m in cash received as part of the acquisition of Compact Dynamics GmbH was reflected in other investing activities in 2016.

Summary of changes in financial debt — **No. 147**

				Financial debt	Cross-currency swaps held or hedging purposes		Total
in € millions	Bonds	Facilities agreement	Capital investment loan	Other financial debt	Financial assets	Financial liabilities	
Balance as at January 01, 2017	**2,719**	**982**	**0**	**6**	**-108**	**0**	**3,599**
Changes from financing cash flows							
Receipts from loans	0	350	90	0	0	0	440
Repayments of loans	-625	-350	0	-3	38	0	-940
Total changes from cash flows	**-625**	**0**	**90**	**-3**	**38**	**0**	**-500**
Changes arising from obtaining or losing control of subsidiaries or other businesses	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Effect of changes in foreign exchange rates	**-105**	**0**	**0**	**0**	**0**	**0**	**-105**
Changes in fair values	**0**	**0**	**0**	**0**	**57**	**0**	**57**
Other non-cash changes	**5**	**1**	**-1**	**-1**	**0**	**0**	**4**
Balance as at December 31, 2017	**1,994**	**983**	**89**	**2**	**-13**	**0**	**3,055**

5.2 Involvement with unconsolidated structured entities

The Schaeffler Group sells a portion of its trade receivables to a structured entity under an ABCP program (asset-backed commercial paper). The structured entity obtains its funding primarily from the capital markets. The receivables are sold on a revolving basis at their face value less variable reserves and a variable fee discount. The structured entity has engaged the Schaeffler Group to service the receivables in return for an arm's-length fee. The structured entity has the right to remove the Schaeffler Group as the servicer and to engage someone else to service the receivables. The Schaeffler Group has concluded that it does not control the structured entity and, therefore, does not consolidate it.

The sold receivables (see Note 4.5) as well as the related liabilities are recognized to the extent of the company's continuing involvement measured as the amount of the risks retained.

The following balances relate to the Schaeffler Group's involvement with the structured entity as at December 31, 2017:

Balances – involvement with the structured entity No. 148

in € millions	12/31/2017	**12/31/2016**
Carrying amount of receivables transferred	123	0
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	14	0
Payments received from customers on receivables sold and not yet passed on to the structured entity transferred (recognized as other financial liabilities in the statement of financial position)	42	0
Carrying amount of receivables (classified as trade receivables) and the other liability resulting from the continuing involvement (classified in other financial liabilities in the statement of financial position)	2	0

The ABCP program resulted in a cash inflow of EUR 150 m classified in cash flows from operating activities.

5.3 Leases

Future minimum lease payments under non-cancelable operating rental and lease agreements are due as follows:

Rental and lease agreements No. 149

in € millions	12/31/2017	**12/31/2016**
Less than one year	57	58
Between one and five years	65	60
More than five years	11	5
Total	**133**	**123**

The obligations consisted primarily of rental agreements for real estate and lease agreements relating to company vehicles and IT and logistics.

In 2017, the Schaeffler Group recognized EUR 89 m (prior year: EUR 85 m) in expenses related to operating rental and lease agreements in profit or loss.

5.4 Contingent liabilities

At December 31, 2017, the Schaeffler Group had contingent liabilities of EUR 74 m (prior year: EUR 46 m). These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts for the automotive sector. 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 in connection with 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.

5.5 Segment information

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 AG 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.

The Schaeffler Group is divided into the two segments Automotive division and Industrial division as described below. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses was reviewed and adjusted during the year. To ensure that the information on the Automotive division and Industrial division segments is comparable, prior year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

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). The Automotive division is working on a wide range of technologies for the various drive concepts, markets and regions and delivers appropriate solutions for the most varied requirements of the automotive industry. This includes precision components and systems for engines, transmissions, and chassis of vehicles with drivetrains based on the internal combustion engine just as much as applications for hybrid and electric vehicles. The Automotive Aftermarket business division is responsible for the global business with spare parts and provides innovative repair solutions in original-equipment quality, focusing especially on comprehensive services for repair shops.

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. The Industrial division's product spectrum includes rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology. The Industrial division offers a broad portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings over three meters in diameter. The focus here is increasingly on smart products and on connecting components.

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.

Reconciliation to earnings before income taxes — No. 150

in € millions	2017	2016
EBIT Automotive [1]	1,283	1,373
EBIT Industrial [1]	245	183
EBIT	**1,528**	**1,556**
Financial result	-192	-341
Earnings before income taxes	**1,336**	**1,215**

[1] Prior year information presented based on 2017 segment structure.

In 2017, the Schaeffler Group generated revenue of EUR 1,488 m (prior year: EUR 1,462 m) from one key customer, representing 10.6% (prior year: 11.0%) of total group revenue and 13.7% (prior year: 14.1%) of Automotive segment revenue.

In addition to the divisions and functions, the Schaeffler Group's multidimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive division and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2017:

Information about geographical areas No. 151

	2017	2016	12/31/2017	12/31/2016
in € millions		Revenue [1]		Non-current assets [2]
Europe	7,183	7,077	3,344	3,039
Americas	2,910	2,803	769	818
Greater China	2,456	2,053	1,027	932
Asia/Pacific	1,472	1,405	361	350
Total	**14,021**	**13,338**	**5,501**	**5,139**

[1] Revenue by market (customer locations). Prior year information presented based on 2017 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, China, and the U.S. had revenue of EUR 2,614 m (prior year: EUR 2,818 m), EUR 2,394 m (prior year: EUR 1,992 m), and EUR 1,881 m (prior year: EUR 1,830 m) as well as non-current assets of EUR 2,017 m (prior year: EUR 1,757 m), EUR 1,027 m (prior year: EUR 931 m), and EUR 422 m (prior year: EUR 476 m), respectively.

Effective January 01, 2018, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a third stand-alone division.

5.6 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.

The remuneration of the Board of Managing Directors of Schaeffler AG for 2017 in accordance with IAS 24 totaled EUR 19 m (prior year: EUR 19 m), including EUR 12 m (prior year: EUR 12 m) in short-term benefits. Expenses of EUR 2 m (prior year: EUR 3 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 1 m (prior year: EUR 0 m), and share-based payments totaled EUR 4 m (prior year: EUR 3 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 17 m (prior year: EUR 19 m) in 2017.

In addition, the company has committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and payments of EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and has also committed to pay EUR 300 thousand to one of these Managing Directors for 2019; these payments will be offset against payment of the long-term bonuses granted in 2017, 2018, and 2019.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2017 under the Performance Share Unit Plan (PSUP) implemented in 2015: 277,722 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively), 138,864 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively), and 138,864 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.99 and EUR 4.58, respectively).

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 252,051 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 13.82), 126,033 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 13.82), and 126,033 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 9.13). Please refer to the remuneration report for a detailed discussion of the PSUP.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.6 m (prior year: EUR 1.6 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 dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 4 m in 2017 (prior year: EUR 3 m).

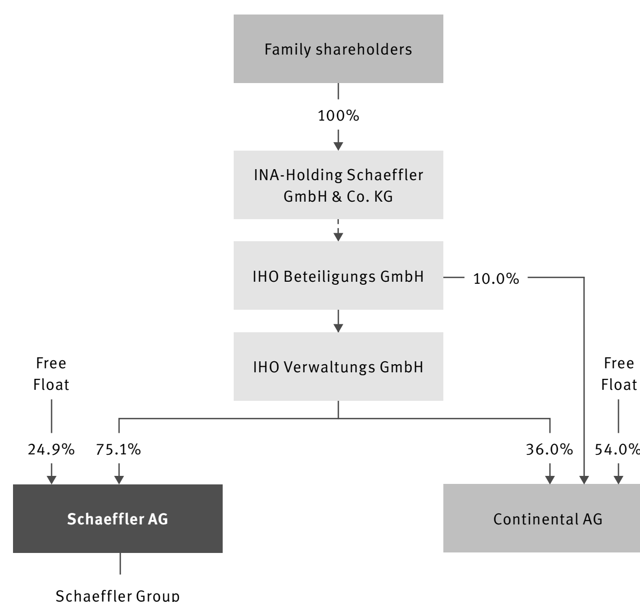
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 13 m at December 31, 2017 (prior year: EUR 11 m).

At December 31, 2017, 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 0.6 m (prior year: EUR 0.8 m). Key management personnel and close members of their family received interest of EUR 0.0 m (prior year: EUR 0.1 m) on these bonds. Additionally, bonds issued in prior years with a value of EUR 0 m (prior year: EUR 3 m) held by key management personnel and close members of their family were redeemed.

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 & Co. KG has significant influence.

Simplified ownership structure No. 152
as at December 31, 2017



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 2017.

In 2017 and 2016, Schaeffler Group companies had various business relationships with the group's related entities.

On April 26, 2017, the Schaeffler AG annual general meeting declared a total dividend of EUR 328 m in respect of 2016, including EUR 245 m on the common shares held by IHO Verwaltungs GmbH.

In 2016, IHO Verwaltungs GmbH prepaid its loans payable to Schaeffler AG in full. As a result, the Schaeffler Group no longer earned any interest income on loans to shareholders in 2017 (prior year: EUR 49 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 Schaeffler 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. 153

	12/31/2017	**12/31/2016**	12/31/2017	**12/31/2016**
in € millions		Receivables		Payables
Related entities	25	22	17	12

Expenses and income from transactions with related entities No. 154

	2017	**2016**	2017	**2016**
in € millions		Expenses		Income
Related entities	85	84	129	168

Receivables from transactions with related entities include EUR 25 m (prior year: EUR 22 m) in trade receivables.

5.7 Auditors' fees

Schaeffler AG incurred the following fees for services rendered by the global network of KPMG and KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG):

Auditors' fees No. 155

	2017	**2016**	2017	**2016**
in € millions		KPMG		thereof KPMG AG
Financial statement audit services	6.9	6.4	4.0	3.7
Other attestation services	0.3	0.1	0.2	0.1
Tax advisory services	1.7	1.3	1.6	1.0
Other services	0.1	0.5	0.0	0.4
Total	**9.0**	**8.3**	**5.8**	**5.2**

KPMG AG is considered Schaeffler AG's auditor. The fees paid to KPMG AG related to services rendered to Schaeffler AG and its German subsidiaries.

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 pursuant to section 161 of the German Stock Corporations Act ("Aktiengesetz" –AktG) in December 2017 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 net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2017.

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. 156

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (50)			
AS Auslandsholding GmbH [2]	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH	Starnberg	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG [1] [4]	Buehl	DE	100.00
Dürkopp Maschinenbau GmbH [2]	Schweinfurt	DE	100.00
Egon von Ruville GmbH [2]	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG [1] [4]	Schweinfurt	DE	100.00
FAG Industrial Services GmbH [2]	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH [2]	Schweinfurt	DE	100.00
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH - AMUS [2]	Homburg	DE	100.00
IAB Grundstücks-verwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH [2]	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH [2]	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics AG & Co. KG [1] [4]	Suhl	DE	100.00
INA Automotive GmbH [2]	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH [2]	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Bühl mbH [2]	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2]	Herzogenaurach	DE	100.00
KWK Verwaltungs GmbH	Langen	DE	100.00
LuK Auslandsholding GmbH [2]	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH [2]	Buehl	DE	100.00
LuK GmbH & Co. KG [1] [4]	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG [1] [4]	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG [1] [4]	Unna	DE	100.00
LuK Vermögens-verwaltungsgesellschaft mbH [2]	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschäftigung GmbH [2]	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG [1] [4]	Langen	DE	100.00
Schaeffler Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs-verwaltungs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG [1] [4]	Herzogenaurach	DE	100.00
Schaeffler Engineering GmbH [2]	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH [2]	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 [1] [4]	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG [1] [4]	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH [2]	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH [2]	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 [1] [4]	Herzogenaurach	DE	100.00
II. Foreign (101)			
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
Schaeffler Schweiz GmbH	Romanshorn	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 (Xiangtan) Co., Ltd.	Xiangtan	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
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Production CZ s.r.o.	Lanskroun	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 Greece Automotive and Industrial Products and Services M.E.P.E.	Athen	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
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Hosur	IN	100.00
Schaeffler India Ltd.	Mumbai	IN	51.33
INA Invest S.r.l.	Momo	IT	100.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Water Pump Bearing 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
SIA “Schaeffler Baltic”	Riga	LV	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
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
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler 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	100.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Caracas	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	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [4]	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00

II. Foreign (2)

Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00

C. Unconsolidated entities
I. Germany (4)

autinity systems GmbH [3) 5) 6)]	Chemnitz	DE	33.34
afr-consulting GmbH [3) 5)]	Chemnitz	DE	100.00
Schaeffler Consulting GmbH [3)]	Herzogenaurach	DE	100.00
Schaeffler Bio-Hybrid GmbH [3)]	Herzogenaurach	DE	100.00

II. Foreign (1)

Schaeffler SR d.o.o. [3)]	Belgrade	RS	100.00

1) Exemption under section 264b HGB.
2) Exemption under section 264 (3) HGB.
3) The company is insignificant to the results of operations, financial position, and net assets of the Schaeffler Group as at the reporting date.
4) Schaeffler AG or another consolidated entity is the general partner.
5) The company was acquired on October 04, 2017.
6) The company holds 66.66% as treasury shares.

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, Andrea Grimm* (since April 08, 2017), Norbert Lenhard*, Dr. Siegfried Luther, Dr. Reinold Mittag*, Barbara Resch*, 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 member left the Supervisory Board in 2017

Yvonne Münch* (until March 07, 2017)

Supervisory Board committees

Mediation committee

Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Maria-Elisabeth Schaeffler-Thumann, 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), Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, and Maria-Elisabeth Schaeffler-Thumann

Members of the Board of Managing Directors

Klaus Rosenfeld (Chief Executive Officer), Prof. Dr.-Ing. Peter Gutzmer (Deputy CEO and Chief Technology Officer), Dietmar Heinrich (Chief Financial Officer; since August 01, 2017), Oliver Jung (Chief Operating Officer), Prof. Dr. Peter Pleus (CEO Automotive OEM), Corinna Schittenhelm (Chief Human Resources Officer), Michael Söding (CEO Automotive Aftermarket; since January 01, 2018), Dr. Stefan Spindler (CEO Industrial), Matthias Zink (CEO Automotive OEM)

The following member left the Board of Managing Directors in 2017

Dr. Ulrich Hauck (Chief Financial Officer; until July 31, 2017)

* Employee representative.

5.12 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 19, 2018, 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 19, 2018

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Matthias Zink

Independent Auditors’ Report

To Schaeffler AG; Herzogenaurach

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Schaeffler AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Schaeffler AG for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the corporate governance statement which are included in the Corporate Governance section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditors’ report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recognition and Measurement of Restructuring Provisions

For the Company's accounting and valuation methods used, please refer to Note 1.3. The valuation principles are described in Note 4.12.

The risk to the financial statements Schaeffler AG recognized restructuring provisions of EUR 46 million in its consolidated financial statements as of December 31, 2017.

Restructuring provisions must be recorded if certain criteria for recognition are met under IFRS. The recognition criteria and valuation are largely based on assessments and assumptions from legal representatives. Therefore there exists a risk to the financial statements that the criteria for the recognition of restructuring provisions have not been met or that they are assessed incorrectly.

Our audit approach Our audit procedures included an assessment of whether the criteria for recognition of the restructuring provisions were met as of December 31, 2017. In this respect, we reviewed the restructuring plan of the Executive Board, Group Accounting and the Head of Financial Strategy, Processes and Infrastructure, and also reviewed relevant Executive Board Meetings minutes. In addition, we reviewed corporate communications and the minutes of discussions with the employee representatives, as well as the minutes of each Supervisory Board meeting.

Subsequently, we inquired of the Management Board and Corporate Accounting as to the assumptions underlying the valuation of the restructuring provisions. In doing so, we assessed the restructuring plan in terms of locations, functions, number of employees, as well as expenditures and timing of implementation, and recalculated the provisions based on the documentation provided using the estimates derived from personnel data.

Our conclusions The criteria for recognition of restructuring provisions were met. The assumptions used by management in the valuation of the restructuring provisions are appropriate.

First-time Presentation of Sale of Receivables

For the Company's accounting and valuation methods used, please refer to Note 1.3. The valuation principles are described in Note 4.5.

The risk to the financial statements Schaeffler AG introduced an asset-backed commercial paper program during 2017. As of December 31, 2017, they have sold and partially de-recognized trade receivables with a nominal value of EUR 150 million. In our opinion, this issue is of particular importance since the relevant IFRS regulations are complex and discretionary. Risks to the financial statements relate to the assessment of the de-recognition criteria, as well as the underlying assumptions. There is also the risk that the related disclosures in the notes of the consolidated financial statements are inadequate.

Our audit approach In order to ensure an accurate presentation of the asset-backed commercial paper program, we first assessed the structure of the program itself and then assessed the de-recognition criteria and the underlying assumptions. We involved KPMG financial and treasury management specialists to assist the audit team in these assessments. Finally, we evaluated whether the presentation and related disclosures in the notes are appropriate.

Our conclusions We found the de-recognition criteria and the assumptions used by management to be appropriate. The disclosures related to the asset-backed commercial paper program are also appropriate.

Completeness and Valuation of Provisions for Compliance Investigations

For the Company's accounting and valuation methods used, please refer to Note 1.3. The valuation principles are described in Note 4.12.

The risk to the financial statements As of December 31, 2017, Schaeffler AG recorded provisions of EUR 55 million for potential claims in connection with ongoing investigations into antitrust violations and compliance cases.

A provision for compliance violations should be recognized when the entity has a present obligation as a result of a past event, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and for which a reliable estimate can be made. The amount of the provision to be recognized is determined by using the best estimate. The recognition and valuation of the compliance provisions is therefore based on discretionary assessments of the Executive Board.

There exists a risk for the consolidated financial statements that the provisions are not complete.

Our audit approach In order to assess the appropriateness of the provisions, we obtained explanations for the estimates from the entity's external legal counsel, management, and in-house legal counsel. In particular, we performed the following:

- Assessed the likelihood of the claim by inspecting underlying documents; inquired of legal representatives, corporate accounting, corporate compliance, and in-house legal counsel; as well as obtained legal confirmations from Schaeffler AG's external counsel.
- Examined correspondence from relevant authorities, as well as evaluated underlying documents and protocols; and
- Assessed the reasonableness of the critical assumptions and the methodology of the calculation.

Our conclusions The assessments and assumptions made by management are sufficiently documented and substantiated. The assumptions made by management are appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the non-financial statement and the corporate governance statement, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditors' report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditors' report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on April 26, 2017. We were engaged by the supervisory board on June 22, 2017. We have been the group auditor of Schaeffler AG without interruption since the financial year 2015.

We declare that the opinions expressed in this auditors' report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to the consolidated financial statements, we audited the annual financial statements of Schaeffler AG and conducted various annual financial statements audits at subsidiaries. We performed a review of interim financial statements, as well as audited parts of the internal control system (ICS). In addition, we audited the combined separate non-financial consolidated information of the Management Report of Schaeffler AG as well as performed statutory or contractual audits; for example: audits in accordance with the EEG, EMIR audits in accordance with section 20 WpHG and confirmations of compliance with contractual conditions. We also provided tax advice to certain employees of Schaeffler AG in connection with their relocation to foreign subsidiaries of Schaeffler AG.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Angelika Alt-Scherer

Munich, February 20, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Alt-Scherer Wirtschaftsprüferin	gez. Koeplin Wirtschaftsprüfer

* This auditor's report, prepared in accordance with § 322 HGB ["Handelsgesetzbuch": "German Commercial Code"], refers to the complete consolidated financial statements, comprising the income statement (Gewinnund Verlustrechnung), statement of comprehensive income (Gesamtergebnisrechnung), statement of financial position (Bilanz), statement of cash flows (Kapitalflussrechnung), statement of changes in equity (Eigenkapitalveränderungsrechnung) and notes (Anhang), together with the group management report of Schaeffler AG for the financial year from January 1 to December 31, 2017. The group management report is not included in this Offering Memorandum. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Audited unconsolidated financial statements of IHO Verwaltungs GmbH as of and for the fiscal year ended December 31, 2018, prepared in accordance with German GAAP

IHO Verwaltungs GmbH, Herzogenaurach
Fuerth Local court No. HRB 14734

Balance Sheet as at December 31, 2018

A s s e t s

	12/31/2018		12/31/2017	
	EUR	EUR	EUR	EUR
A. Fixed assets				
Long-term financial assets				
1. Shares in affiliated companies		4.706.379.127,39		4.706.379.127,39
2. Loans receivable from affiliated companies		880.000.000,00		880.000.000,00
– from entities to which the company is linked by equity ownership EUR 880,000,000.00 (prior year: EUR 880,000,000.00) –				
3. Financial investments		5.420.972.576,31		5.420.972.576,31
4. Long-term financial assets		5.195.941,57		5.064.954,68
		11.012.547.645,27		**11.012.416.658,38**
B. Current financial assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	7.469.515,59		31.088,92	
2. Other assets	38.799.154,19	46.268.669,78	41.696.213,89	41.727.302,81
– due in more than one year EUR 1,399,178.81 (prior year: EUR 21,166,344.57) –				
– due in uo to one year EUR 37,399,975.38 (prior year: EUR 20,529,869.32) –				
– from entities to which the company is linked by equity ownership EUR 11,048,888.89 (prior year: EUR 11,048,888.89) –				
II. Cash at banks		511.721.802,28		577.152.299,94
		557.990.472,06		**618.879.602,75**
C. Prepaid expenses and deferred charges		**184.112,00**		**165.227,33**
D. Excess of plan assets over post-employment benefit liability		**3.244.401,00**		**8.170.697,23**
		11.573.966.630,33		**11.639.632.185,69**

Equity and liabilities

	12/31/2018	12/31/2017
	EUR	EUR
A. 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	4.129.573.840,73	4.789.573.840,73
IV. Retained earnings	1.832.036.772,68	1.309.068.260,39
V. Net income for the year	537.374.162,88	522.968.512,29
	7.065.949.260,51	**7.188.575.097,63**
B. Provisions		
1. Provisions for pensions and similar obligations	6.080.477,35	7.630.472,45
2. Tax provisions	35.832.296,75	57.434.490,29
3. Other provisions	120.848,40	77.298,43
	42.033.622,50	**65.142.261,17**
C. Liabilities		
1. Issued bonds – due in more than one year EUR 3,585,113,484.66 (prior year: EUR 3,585,113,484.66) –	3.585.113.484,66	3.585.113.484,66
2. Bank debt – due in up to one year EUR 7,436,236.42 (prior year: EUR 0.00) – – due in more than one year EUR 750,000,000.00 (prior year: EUR 600,000,000.00) –	757.436.236,42	600.000.000,00
3. Trade payables – due in up to one year EUR 0.00 (prior year: EUR 4,032.69) –	0,00	4.032,69
4. Amounts payable to affiliated companies – due in up to one year EUR 218,241.00 (prior year: EUR 347,446.40) –	218.241,00	347.446,40
5. Other liabilities – due in up to one year EUR 22,207,226.19 (prior year: EUR 21,835,178.94) – – including taxes of EUR 3,615.83 (prior year: EUR 3,588.93) –	22.207.226,19	21.835.178,94
	4.364.975.188,27	**4.207.300.142,69**
D. Deferred income	**15.510.359,90**	**18.377.190,50**
E. Deferred tax liabili ties	**85.498.199,15**	**160.237.493,70**
	11.573.966.630,33	**11.639.632.185,69**

F. The difference between the amount recognized for the provision for pensions and similar obligations based on the relevant average market interest rate for the past ten years and the amount that would have been recognized based on the relevant average market interest rate for the past seven years amounts to EUR 5,701,415.00 (prior year: EUR 5,035,309.00).

The company is consolidated in the consolidated financial statements of !NA-Holding Schaeffler GmbH & Co.KG, Herzogenaurach. This is filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Electronic Federal Gazette.

In accordance with § 291 (1) HGB, the company is exempt from the obligation to prepare consolidated financial statements. The exempting consolidated financial statement is prepared in accordance with the accounting, valuation and consolidation methods of the International Financial Reporting Standards by the European Commission.

IHO Verwaltungs GmbH, Herzogenaurach

Income Statement
for the period from January 01, 2018 to December 31, 2018

	2018	2017
	EUR	EUR
1. General administrative expenses	-2.991.855,45	-1.147.082,44
2. Other operating income	17.685.714,08	22.548.561,22
– from foreign exchange gain		
EUR 17,656,859.20 (prior year: EUR 22,542,885.22) –		
3. Other operating expenses	-2.579.639,02	-1.239.371,52
– from foreign exchange gains		
EUR 2,579,639.02 (prior year: EUR 1,239,371.52) –		
4. Income from equity investments	593.957.061,00	550.959.446,50
– from affiliated companies		
EUR 593,957,061.00 (prior year: EUR 550,959,446.50) –		
5. Income from other securities and		
Long-term loans receivable	17.600.000,00	17.600.000,00
– from affiliated companies		
EUR 17,600,000.00 (prior year: EUR 17,600,000.00) –		
6. Other interest and similar income	4.493.873,78	12.705.385,37
– from discounting/compounding		
EUR 0.00 (prior year: EUR 4,558.00) –		
– from affiliated companies		
EUR 84,573.57 (prior year: EUR 0.00) –		
7. Interest and similar expenses	-176.727.576,19	-157.607.890,69
– from discounting/compounding		
EUR 1,320,213.00 (prior year: EUR 1,912,859.62) –		
8. Income laxes	85.941.974,57	79.149.463,85
– gains from deferred laxes		
EUR 74,739,294.55 (prior year: EUR 66,342,193.24) –		
9. Earnings after income taxes	**537.379.552,77**	**522.968.512,29**
10. Other laxes	-5.389,89	0,00
11. Net income for the year	**537.374.162,88**	**522.968.512,29**

Herzogenaurach, March 29, 2019

Management of IHO Verwaltungs GmbH

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Maria-Elisabeth Schaeffler-Thumann

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Georg F.W. Schaeffler

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Klaus Rosenfeld

....
Klaus Deißenberger

Independent Auditor's Report

To IHO Verwaltungs GmbH, Herzogenaurach

Opinions

We have audited the annual financial statements of IHO Verwaltungs GmbH, which comprise the balance sheet as of December 31, 2018 and the income statement for the financial year from January 1 to December 31, 2018.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018, in compliance with German legally required accounting principles and the reporting relief for micro-entities pursuant to Section 264 (1) sentence 5 HGB.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements.

Basis for the Opinions

We conducted our audit of the annual financial statements in accordance with Section 317 HGB and German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements.

Responsibilities of Management for the Annual Financial Statements

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles and the reporting relief for micro-entities pursuant to Section 264 (1) sentence 5 HGB. In addition, management is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as to issue an auditor's report that includes our opinions on the annual financial statements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles and the reporting relief for micro-entities pursuant to Section 264 (1) sentence 5 HGB.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, March 29, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Pritzer	Dr. Schroff
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

* The above-mentioned auditor’s report and financial statements are both translations of the respective German-language documents.

Audited unconsolidated financial statements of IHO Verwaltungs GmbH as of and for the fiscal year ended December 31, 2017, prepared in accordance with German GAAP

IHO Verwaltungs GmbH, Herzogenaurach

Fuerth Local court No. HRB 14734

Balance Sheet as at December 31, 2017

A s s e t s

	12/31/2017		12/31/2016	
	EUR	EUR	EUR	EUR
A. Fixed assets				
Long-term financial assets				
1. Shares in affiliated companies		4.706.379.127,39		4.706.379.127,39
2. Loans receivable from affiliated companies		880.000.000,00		880.000.000,00
– from entities to which the company is linked by equity ownership EUR 880,000,000.00 (prior year: EUR 880,000,000.00) –				
3. Financial investments		5.420.972.576,31		5.420.972.576,31
4. Long-term financial assets		5.064.954,68		4.937.787,26
		11.012.416.658,38		**11.012.289.490,96**
B. Current financial assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	31.088,92		696.383,14	
2. Other assets	41.696.213,89	41.727.302,81	40.697.673,74	41.394.056,88
– due in more than one year EUR 21,166,344.57 (prior year: EUR 16,943,978.75) –				
– due in up to one year EUR 20,529,869.32 (prior year: EUR 23,753,694.99) –				
– from entities to which the company is linked by equity ownership EUR 11,048,888.89 (prior year: EUR 4,840,000.00) –				
II. Cash at banks		577.152.299,94		25.959.166,72
		618.879.602,75		**67.353.223,60**
C. Prepaid expenses and deferred charges		**165.227,33**		**43.675,00**
D. Excess of plan assets over post-employment benefit liability		**8.170.697,23**		**7.244.688,00**
		11.639.632.185,69		**11.086.931.077,56**

Equity and liabilities

			12/31/2017	12/31/2016
			EUR	EUR
A.	**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**	4.789.573.840,73	4.789.573.840,73
	IV.	**Retained earnings**	1.309.068.260,39	842.266.797,25
	V.	**Net income for the year**	522.968.512,29	466.801.463,14
			7.188.575.097,63	**6.665.606.585,34**
B.	**Provisions**			
	1.	Provisions for pensions and similar obligations	7.630.472,45	4.808.079,95
	2.	Tax provisions	57.434.490,29	106.124.771,00
	3.	Other provisions	77.298,43	539.470,00
			65.142.261,17	**111.472.320,95**
C.	**Liabilities**			
	1.	Issued bonds – due in more than one year EUR 3,585,113,484.66 (prior year: EUR 3,585,113,484.66) –	3.585.113.484,66	3.585.113.484,66
	2.	Bank debt – due in more than one year EUR 600,000,000.00 (prior year: EUR 425,000,000.00) –	600.000.000,00	425.000.000,00
	3.	Trade payables – due in up to one year EUR 4,032.69 (prior year: EUR 4,032.69) –	4.032,69	4.032,69
	4.	Amounts payable to affiliated companies – due in up to one year EUR 347,446.40 (prior year: EUR 163,318.00) –	347.446,40	163.318,00
	5.	Other liabilities – due in up to one year EUR 21,835,178.94 (prior year: EUR 51,747,627.88) – – including taxes of EUR 3,615.83 (prior year: EUR 3,588.93) – – relating to social security EUR 0.00 (prior year: EUR 138.57) –	21.835.178,94	51.747.627,88
			4.207.300.142,69	**4.062.028.463,23**
D.	**Deferred income**		**18.377.190,50**	**21.244.021,10**
E.	**Deferred tax liabili ties**		**160.237.493,70**	**226.579.686,94**
			11.639.632.185,69	**11.086.931.077,56**

The difference between the amount recognized for the provision for pensions and similar obligations based on the relevant average market interest rate for the past ten years and the amount that would have been recognized based on the relevant average market interest rate for the past seven years amounts to EUR 5,035,309.00 (prior year: EUR 4,177,008.00).

The company is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach. This is filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Electronic Federal Gazette.

In accordance with § 291 (1) HGB, the company is exempt from the obligation to prepare consolidated financial statements. The exempting consolidated financial statement is prepared in accordance with the accounting, valuation and consolidation methods of the International Financial Reporting Standards by the European Commission.

IHO Verwaltungs GmbH, Herzogenaurach

Income Statement

for the period from January 01, 2017 to December 31, 2017

	2017	2016
	EUR	EUR
1. General administrative expenses	-1.147.082,44	-7.989.086,72
2. Other operating income	22.548.561,22	5.576.381,63
– from foreign exchange gain		
EUR 22,542,885.22 (prior year: EUR 757,274.05) –		
3. Other operating expenses	-1.239.371,52	-261.406,82
– from currency losses		
EUR 1,239,371.52 (prior year: EUR 248,521.51) –		
4. Income from equity investments	550.959.446,50	514.964.217,50
– from affiliated companies		
EUR 550,959,446.50 (prior year: EUR 514,964,217.50) –		
5. Income from other securities and Long-term loans receivable	17.600.000,00	4.840.000,00
– from affiliated companies		
EUR 17,600,000.00 (prior year: EUR 4,840,000.00) –		
6. Other interest and similar income	12.705.385,37	3.626.358,21
– from discounting/compounding		
EUR 4,558.00 (prior year: EUR 0.00) –		
– from affiliated companies		
EUR 0.00 (prior year: EUR 2,244,127.84) –		
7. Interest and similar expenses	-157.607.890,69	-125.577.011,69
– from discounting/compounding		
EUR 1,912,859.62 (prior year: EUR 5,481,499.00) –		
– from affiliated companies		
EUR 0.00 (prior year: EUR 50,742,128.72) –		
8. Income taxes	79.149.463,85	71.622.011,03
– gains from deferred tax		
EUR 66,342,193.24 (prior year: EUR 71,622,011.03) –		
9. Earnings after income taxes	**522.968.512,29**	**466.801.463,14**
10. Net income for the year	**522.968.512,29**	**466.801.463,14**

Herzogenaurach, April 12, 2018

Management of IHO Verwaltungs GmbH

....
Maria-Elisabeth Schaeffler-Thumann

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Georg F.W. Schaeffler

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Klaus Rosenfeld

....
Klaus Deißenberger

Auditor's report

To IHO Verwaltungs GmbH, Herzogenaurach

We have audited the annual financial statements, comprising the balance sheet and the income statement, together with the bookkeeping system, of IHO Verwaltungs GmbH, Herzogenaurach, for the financial year from January 1 to December 31, 2017. The maintenance of the books and records and the preparation of the annual financial statements, which were prepared using the reporting simplifications for micro-entities in accordance with German commercial law, are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code [HGB] and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the Company's business activities and the economic and legal environment and expectations as to possible misstatements are taken into account when determining audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records and the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of IHO Verwaltungs GmbH, Herzogenaurach, in accordance with German principles of proper accounting using the reporting simplifications for micro-entities.

Munich, April 13, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Pritzer Wirtschaftsprüfer [German Public Auditor]	Dr. Schroff Wirtschaftsprüfer [German Public Auditor]

* The above-mentioned auditor’s report and financial statements are both translations of the respective German-language documents.

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