SCHAEFFLER

Annual Report 2011

Schaeffler AG

LuK INA FAG

Key figures

No. 001

in € millions	2011	2010	Change	
Income statement				
Revenue	10,694	9,495	12.6	%
EBITDA	2,243	2,097	7.0	%
· in % of revenue	21.0	22.1	-1.1	%-pts.
EBIT	1,689	1,509	180	€ millions
· in % of revenue	15.8	15.9	-0.1	%-pts.
Net income [1]	889	63	826	€ millions

in € millions	12/31/2011	12/31/2010	Change	
Statement of financial position				
Total assets	12,989	13,344	-2.7	%
Shareholders' equity [2]	1,714	3,341	-1,627	€ millions
· in % of total assets	13.2	25.0	-11.8	%-pts.
Net financial debt [3]	6,668	5,711	16.8	%
· Financial debt to EBITDA ratio	3.0	2.7		
Capital expenditures [4]	846	386	460	€ millions

in € millions	2011	2010	Change	
Statement of cash flows				
Cash flows from operating activities	1,084	890	194	€ millions
Free cash flow	319	566	-247	€ millions
Employees				
Number of employees	74,031	67,509	9.7	%

[1] Attributable to shareholders of the parent company.
[2] Including non-controlling interests.
[3] Excluding shareholder loans.
[4] Including non-cash additions to property, plant and equipment during the reporting period.

Automotive

in € millions	2011	2010	Change	
Revenue	7,160	6,325	13.2	%
EBITDA	1,449	1,391	4.2	%
· in % of revenue	20.2	22.0	-1.8	%-pts.
EBIT	1,074	990	84	€ millions
· in % of revenue	15.0	15.7	-0.7	%-pts.

Prior year information presented based on 2011 segment structure.

Industrial

in € millions	2011	2010	Change	
Revenue	3,462	3,002	15.3	%
EBITDA	794	706	12.5	%
· in % of revenue	22.9	23.5	-0.6	%-pts.
EBIT	615	519	96	€ millions
· in % of revenue	17.8	17.3	0.5	%-pts.

Prior year information presented based on 2011 segment structure.

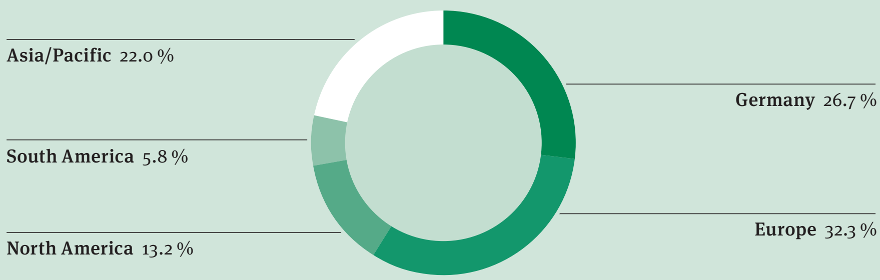
2011 in numbers

Revenue
in € millions

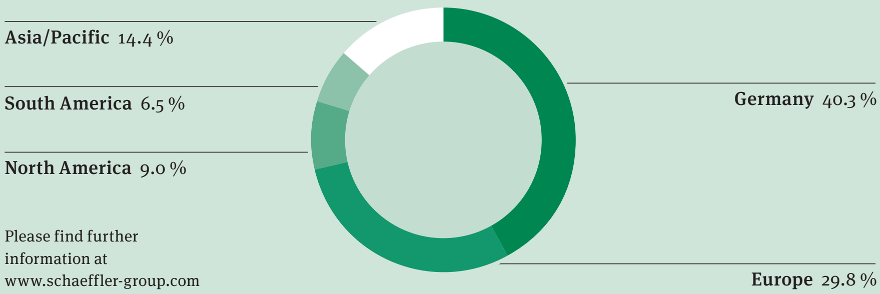
Earnings before financial result and income taxes (EBIT)
in € millions

[1] Figures taken from consolidated financial statements of IHO Group, defined as the consolidated group with the parent company INA-Holding Schaeffler GmbH & Co. KG.
[2] Schaeffler Group

Revenue 2011 by region
(in percent by market view)



Headcount 2011 by region
(Averages in percent)



Please find further information at www.schaeffler-group.com

Regional presence

Schaeffler is present at 150 locations in over 50 countries.

Germany
Schaeffler has numerous production plants and research and development facilities in Germany. Schaeffler AG's corporate headquarters are located in Herzogenaurach in Northern Bavaria.

Europe
In addition to its large production sites in Western Europe – primarily in France, Italy and Spain – Schaeffler has important manufacturing plants in Eastern Europe.

Asia/Pacific
Schaeffler has been well established in Asia for many years. The company's regional headquarters are in Shanghai in the People's Republic of China. In addition, with its own locations, particularly its large production sites, in Korea, Japan, Taiwan, the Philippines, Malaysia, Vietnam, Thailand, Singapore, Indonesia, Australia and India, Schaeffler is present throughout the entire region.

North America
Schaeffler Group USA Inc.'s regional headquarters are located in Fort Mill, South Carolina. In addition to six production plants in South Carolina, the company has further locations in Michigan, Ohio, Connecticut, Missouri, Canada, and Mexico.

South America
Schaeffler has been present in South America for over 50 years. The company's regional headquarters are based in Sorocaba, Brazil.

No. 002

Overview	Germany	Europe	Asia/Pacific	North America	South America
Revenue	2,856	3,452	2,349	1,409	628
Employees	29,443	22,004	11,181	6,781	4,622
Production plants	24	19	13	12	2
R&D facilities	13	9	10	7	1

Company profile

Schaeffler AG develops and manufactures precision products for all applications with moving technology – in machinery, plants and motor vehicles. We provide our customers with customized solutions that help them move the world – around the world.

Automotive

Schaeffler supplies technologically and economically sophisticated solutions for a wide variety of requirements of the automotive industry. Our broad portfolio of products includes components for vehicles with internal combustion engine-based drive trains and solutions for hybrid vehicles and ranges all the way to purely electric driving. With its innovative ideas, creative engineering and comprehensive manufacturing expertise, Schaeffler collaborates with its customers in developing solutions starting at the product development phase and continuing through to mass production. Our Automotive Aftermarket operates in the replacement parts business worldwide.

Revenue 2011: EUR 7,160 m
(prior year: EUR 6,325 m)


Engine


Transmission


Chassis

Automotive Aftermarket

Industrial

Customers from around 60 different industrial sectors place their trust in our Industrial division's wide range of products. Working closely with its customers, Schaeffler develops bearing solutions for countless applications that are perfectly tailored to the customer's specific requirements. The spectrum ranges from high-precision bearings only a few millimeters in size, rotating at speeds of several hundred thousand revolutions per minute for machine tools to large heavyweights over four meters in diameter for tunnel boring machines or wind turbines. In addition, we offer a diverse product portfolio via our catalog business. Schaeffler's Industrial Aftermarket is responsible for the worldwide service business.

Revenue 2011: EUR 3,462 m
(prior year: EUR 3,002 m)


Aerospace


Consumer products / motorcycles


Heavy industries


Production machinery


Wind power


Power transmission


Railway


Power generation


Hydraulics and pneumatics

Industrial Aftermarket

Contents

Consolidated financial statements

Notes to the consolidated financial statements

Additional information

Important events in 2011

Q1

Schaeffler presents a wide range of innovations at NAIAS 2011 in Detroit

Schaeffler presented selected elements of its comprehensive portfolio of products for engine, transmission and chassis applications at the North American International Auto Show (NAIAS) in Detroit. The exhibits demonstrated solutions for optimizing and hybridizing the drive train, a step now also being taken in America.

Schaeffler and Continental hold joint "Premium Supplier Day"

On the occasion of the first joint Premium Supplier Day, Schaeffler and Continental named twelve suppliers "Premium supplier" and strengthened their strategic cooperation at the same time.

Schaeffler reduces debt and creates flexibility for further strategic development

As part of the refinancing package agreed with its lending banks, the group's parent, Schaeffler Holding reduced its debt by EUR 2.8 billion from EUR 7.4 billion to EUR 4.6 billion. The reduction in debt was made possible by the sale of Continental shares from the portfolio of private banks M.M.Warburg and Bankhaus Metzler to a broad range of international investors.

Schaeffler Industrial at HMI 2011

Rolling and plain bearing solutions, linear and direct drive technology, as well as mechatronic components not only for increasing efficiency and conserving resources but also for higher performance and reliability were Schaeffler Industrial's focus at the 2011 Hanover Fair.

ACTIVeDRIVE – Electric vehicle with active torque distribution

With its ACTIVeDRIVE, Schaeffler presented a concept vehicle for electric mobility which completes its trio of prototype vehicles for the company's vision of modern automobility.

Q2

Schaeffler emphasizes leadership in innovation

Schaeffler once again proved its innovative strength by filing 1,641 patent applications in 2010, an increase of nearly 10 % compared with the previous year. Schaeffler now ranks 4th in Germany in terms of number of applications.

Award-winning innovation for lower CO_2 emissions in motor vehicles

Schaeffler's lightweight balancer shaft with rolling bearing supports won the PACE Award in the "Product" category. This award, which has been presented annually by Automotive News magazine in cooperation with audit and consulting firm Ernst & Young and the Transportation Research Center (TRC) since 1994, honors outstanding product innovations of automotive suppliers.

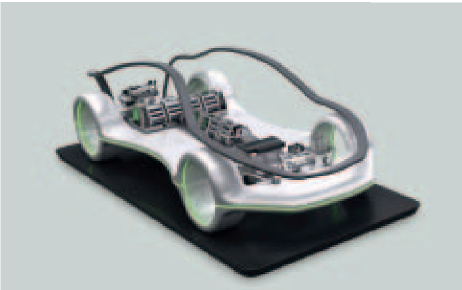
Chinese Minister of Science and Technology visits Schaeffler

China's Minister of Science and Technology, Professor Dr Wan Gang, paid a visit to Schaeffler AG's headquarters in Herzogenaurach on May 27 during his three-day tour of Germany. In addition to activities relating to renewable energy, Professor Dr Wan Gang was able to gain an insight into the status of Schaeffler's developments in future-oriented sectors such as electric mobility.

Q3

Schaeffler pursues holistic approach to electric mobility

Schaeffler is bundling its numerous activities relating to electric mobility in an eMobility Systems division, pursuing a holistic approach that integrates the expertise of the Automotive division with that of the Industrial division.



Schaeffler presents its broad expertise in efficient mobility at IAA

Schaeffler presented two concept studies at the 2011 IAA under the slogan “efficient future mobility”. The two exhibits called “advanced Drive” and “eSolutions” provided detailed insight into Schaeffler’s extremely varied product range for energy-efficient and forward-looking mobility.

Maria-Elisabeth Schaeffler receives EcoGlobe 2011 award for Personality of the Year

The EcoGlobe Institute of Duisburg-Essen University presented Maria-Elisabeth Schaeffler with the 2011 EcoGlobe for Personality of the Year. The award honored the achievements in business and the cultural and social commitment of Mrs. Schaeffler, shareholder of Schaeffler AG, vice chairperson of the supervisory board of Schaeffler AG and member of the supervisory board of Continental AG.

Q4

Schaeffler Audi is 2011 DTM champion

Third place is all Martin Tomczyk needed during the penultimate race of the season in Valencia on October 2. With a 13-point lead, none of the other drivers could catch up with Tomczyk and he became the 2011 DTM champion in Hockenheim in the Schaeffler Audi. Schaeffler can look back on a long tradition in motorsports. The company has successfully sponsored various disciplines in motorsports since the 1980s.

Conversion of Schaeffler GmbH to Schaeffler AG completed

The conversion of Schaeffler GmbH to a stock corporation (Schaeffler AG) authorized in September became effective upon its entry in the Commercial Register on October 13.

Schaeffler officially opens office in Berlin

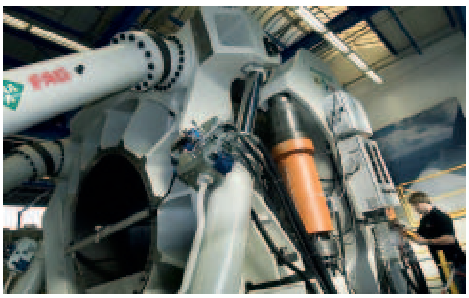
In the presence of the Federal Minister of Transport, Dr Peter Ramsauer (CSU), and numerous members of government, Dr Juergen M. Geissinger, CEO of Schaeffler AG, opened Schaeffler’s new offices in the German capital on October 18. The office in Berlin Mitte, run by Dr Kunibert Schmidt, had already opened for business in May 2011.

Schaeffler at the Tokyo Motor Show

“Efficient future mobility” was the motto of Schaeffler’s appearance at the 2011 Tokyo Motor Show. Schaeffler showed the “advanced Drive” concept study in the Japanese city. This exhibit provided an insight into Schaeffler’s extremely varied product range for energy-efficient and forward-looking mobility using products for drive trains based on the internal combustion engine.

Schaeffler puts “Astraios” large-size bearing test rig into operation

After a design and construction phase of less than 2 years, Schaeffler officially put the world’s largest and most powerful large-size bearing test rig into operation at its Schweinfurt plant. The test rig enables large-size bearings of up to 15 tons and measuring up to 3.5 meters such as those used in wind power applications in particular to be tested in realistic conditions using a comprehensive simulation program.



Message from the shareholders

Ladies and Gentlemen,

2011 was a successful year that brought many changes for the Schaeffler Group. The most visible change was the conversion of Schaeffler GmbH to Schaeffler AG on October 13, 2011. This move provides us with more entrepreneurial flexibility and opens up additional strategic options.

The consistent development of the Schaeffler Group is characterized by the sense of responsibility and passion driving us as shareholders in our continuing commitment to our company. Maintaining the advantages and the spirit of our family-owned company now that it is a stock corporation is important to us. To us, values such as tradition, continuity, thinking and acting long-term, commitment to each other and loyalty are the foundation for the lasting sustainable success of the company. We firmly believe that the values we live by give us a significant competitive advantage in today's increasingly fast moving world. Continuity in management personnel, which characterizes our company and benefits the well-being of our more than 70,000 employees worldwide, demonstrates this fundamental belief.

Under a long-term strategy, the Schaeffler Group has been put in the hands of a responsible executive board that is committed to a comprehensive worldwide code of conduct aimed at a culture of sustainability. The executive board is responsible for enforcing the code of conduct. As a result, our company, its employees and all of its suppliers are committed to complying with high social, ecological and employment standards. Our code of conduct is based on the principles of the "Global Compact", "Corporate Social Responsibility" according to Sullivan, and the standards of "Social Accountability International". All production locations around the globe maintain an exemplary environmental management system that also involves

Maria-Elisabeth Schaeffler
Georg F. W. Schaeffler

our suppliers and all other business partners, and is being improved on an ongoing basis. It ensures that local environmental legislation is complied with and that its requirements are often exceeded.

A company is only as good as the performance of its people. That is why we consider developing our employees to be the most important investment in the Schaeffler Group's future. We emphasize development of not only technical but also social and methodical skills. We expect all employees to feel personally responsible for complying with the code of conduct and to also support their colleagues and our business partners in complying with it.

We are living up to this ambition by having an excellent ratio of trainees to employees, participating in practice-oriented degree programs, maintaining close relationships with universities and research institutions, and offering a wide range of opportunities for continuing professional education. Schaeffler has geared all of these opportunities worldwide to the needs of each location. Our plant in Irapuato, Mexico, for instance, provides young people with a vocational training program that meets the standards of the German Chamber of Commerce ("Industrie- und Handelskammer" – IHK). Investing in our employees' skills ensures maximum quality which is an absolute necessity in all our processes and products.

Since we are a family-owned company, measures to increase the satisfaction, motivation and performance of our staff are important to us. In light of this, we held a large staff party in Herzogenaurach on September 11, 2011, themed "We at Schaeffler" and attended by approximately 30,000 visitors. Another staff day in Buehl on September 25, 2011 was also very well attended.

This good response is a sign of the special commitment and mutual appreciation between shareholders, management, and staff that is demonstrated at the company's traditional events. During the year, we again celebrated a large number of employee anniversaries at many locations. For many years, these employees have helped make our company what it is today: A global, dynamic and successful technology company that is well-positioned worldwide.

Commitment to the arts and to society is also at the core of what we do. One example is the former "Fortuna Schuhfabrik" ("Fortuna Shoe Factory") in Hoechstadt, which we helped give a second lease on life as an arts center. Also, the FAG Foundation awards the Innovation Award for excellence to junior engineers and supports science and technical projects at schools in the region. In addition, our "Schaeffler Green Wind Energy" foundation, together with the Chinese wind power association CWEA, recognizes research on wind power. We accepted the recognition we received for our activities in this area, such as the EcoGlobe Award, on behalf of our employees.

We would like to sincerely thank our employees and the members of the executive board and the management of our subsidiaries for the extraordinary dedication and loyalty to our company during the past year. Together, we are creating a successful future for the Schaeffler Group.

Sincerely yours,

Maria-Elisabeth Schaeffler **Georg F. W. Schaeffler**

Introduction by the Chief Executive Officer

Ladies and Gentlemen,

The year 2011 was another very successful one for Schaeffler AG. Despite the uncertain economic environment during the second half of the year, particularly in Europe, we generated revenue of EUR 10,694 m, exceeding the prior year's record level by 12.6 %. We also set a new earnings record. Our earnings before financial result and income taxes (EBIT) was EUR 1,689 m following EUR 1,509 m in the prior year, with all sectors of our two divisions Automotive and Industrial making significant contributions. At the same time, we were able to gradually improve our free cash flow during the course of the year.

The basis of this excellent success is the outstanding strategic position of Schaeffler AG. We supply tailored products and systems of the highest quality to our customers in the automotive sector and in a large number of industrial sectors. Our operating processes, which hold a leading position worldwide with respect to technology, quality and economic efficiency, are the foundation of this uncompromising focus on customer orientation.

The components and systems solutions we offer our customers meet the highest technological and quality standards. We are continually improving our processes and products in light of our ambition to achieve zero-defect results. We are developing measures to avoid errors and defects in all areas under our quality program "Fit for Quality", and are constantly reducing our already very low error rate. We are gradually expanding our "MOVE" program from increasing efficiency in our manufacturing processes, the Schaeffler production system, to process improvements in areas ranging from supply chain management all the way to optimizing our administrative functions.

In addition, we are expanding our presence in the growth regions, particularly in Asia and North America. Based on the slogan "In the region for the region", we are developing our production, development, and distribution locations in direct proximity to our customers. As part of our strategy of accessing new regional markets and customers, we are further diversifying our innovative product range and are putting more emphasis on offering consulting and engineering services. With our 150 locations worldwide, we are advising and supplying customers in more than 50 countries. We are adding to our understanding of technology and processes by collaborating extensively across units and countries. This knowledge transfer puts us in an excellent position to be able to react quickly and flexibly to new customer requirements and to anticipate future trends.

Extensive research and development turns visions into reality and is the foundation for future profitable growth. With its nearly 6,000 employees in 40 research and development centers and approximately 18,000 patents and patent applications worldwide, Schaeffler is among the most innovative companies in its industry and in Germany. We have again spent approximately 5 % of our revenue on research and development in 2011 in order to further strengthen our international competitive position. Our focus is on developing and producing high-technology and innovative components, modules and systems solutions in order to actively drive forward the fundamental trends in the automobile sector and in our many customer sectors in industry – energy efficiency, renewable energy, mechatronic systems and electric mobility. We are concentrating our expertise relating to this promising area in our "eMobility" Systems division. The Schaeffler Hybrid, our car full of ideas for electric mobility, and the ACTIVeDRIVE, our electric vehicle with active torque distribution, are only two examples of how we have established benchmarks in this field during the year.

We are combining our expertise regarding mechanical components with Continental AG's know how regarding electronics to further expand our presence in the rapidly growing mechatronics segment and to establish ourselves as a leading provider in this field. Thanks to our purchasing cooperation with Continental AG, we are realizing cost synergies for instance in purchasing processes and structures and in developing suppliers. We are planning to not only implement the procurement and supply strategies, but also to further develop standards and processes and intensify our global cooperation and networking.

Dr Juergen M. Geissinger

Against this backdrop, Schaeffler AG has again set itself challenging targets for the coming year. We want to continue growing more rapidly than the market, maintain our good profitability, and gradually improve our cash flow further. At the same time, we are aiming to further optimize our capital structure and gradually reduce our debt.

Our dedicated and highly qualified employees are the foundation of our economic success this past year and of our growth in the future. However, to us as a family-owned company, they mean much more than that. Complying with high social and environmental standards is a key component of our social responsibility, to which we are all committed. Our production locations have reached top levels in this area worldwide. We specifically support our employees and develop their awareness in this holistic sense, laying the groundwork for profitable long-term growth.

We would like to express our heartfelt gratitude to our employees for their strong commitment and dedication. On behalf of the entire executive board, I would also like to thank the supervisory board and our shareholders for a cooperation that is constructive and based on a long-term view.

Best regards

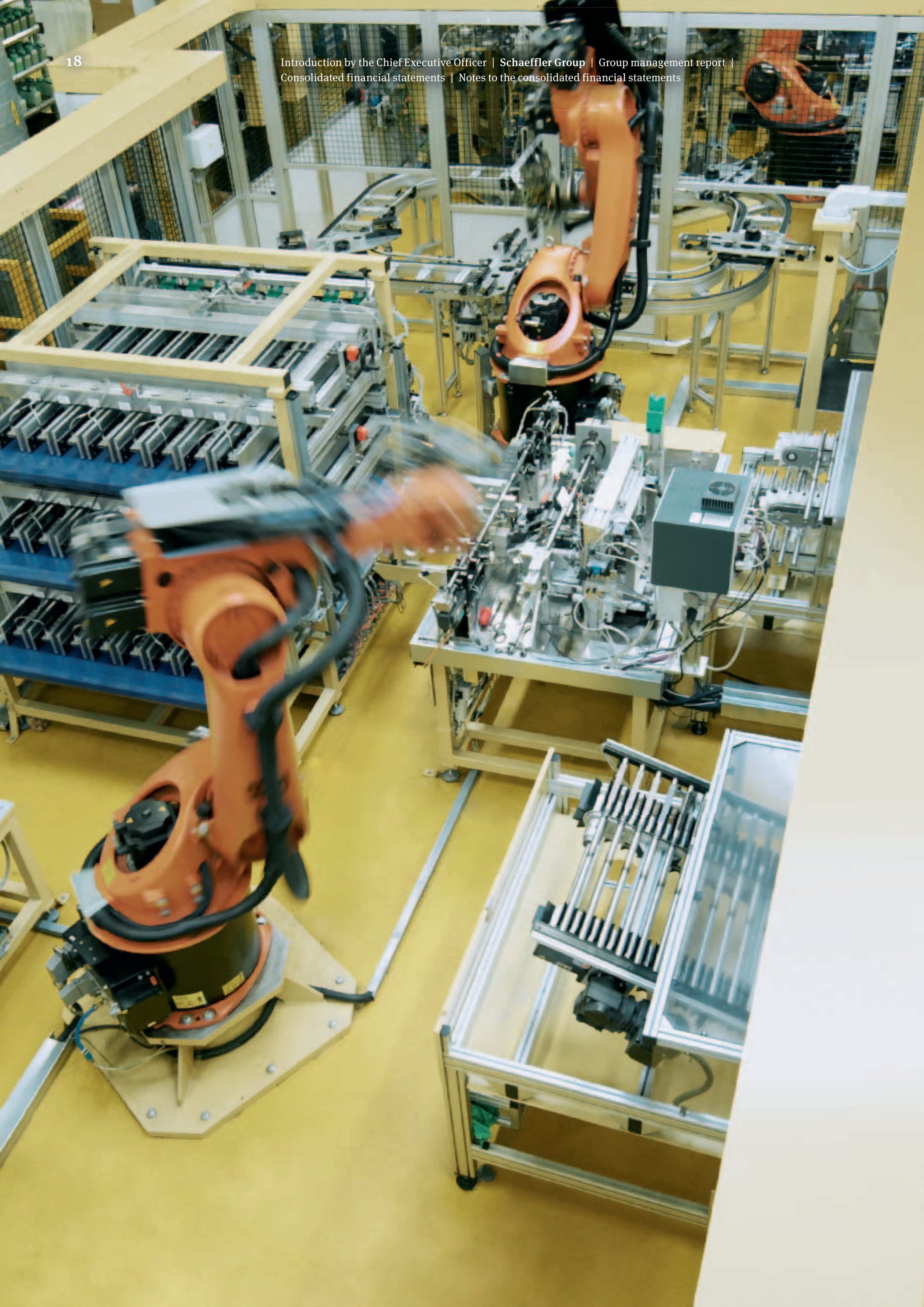
Dr Juergen M. Geissinger
Chief Executive Officer (CEO)


EFFLER

Members of the executive board, from left to right:

Rainer Hundsdoerfer, Industrial, **Professor Dr Peter Gutzmer*,** Research and Development, **Professor Dr Peter Pleus,** Engine Systems, **Oliver Jung,** Global Operations and Development of Production Methods, **Dr Gerhard Schuff,** Purchasing, **Wolfgang Dangel*,** Automotive and Chassis Systems, **Dr Juergen M. Geissinger*,** Chief Executive Officer, **Klaus Rosenfeld*,** Chief Financial Officer, **Norbert Indlekofer,** Transmission Systems, **Robert Schullan*,** Industrial, **Kurt Mirlach*,** Human Resources and Labor Relations Officer

* Member of the statutory board of directors of Schaeffler AG.



Operational excellence and quality

Our world is changing. Every day. Modern global companies have to adapt to changing conditions constantly. Schaeffler has therefore introduced an innovative and holistic principle for structuring how we work. We call it MOVE.

Operational excellence and quality

MOVE – our course to operational excellence

"Our company's objective is to offer customers the best quality on a long-term basis. This can only be achieved if we are all committed to our zero-defect principle. This principle is our benchmark."

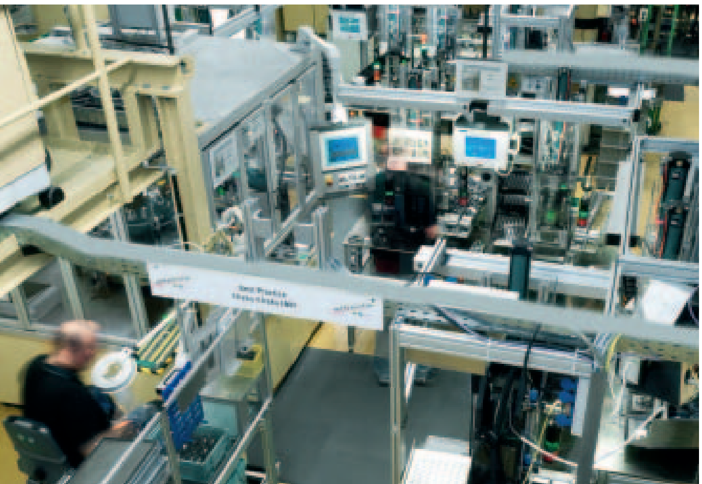
Walter Suess, Head of Quality

Our zero-defect principle: Striving for perfection and excellent quality through optimal utilization of all resources.

At Schaeffler, we have committed ourselves to the zero-defect principle and constantly apply it in manufacturing our high-quality products across the globe. We live this principle at all our production locations every day – worldwide. We have taken this principle to a new dimension throughout our company thanks to a comprehensive and innovative program we have called MOVE.

MOVE means more than processes; in our company, this acronym represents the German phrase "Mehr Ohne VErschwendung", "more without waste" in English. It stands for a holistic program to increase efficiency that puts our top priority of achieving zero-defects on a new and improved footing. MOVE sets us on our course towards perfection and excellent long-term quality by making the best possible use of all of our companies' resources.

We began implementing MOVE in 2008. What started as a promising project then is now a sophisticated system that we are proud of. We have had permanent MOVE academies in place at all our production locations since the end of 2011. They provide practical relevance that demonstrates the principle of efficiency and has quickly proved to be a great advantage.



Top left: Skalica/Slovakia,
exact component allocation for assembling.

Bottom left: Hirschaid,
MOVE assembly line according to the "Chaku-Chaku" principle.

Top right: Herzogenaurach,
MOVE academy, qualification is MOVE's main pillar.

"MOVE significantly increases the efficiency of our manufacturing processes. Our customers really appreciate that."

Oliver Jung, Member of the Executive Board Global Operations and Development of Production Methods

The Schaeffler production system, which originated from MOVE, synchronizes all processes and procedures, not only in production, but across the entire company. Work is organized based on the value stream design. Production is flow-oriented, materials are moved based on the pull principle, and production volumes are geared towards our customers' requirements. This holistic approach has led to significantly higher flexibility and considerable increases in productivity.

MOVE projects examine the potential for optimization within all segments at each location – from planning and procurement right up to production. During subsequent implementation, the results of all MOVE activities are always accessible and can be checked against defined parameters. This transparency allows everyone involved to clearly see, understand, and experience further improvements to work processes.

We put on more than 1,000 MOVE workshops worldwide and throughout our company in 2011. These workshops were held by specially-trained employees who are also responsible for ensuring that the knowledge gained in the workshops is put into practice. This brings us to the core component of MOVE: Our employee's personal responsibility.

Only those employees who personally put MOVE into practice every day can successfully pass on their knowledge of potential for more efficiency to their co-workers, thus laying the foundation for our long-term success. MOVE is our basis for safeguarding the zero-defect principle in a constantly changing world and for living up to our high standard of quality.

Market leadership and diversification

The 225,000 different products within the Industrial division, manufactured at Schaeffler locations worldwide, demonstrate the extraordinary scope of our product range. Schaeffler's industrial components are among the world's best in many segments. Our high-efficiency needle roller bearings are an example of this.

Market leadership and diversification

A detailed look at the entire system

At Schaeffler, the customer is the focus of our attention. Since we know his needs and analyze and understand the customer's entire system, we can ideally match our components to their surroundings.

Nowadays, simply continuously improving individual components is no longer sufficient. At Schaeffler, we put the customer at the center of our attention. Since we understand the customer's entire system, we can ideally match our components to their surroundings. Our customers benefit from this approach because this type of cooperation creates and maintains significant long-term advantages for them in the market.

The "added competence" concept of the production machinery business unit stands for this comprehensive understanding of the system, which extends far beyond individual components. Thus, bearings, surrounding construction, and the entire system are ideally matched to each other. This approach creates the right environment for developing balanced overall solutions that best address technical and economic needs.

Schaeffler currently produces 15,000 different needle roller bearings for a wide variety of applications. They are among the world's highest-performing needle roller bearings. Schaeffler presented the latest generation of needle roller bearings at the Hanover Fair 2011: Our X-life needle roller bearing –D has a load bearing capacity up to 25 percent higher than existing products. The high performance to weight ratio enables downsizing of machines and units while maintaining the same performance and making a significant contribution to conserving resources.

Top left: Herzogenaurach, surface technology competence center.

Top right: Lahr, employee at the external cylindrical grinding machine.

The second new development has significantly improved friction properties: The TWin Cage in our X-life needle roller bearings reduces friction by a quarter compared to conventional plastic cages, increasing efficiency. Even more impressive is the reduction in friction in our new slimline drawn cup needle roller bearings: Friction (in comparison to the plain bearings still used in transmissions for passenger cars) has been decreased by 60 percent. At Schaeffler, the prospect of making such major improvements in the interests of our customers is what motivates us every day. Our solutions for the printing industry demonstrate this.

More than 60 years ago, Dr Georg Schaeffler presented the first cage-guided needle roller bearings to the public. These bearings soon drove the increased use of rolling bearings in sheetfed offset printing machines. Thanks to its combination of high rigidity and significantly reduced

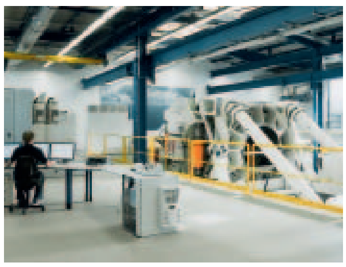
"Over 60 years ago, Dr Georg Schaeffler invented the needle roller cage and made the needle roller bearing into a reliable and cost-effective industrial product. Building on this tradition and the unabated innovative strength of our company, we continue to make improvements to the needle roller bearing today."

Dr Peter Friedrich, Head of the Needle Roller Bearing Business Unit

bearing clearance, the cage-guided needle roller bearing replaced plain bearings and significantly increased the reliability and performance of printing machines. The speed and productivity of printing machinery has increased considerably since then. While improvements have been made in speed and efficiency, our customers in the printing industry still also expect excellent print quality. In addition to INA needle roller bearings from Schaeffler, we have taken the next step: Developing high-precision multi-ring bearing units. In cooperation with its customers, Schaeffler has integrated additional printing machine functions into these bearing units. Three ring- or four ring bearing units enable us to even better meet our customers' requirements while maintaining the highest-possible level of system reliability.

However, not only a large number of different needle roller bearings are used in printing machinery; precision cam mechanisms also play a dominant role in controlling the complex functions of a printing machine in the electronic age. The wide range of yoke and stud type track rollers offered by market leader Schaeffler are indispensable for these applications. Operational safety and a particularly long operating life are key expectations in the printing industry. These criteria have also been driving further development of our yoke and stud type track rollers. With the TRIONDUR coating on their outer surface, we have brought a highly innovative solution onto the market that offers our customers significantly more wear resistance than a conventional steel-steel contact. Particularly in the event of high tribomechanical stress, such as under insufficient lubrication and dry running conditions, these innovations offer significant additional reliability – this is another response to the problems our customers in the printing industry have come to us with.

We can test big bearings, too: "Astraios" large-size bearing test rig



The Schaeffler Group has been testing on a new scale since the end of 2011. We have put the world's largest and most powerful large-size bearing test rig into operation in Schweinfurt. This is where we test our products for use in multi-megawatt wind turbines. The test rig enables bearings of up to 15 tons and measuring up to 3.5 meters to be put through their paces under realistic conditions.

Customer proximity and understanding systems

Anyone who wants to be a perfect entrepreneur has to understand more than just his own business. He has to know his customers' expectations and consistently think beyond them. That is the only way to generate the innovative customized solutions we develop at Schaeffler.

Customer proximity and understanding systems

Identifying challenges – creating solutions

Top left: Buehl, heat treatment shop, glowing crank (part of a clutch actuator), and double clutch.

Top right: double clutch.

The double clutch is one of the most complex components in modern automobiles: It comprises more than 500 individual parts. The number of carmakers and their customers who are convinced of the benefits of this highly innovative technology has grown significantly.

Together with the engine, the transmission is the core of every automobile. Accordingly, manufacturers have always paid particular attention to optimizing this key area of their vehicles. Schaeffler has always been a reliable partner providing them with an impressive range of innovations. This will also be our role in the future because we ask ourselves the same questions that our customers ask, and because we work with them to create advanced solutions.

In 2008, we set a milestone in transmission technology by launching our dry double clutches onto the market. This product is currently the key element of the most efficient type of transmission worldwide. With this double clutch, we have not only succeeded in convincing our existing

"We currently manufacture more than 150,000 dry double clutches per month and the number of customers and applications is continually growing."

Norbert Indlekofer, Member of the Executive Board Transmission Systems

customers; we have also won renowned automobile and transmission manufacturers as new customers thanks to our drive and understanding of systems. Together we have found a way to make their automobiles even more efficient: Dry clutch linings are fitted in double clutch transmissions capable of shifting gears in a flash without interrupting the tractive force. The use of this transmission results in reductions in fuel consumption of up to 10 % compared with conventional automatic transmissions. We have now delivered more than two million of these components.

This is even more remarkable considering the double clutch is one of the most complex components in modern automobiles: Including the electromechanical actuator system, the double clutch supplied by Schaeffler comprises more than 500 individual parts that we produce in close cooperation with and close proximity to our customers in our manufacturing locations across the world. The LuK hybrid damper and the dry double clutch are among the innovations that have been nominated for or have already won us awards.

In addition to the double clutch, we also supply dual mass flywheels that are specifically tailored to customers' individual requirements and round out our range of products for transmission systems. We produce engagement systems designed for double clutch transmissions, control units, and all bearing solutions specifically required for this transmission. All in all, the total number of individual parts produced by Schaeffler for a double clutch transmission amounts to over a thousand parts that are perfectly matched to each other, customized and long lasting. That is our understanding of customer service today.

Innovation and creativity

Our position as a leader in many sectors of technology is no accident. Every year, we invest in the inventive spirit of our employees. And that's paying off. For example, when we're looking for solutions to the issue of mobility in the 21st century.


SCHAEFFLER GROUP

Innovation and creativity

Electric mobility: Turning a vision into reality

We set up our eMobility Systems division in 2011 to be able to focus our activities around innovative electric mobility even more effectively in the future.

The way we drive is changing. An increasing number of alternatives to pure fossil fuel engines are now emerging. It is currently estimated that more than half of all automobiles will have an auxiliary electric drive in 2020. In addition to improving the drive train based on an internal combustion engine and developing hybrid solutions, which we consider part of our eMobility Systems division, our work also focuses on advanced solutions for electric vehicles.

"Networking knowledge at Schaeffler not only leads to more creative and higher quality solutions. It also saves time and money, both our customers' and ours."

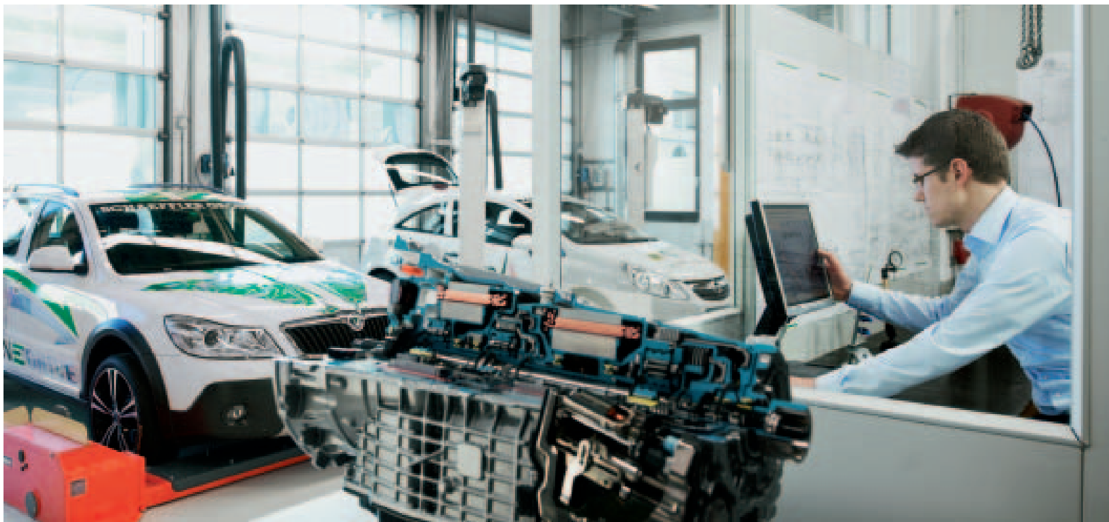
Rolf Najork, Executive Vice President Business Unit E-Mobility, Mechatronics and R&D Transmissions

The complex issue of electric mobility is attracting ever-growing interest. As a development partner and supplier, we have to and want to react to that trend. Our product range already includes numerous solutions relating to electric mobility, ranging from sensor bottom brackets for pedelecs through start-stop solutions and hybrid clutches right up to electric drives.

We presented our Schaeffler ACTIVeDRIVE concept vehicle in 2011 – an all-electric vehicle. The active electric differential mounted on its front and rear axles, which is currently a lightweight differential, is the most important innovation of the ACTIVeDRIVE. Constituting the core of the eDifferential, this lightweight differential is lighter and requires less space than conventional differentials.

Bottom left: Herzogenaurach, electric mobility workshop.

Top right: Herzogenaurach, electric mobility engine test stand.



"I think working with the best specialists throughout our company to shape the mobility of the future is not only exciting – it's also extremely effective."

Christian Weyhersmueller, Product Development Electric Axle Drives

Our eDifferential supports the steering function and has a positive effect on driving dynamics, safety and driving comfort. eDifferentials can be used to hybridize vehicles powered by an internal combustion engine, giving customers the benefits of an all-wheel drive in addition to a hybrid drive. In addition, the differential can be used in various types of vehicles – everything from sports cars and conventional automobiles to agricultural machinery.

We set up our eMobility Systems division in 2011 to be able to focus our activities around alternative drives even more effectively. In this facility, we are bringing together the expertise in electric mobility from all Schaeffler companies around the world. Several hundred engineers are collaborating here in interdisciplinary networks to develop new systems and units, and these activities are by no means limited to mobility on four wheels.

The eMobility Systems division considers itself an open concept rather than a self-contained unit: Collaboration with partners from industry and universities is not only welcomed, but considered necessary.
It cuts development times and helps obtain feedback from future users of the innovations being developed as the research progresses. By working with universities, we hope to attract highly talented graduates to our company.

Innovative strength

We spend around five percent of consolidated revenue on research and development every year. Almost 6,000 employees work in our 40 R&D centers, where they generate around 1,700 inventions annually, making Schaeffler one of the most innovative companies in Germany and in its sector.

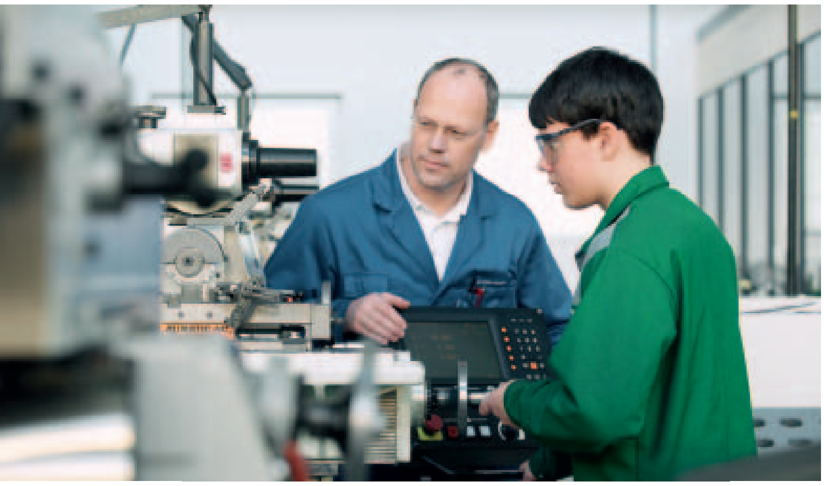
The eMobility Systems division is a pioneering strategic decision. For example, an electric axle with torque distribution between the right and left wheels will go into mass production in a few years. In addition, a hybrid module which generates considerable increases in performance by incorporating an electric module is ready for mass production now. These examples demonstrate that Schaeffler is prepared for the future, because we are using all our experience today to work on advanced solutions for tomorrow.

Employee development and commitment

Our employees are the future of our company. In addition to providing internal training and continuing education, we specifically invest in advancing and developing our employees in order to secure the company's future in the long term. That is why Schaeffler has its own globally integrated talent management process.

Employee development and commitment

Talent management: Securing our tomorrow today



Top: Herzogenaurach, training center.

Schaeffler intentionally focuses not on short-term commitments but rather on long-lasting employment relationships that only have advantages for the company and its employees.

Developing and challenging our employees is a commitment to which we have remained true throughout our company's history and which we put into practice every day. In today's climate of demographic change and growth, we face difficulties in finding the next generation of suitable, highly-qualified managers and specialists for our company, not only in Germany.

Schaeffler's Competence Center for HR Development, Recruiting, and Talent Management was set up in response to these developments several years ago, and focuses primarily on strategic talent management. The objective over the next few years is to implement measures at our locations worldwide aimed specifically at ensuring that key positions can be filled in the long term. Talent management is intentionally geared not towards short-term commitments but rather towards long-lasting employment relationships that only have advantages for the company and its employees.

Expertise and knowledge of the company are just as important as motivation for the individual employee who is both willing and able to continue to develop both in his own field and in other areas – across all locations. Our talent management process starts with forward-looking personnel planning to determine the most important needs in good time and respond to them immediately by identifying suitable personnel within the company, ideally facilitating a smooth transition.

"Our talent management is a process for identifying talented employees and developing them specifically for their intended role. This helps us develop and motivate our employees worldwide."

Kurt Mirlach, Member of the Executive Board Human Resources and Labor

Our managers have an important task in this process: They regularly meet with individual employees to discuss current qualification requirements with the aim of providing targeted continuing education measures. The employees also receive feedback from their direct superior about how these perceive their potential for development, and development measures can then be defined. These assessments of the employees' potential are then discussed by the managers from all departments within a particular sector in what we call supervisors' conferences, and are made more objective by other managers' assessments.

We make every effort to ensure that our company provides its employees with the best possible development opportunities, both nationally and internationally. Every year, around 1,000 young men and women begin their professional training at one of our companies. Our philosophy of establishing a training program at every new production location has become a success story, with half of Schaeffler's current crop of around 3,000 trainees based at one of our foreign locations.

Top: Irapuato/Mexico, Schaeffler University.

We are particularly proud of our locations in Taicang (China) and Brasov (Romania), which use the German training system and where the trainees also take the German skilled worker examination. We are equally proud of the Schaeffler University at our location in Irapuato (Mexico), where our employees are trained in three successive, clearly targeted stages. Internationality is a top priority in our training programs. Every year, we give both trainees and students on co-operative degree programs the opportunity of spending several months on a placement abroad. The response to this has been very positive and has generated significant interest among our young employees in working for our company in other countries.

Group management report

Disclaimer in respect of forward-looking statements
This management report contains forward-looking statements that are based on management's current estimation at the time of the creation of this report. Such statements refer to future periods or they are designated by terms such as "estimate", "forecast", "intend", "predict", "plan", "assume", or "expect". Forward-looking statements bear risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group. Therefore, actual results can deviate substantially from those indicated.

1. Economic environment

The global economy was shaken by several events at the beginning of the year. They included the sharp rise in the price of oil due to the unrest in the Arab countries, the earthquake in Japan, and the worsening of the debt crisis in the Euro region. While the impact of the first two events was largely overcome by mid-year, the debt crisis in the Euro region continued to create uncertainty for the rest of the year (Source: German Council of Economic Experts, November 2011).

This uncertainty, combined with the discussion about raising the debt ceiling in the United States, led to severe turbulence in the international financial markets in late July and early August. Downgraded ratings of countries and banks in the Euro region further aggravated the situation. The European Central Bank (ECB) repeatedly took action to reduce spreads and funding costs of the Euro countries affected. The worsening debt situation resulted in many economic indicators deteriorating significantly.

Overall, the global economy grew by approximately 3.8 % in 2011 (Source IMF, January 2012). Industrialized countries generated only weak economic growth. In addition, almost all industrialized countries were faced with having to significantly cut their budgets to reduce debt, which has significantly increased the risk of a recession.

The continuing robust economic development of the emerging countries, on the other hand, had a stabilizing effect on the global economy, although growth in these countries also slowed considerably. Among the reasons are a sharp decline in exports, reduced domestic economic momentum due to the end of economic incentive programs, and a tighter monetary policy.

The economy in the Euro region has weakened considerably during the year. The European economy grew by 1.6 % in 2011. The natural disaster in Japan and higher energy prices in the second quarter and the escalating debt crisis in the third quarter put a damper on the economy, although economic development again varied widely among the various member states. As in the prior year, export-oriented countries (Germany, Finland, the Netherlands, Austria) experienced above-average growth in production. Particularly in the countries on the European periphery (Greece, Portugal, Spain, Ireland), fiscal consolidation efforts added further momentum to the recessionary trend.

During the first half of the year, the German economy experienced a recovery process that offset the losses caused by the recession in 2009. However, this momentum faltered as the economic environment cooled off towards year end. An initial assessment issued by the German Federal Statistical Office puts the growth rate of the gross domestic product at 3 % for 2011.

In the U.S., the economic recovery regained momentum during the second half of the year, following an economic slowdown in early 2011. In the opinion of leading economic research institutions, this recovery appears to have warded off the danger of another recession for the time being. Gross domestic product grew by 1.8 % over the prior year in 2011.

The Japanese economy was disrupted by the earthquake and tsunami disaster in March 2011. It must be assumed that the one-time economic impact of reconstruction measures will not fully offset the adverse effect of the earthquake on gross domestic product by the end of 2011.

The developing countries in Asia, particularly China and India with economic growth rates of 9.2 % and 7.4 %, respectively, experienced the strongest economic expansion worldwide in 2011. Investment was the most important driver in China, while economic growth in India was primarily driven by private consumption.

1.1 Automotive division – development of global automobile production

The worldwide automotive market performed well in 2011. With a total of 74.8 million passenger cars and light commercial vehicles, production grew by 3.1 % from the high level of 2010 (Source: IHS Automotive, January 2012).

The 6.4 % increase in production of passenger cars and light commercial vehicles in Germany exceeded the 2.7 % growth rate experienced by Western Europe as whole. While the turmoil in the financial markets and the high commodity prices did have a considerable impact, the German automotive sector was able to more than offset that impact during the reporting period. 2011 production levels in some European countries, particularly in Italy and Spain, fell behind those of prior years.

Production in North America increased by 9.0 % to 13.1 million passenger cars and light commercial vehicles.

The Japanese automobile production slumped by 13.7 % as a result of the natural and nuclear disaster in March 2011. Automobile production in China grew by 2.5 %. India and South Korea experienced growth rates of 9.8 % and 8.5%, respectively. At 23 %, China's share of global production was nearly unchanged from the high prior year level.

1.2 Industrial division – development of global engineering and plant construction

According to the German Engineering Association ("Verband deutscher Maschinen- und Anlagenbau" (VDMA)), engineering sales worldwide grew by a very encouraging 13 % (following 17 % in the prior year) in 2011.

The engineering and plant construction sector in EU countries grew by approximately 8 % according to the VDMA, the main driver being capital expenditures on plant and machinery. The contributions made by the various countries differed widely. Germany with its growth rate of 14 % experienced a very positive trend. Investment activity in France and Sweden was also above average. Investment in Greece and Portugal decreased, as it did in Denmark and the United Kingdom.

A positive surprise amidst the overall sluggish economic environment was the engineering sector in the U.S., which also benefitted from high capital expenditures on plant and machinery, growing by 12 %.

Following the disasters in March, the Japanese manufacturing industry placed extensive orders for new machines, machine tools in particular. The engineering sector there grew by a total of around 10 %.

China remained by far the most important market worldwide for foreign machinery manufacturers. According to the VDMA, China's engineering imports have grown by 20 % to over EUR 100 billion in 2011. Machine tools, paper and textile machines were particularly in demand.

2. Earnings

2.1 Schaeffler Group earnings

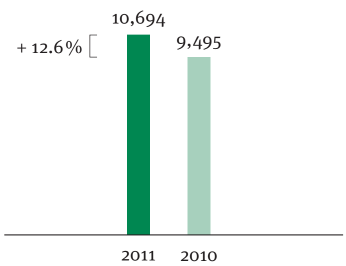
No. 003

in € millions	2011	2010	Change in %
Revenue	10,694	9,495	12.6
Cost of sales	-7,463	-6,506	-14.7
Gross profit	3,231	2,989	8.1
Functional expenses [1]	-1,628	-1,478	-10.1
EBIT	1,689	1,509	11.9
· in % of revenue	15.8	15.9	-
Financial result	-409	-1,159	64.7
Income taxes	-378	-277	-36.5
Net income [2]	889	63	> 100

[1] Selling, administration and research and development.
[2] Attributable to shareholders of the parent company.

The Schaeffler Group and its Automotive and Industrial divisions have again increased revenue significantly in 2011 while continuing to generate high quality earnings. The group was able to nearly maintain the prior year's extraordinarily high EBIT margin (EBIT: Earnings before financial result and income taxes) of approximately 15.9 % in 2011.

Revenue (Schaeffler Group)
in € millions



In 2011, revenue grew 12.6 % to EUR 10,694 m (prior year: EUR 9,495 m), setting another company record. The improvement is mainly due to the buoyant demand for the Schaeffler Group's innovative products and the start-up or ramp-up of numerous projects in the future-oriented fields of resource efficiency and environmental technology. In addition, its strong regional presence enabled the Schaeffler Group to profit particularly from the high rate of growth in the world's emerging markets. The Automotive division exceeded prior year revenue by 13.2 %, one of the reasons being the more than proportional growth rates of innovative new products. Industrial division revenue increased by 15.3 % compared to 2010. Positive mention must be made of the aftermarket, machine tools, production systems and power transmission sectors.

Cost of sales increased by 14.7 % to EUR 7,463 m (prior year: EUR 6,506 m), growing faster than revenue and, therefore, slightly decreasing gross margin by 1.3 percentage points to 30.2 % (prior year: 31.5 %).

Higher plant utilization in 2011 and ongoing improvements in efficiency as well as economies of scale were more than offset by higher raw materials prices, particularly for steel, and cost increases resulting from additional expansion of capacity. Gross profit rose by EUR 242 m from the prior year period to EUR 3,231 m (prior year: EUR 2,989 m).

Research and development expenses grew by 6.0 % to EUR 495 m (prior year: EUR 467 m) in 2011. As a percentage of the significantly increased revenue, these expenses fell slightly to 4.6 % (prior year: 4.9 %). In addition to developing numerous new applications for existing technologies, the Schaeffler Group has pushed forward its activities in additional areas related to mechatronics, renewable energy and electric mobility.

Driven by the increased volume of business in 2011, selling expenses increased by 12.4 % to EUR 725 m (prior year: EUR 645 m), primarily due to higher variable freight and logistics expenses.

EBIT rose by EUR 180 m over the prior year to EUR 1,689 m (prior year: EUR 1,509 m). The EBIT margin of 15.8 % was nearly unchanged.

The Schaeffler Group's financial result improved considerably to EUR -409 m (prior year: EUR -1,159 m), primarily driven by Schaeffler's share of the net income (loss) of equity-accounted investees of EUR 324 m (prior year: EUR -349 m) and net interest expense of EUR 733 m (prior year: EUR 810 m).

The share of net income (loss) of equity-accounted investees results almost entirely from the investment in Schaeffler Beteiligungs GmbH & Co. KG, to which the 36.14 % interest in Continental AG was transferred on September 30, 2011. This entity is accounted for under the equity method in the consolidated financial statements of the Schaeffler Group (see Note 2.1 et seq.).

Net interest expense comprises interest income of EUR 40 m (prior year: EUR 51 m) and interest expense of EUR 773 m (prior year: EUR 861 m).

Interest income of EUR 40 m relates primarily to expected returns on plan assets of funded pension plans.

In addition to interest expense on financial debt of EUR 494 m (prior year: EUR 386 m), interest expense includes interest expense of EUR 176 m (prior year: EUR 373 m) on interest rate derivatives, interest expense of EUR 86 m (prior year: EUR 84 m) relating to compounding of pensions and other provisions, and miscellaneous other financial expenses of EUR 17 m (prior year: EUR 18 m).

Interest expense on financial debt of EUR 494 m (prior year: EUR 386 m) includes primarily interest payments of EUR 395 m (prior year: EUR 282 m) for the Senior Facility Agreement and expenses of EUR 78 m (prior year: EUR 30 m) relating to transaction costs amortized over the term of the financial debt, as well as interest expense of EUR 20 m (prior year: EUR 25 m) on the annuity loan. Interest expense on interest rate derivatives of EUR 176 m (prior year: EUR 373 m) comprises EUR 170 m (prior year: EUR 252 m) in compensation payments on interest rate derivatives and EUR 75 m (prior year: EUR 91 m) in expenses arising from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009. These interest expenses were partially offset by EUR 69 m in gains (prior year: losses of EUR 30 m) arising from unrealized non-cash fair value changes of interest rate derivatives. These gains are presented in interest expense as well, since they economically relate to interest expense on the company's financial debt.

Income taxes for 2011 amounted to EUR 378 m (prior year: EUR 277 m), consisting of current tax expense of EUR 386 m (prior year: EUR 314 m) and deferred tax benefit of EUR 8 m (prior year: deferred tax benefit of EUR 37 m).

Net income after non-controlling interests was EUR 889 m following net income of EUR 63 m in the prior year.

2.2 Automotive division

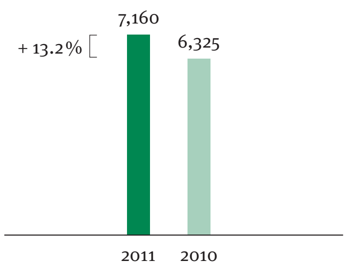
No. 004

in € millions	2011	2010	Change in %
Revenue	7,160	6,325	13.2
Cost of sales	-5,209	-4,483	-16.2
Gross profit	1,951	1,842	5.9
EBIT	1,074	990	8.5
· in % of revenue	15.0	15.7	-

Prior year information presented based on 2011 segment structure.

The positive economic situation in the automotive markets and gains from new customer projects considerably outpacing market growth allowed the Automotive division to increase its revenue by 13.2 % to EUR 7,160 m (prior year: EUR 6,325 m) in 2011. The division managed to replace projects coming to an end with larger volume new and follow-up orders. Towards year end, however, growth was beginning to slow down.

Revenue (Automotive)
in € millions



During the course of the year, revenue growth was driven in particular by the sales markets in Asia (+20 %), North America (+13 %), and Europe (+13 %). Among top-selling product groups, torque converters (+27 %), ball bearings (+18 %), and tapered roller bearings (+18 %) showed above-average growth. In addition, innovative new products such as the dry double clutch, ball screw drives, and the fully variable electro-hydraulic valve control system (UniAir/MultiAir) experienced particularly high growth rates.

Revenue increased considerably compared to the prior year across all business divisions within the Automotive division, leading to very high capacity utilization in almost all plants.

Cost of sales increased faster than revenue, growing by 16.2 % to EUR 5,209 m (prior year: EUR 4,483 m). Thus, gross profit increased by EUR 109 m to EUR 1,951 m (prior year: EUR 1,842 m); the gross margin was 27.2 % (prior year: 29.1 %).

Higher production volumes had a positive effect on gross profit, but could not completely offset the rising cost of materials, energy and personnel. This is also reflected in the increase in cost of sales compared to the prior year.

Total Automotive division earnings before financial result and income taxes (EBIT) grew by EUR 84 m to EUR 1,074 m (prior year: EUR 990 m) in 2011. Following the high level in the prior year, the EBIT margin fell only slightly to 15.0 % (15.7 %).

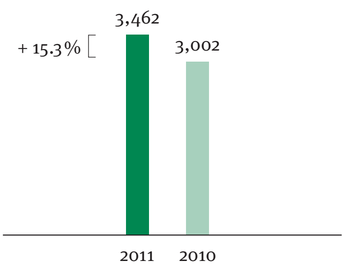
2.3 Industrial division

No. 005

in € millions	2011	2010	Change in %
Revenue	3,462	3,002	15.3
Cost of sales	-2,182	-1,855	-17.6
Gross profit	1,280	1,147	11.6
EBIT	615	519	18.5
· in % of revenue	17.8	17.3	-

Prior year information presented based on 2011 segment structure.

Revenue (Industrial)
in € millions



The Industrial division benefitted more than proportionally from the strong global economy in 2011. Revenue rose by 15.3 % to EUR 3,462 m (prior year: EUR 3,002 m). The impact of currency translation was negligible. Revenue grew by double digits across all regions, ranging from 11.0 % in North America to 24.5 % in Germany. Total revenue for the year exceeded the division's prior record level set in 2008.

Orders on hand at year end 2011 amounted to EUR 2,542 m (prior year: EUR 2,206 m), increasing 15.2 % over the prior year. Despite an increase in capacity during the year, the year end order backlog increased slightly to 8.9 months (prior year: 8.8 months).

Revenue growth was primarily driven by the aftermarket, power transmission and production machinery sectors. Capacity limits in our production prevented even stronger growth in these areas. Wind power revenue is below prior year: A difficult fiscal situation blocked necessary investment in renewable energy in many countries. In China, political reorganization with respect to the approval of wind parks and restrictions on loans granted by the central government brought down orders and, consequently, revenue. In addition, the adverse impact of excess capacity and price competition was felt across the entire wind power sector.

Cost of sales increased slightly more than proportionally by 17.6 % to EUR 2,182 m (prior year: EUR 1,855 m). The gross margin decreased by 1.2 percentage points to 37.0 % (prior year: 38.2 %). While high utilization of the plants ensured continued economies of scale, the sharp rise in production volumes to facilitate supplying the markets also led to temporary constraints on plant productivity. Higher expenses resulting from the revenue decrease in the wind power sector and increased raw materials and energy prices also drove up cost of sales.

Industrial division EBIT improved by EUR 96 m or 18.5 % to EUR 615 m (prior year: EUR 519 m) in 2011. This growth was driven by the very encouraging revenue trend and the less than proportional increase in functional area expenses. The EBIT margin increased to 17.8 % (prior year: 17.3 %).

3. Financial position and assets

3.1 Cash flow

No. 006

in € millions	2011	2010	Change in %
Cash flows from operating activities	1,084	890	21.8
Cash used in investing activities [1]	-765	-324	< -100
Cash flows before financing activities (free cash flow)	**319**	**566**	**-43.6**
Financial debt	7,485	6,477	15.6
Cash and cash equivalents	397	733	-45.8
Net financial debt	**7,088**	**5,744**	**23.4**

[1] Including currency translation effects.

In 2011, cash flows from operating activities rose by EUR 194 m from the prior year to EUR 1,084 m (prior year: EUR 890 m). This inflow results primarily from improved earnings in 2011 as reflected in EBIT of EUR 1,689 m (prior year: EUR 1,509 m).

In 2011, cash totaling EUR 765 m was used in investing activities (prior year: EUR 324 m). Cash paid for property, plant and equipment and intangible assets totals EUR 773 m, compared to EUR 361 m in the prior year.

On this basis, free cash flow amounts to EUR 319 m (prior year: EUR 566 m).

At December 31, 2011, net financial debt has increased by EUR 1,344 m to EUR 7,088 m (prior year: EUR 5,744 m), primarily as a result of the refinancing arrangement entered into in March 2011 and the decrease in cash and cash equivalents as at the reporting date. Financial debt includes shareholder loans of EUR 420 m.

Financial debt as at December 31, 2011 includes liabilities related to the Senior Facility Agreement of EUR 6,949 m (prior year: EUR 6,271 m).

The debt to EBITDA ratio, defined as the ratio of net financial debt (excluding shareholder loans) to earnings before taxes, non-controlling interests, financial result, depreciation, amortization and impairment losses (EBITDA), has changed to 3.0 at December 31, 2011 (prior year: 2.7). Net financial debt increased by more than EBITDA, which grew 7.0 % to EUR 2,243 m (prior year: EUR 2,097 m).

3.2 Capital structure

No. 007

in € millions	12/31/2011	12/31/2010	Change in %
Shareholders' equity	**1,714**	**3,341**	**-48.7**
Provisions for pensions and similar obligations	1,217	1,111	9.5
Provisions	79	127	-37.8
Financial debt	7,168	6,413	11.8
Income tax payables	172	102	68.6
Other liabilities	261	423	-38.3
Deferred tax liabilities	124	116	6.9
Total non-current liabilities	**9,021**	**8,292**	**8.8**
Provisions	208	317	-34.4
Financial debt	317	64	> 100
Trade payables	873	729	19.8
Income tax payables	184	115	60.0
Other liabilities	672	486	38.3
Total current liabilities	**2,254**	**1,711**	**31.7**
Total shareholders' equity and liabilities	**12,989**	**13,344**	**-2.7**

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) fell by EUR 1,627 m to EUR 1,714 m in 2011 (prior year: EUR 3,341 m). The equity ratio at December 31, 2011 was 13.2 % (prior year: 25.0 %).

In connection with the refinancing arrangement entered into in March 2011 for the IHO Group, defined as the consolidated group with the parent company INA-Holding Schaeffler GmbH & Co. KG, dividends totaling EUR 2,364 m were distributed to Schaeffler Verwaltungs GmbH, the company's shareholder, before Schaeffler GmbH was converted to a stock corporation. See the discussion of shareholders' equity in the notes to the consolidated financial statements for further detail.

Reductions in shareholders' equity that did not affect net income resulted mainly from the translation of net assets of foreign group companies (EUR -61 m) and from pension obligations and similar obligations (EUR -83 m).

As expected, these decreases in shareholders' equity were partially offset by net income of EUR 902 m (prior year: EUR 73 m).

Non-current liabilities increased by EUR 729 m to EUR 9,021 m (prior year: EUR 8,292 m) and include financial debt of EUR 600 m assumed from the shareholder, Schaeffler Verwaltungs GmbH, under an assumption of debt in discharge of the previous debtor in connection with a dividend in kind on July 1, 2011. The financial debt was assumed at the existing terms underlying the Senior Facility Agreement.

The increase in provisions for pensions and similar obligations of EUR 106 m, which for the most part relates to German obligations, resulted primarily from a change in discount rates following the worldwide reduction in interest rates. A discount rate of 5.0 % was applied in Germany as at the reporting date, compared to 5.3 % as at the end of the prior year. The discount rate for the group's plans in North America and the United Kingdom decreased by 1.0 percentage points and 0.5 percentage points, respectively, from those of the prior year.

The decrease in other non-current liabilities by EUR 162 m is mainly the result of fair value changes on interest rate hedging instruments.

The increase in current liabilities of EUR 543 m to EUR 2,254 m (prior year: EUR 1,711 m) is primarily due to higher financial debt and trade payables. Financial debt includes the current portion of EUR 300 m of a shareholder loan related to a dividend in kind. Trade payables rose by EUR 144 m to EUR 873 m (prior year: EUR 729 m) in line with the positive course of business. Considerably improved earnings have led to an increase in income tax payables. The decrease in current provisions is the result of accrued selling costs (particularly customer bonuses, early-payment discounts and rebates), which are presented under other liabilities in 2011 due to their high level of certainty.

3.3 Asset structure

No. 008

in € millions	12/31/2011	12/31/2010	Change in %
Intangible assets	553	575	-3.8
Property, plant and equipment	3,328	3,041	9.4
Investments in equity-accounted investees	4,772	5,252	-9.1
Other investments	14	8	75.0
Other assets	95	166	-42.8
Income tax receivables	22	0	-
Deferred tax assets	350	289	21.1
Total non-current assets	**9,134**	**9,331**	**-2.1**
Inventories	1,562	1,482	5.4
Trade receivables	1,607	1,443	11.4
Other assets	200	257	-22.2
Income tax receivables	89	98	-9.2
Cash and cash equivalents	397	733	-45.8
Total current assets	**3,855**	**4,013**	**-3.9**
Total assets	**12,989**	**13,344**	**-2.7**

The financial position as at December 31, 2011 is marked by a slight decrease in total assets of EUR 355 m or 2.7 % to EUR 12,989 m (prior year: EUR 13,344 m) compared to the prior year. Non-current assets as a percentage of total assets rose slightly to 70.3 % (prior year: 69.9 %).

Intangible assets decreased by EUR 22 m to EUR 553 m (prior year: EUR 575 m) compared to the prior year. Additions of EUR 15 m were more than offset by amortization of EUR 37 m, including EUR 4 m in amortization of fair value adjustments.

Property, plant and equipment increased by EUR 287 m to EUR 3,328 m (prior year: EUR 3,041 m) compared to the prior year. Additions of EUR 831 m, including non-cash additions of EUR 58 m, were partially offset by depreciation of EUR 517 m.

Investments in equity-accounted investees decreased by EUR 480 m to EUR 4,772 m (prior year: EUR 5,252 m). On the one hand, shares in Continental AG of EUR 764 m were distributed as a dividend in kind to the parent company, Schaeffler Verwaltungs GmbH. On the other hand, the ongoing at equity investments contributed EUR 284 m.

Other non-current assets have fallen by EUR 71 m to EUR 95 m (prior year: EUR 166 m) compared to the prior year, particularly as a result of fair value changes on derivative financial instruments.

Schaeffler managed to limit the increase in inventories to 5.4 %, less than the growth in production, thanks to its sustainable working capital management. Inventories amount to EUR 1,562 m (prior year: EUR 1,482 m) at the reporting date.

Trade receivables rose by EUR 164 m to EUR 1,607 m (prior year: EUR 1,443 m) as at December 31, 2011 due to the increase in revenue.

Cash and cash equivalents decreased to EUR 397 m (prior year: EUR 733 m). Cash flows from operating activities of EUR 1,084 m, which have improved by 21.8 %, were more than offset by cash outflows for financing activities (EUR 646 m), particularly a dividend of EUR 400 m declared at the end of the prior year and paid in 2011, and significantly higher cash outflows for investing activities (EUR 765 m).

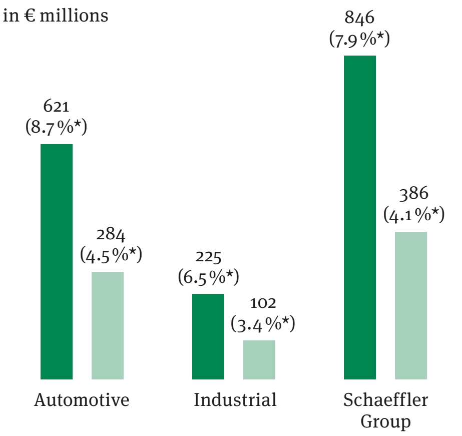
3.4 Capital expenditures

In 2011, our capital expenditure strategy was consistently aimed at facilitating future growth. The focus of our capital expenditures was on realizing capacity expansion projects and situating production in locations closer to markets and customers.

Capital expenditures of EUR 846 m (prior year: EUR 386 m), which included non-cash additions to property, plant and equipment of EUR 58 m (prior year: EUR 19 m), more than doubled compared to the prior year. At 7.9 %, capital expenditures as a percentage of consolidated revenue returned to our normal level, following a rate of 4.1 % in the prior year.

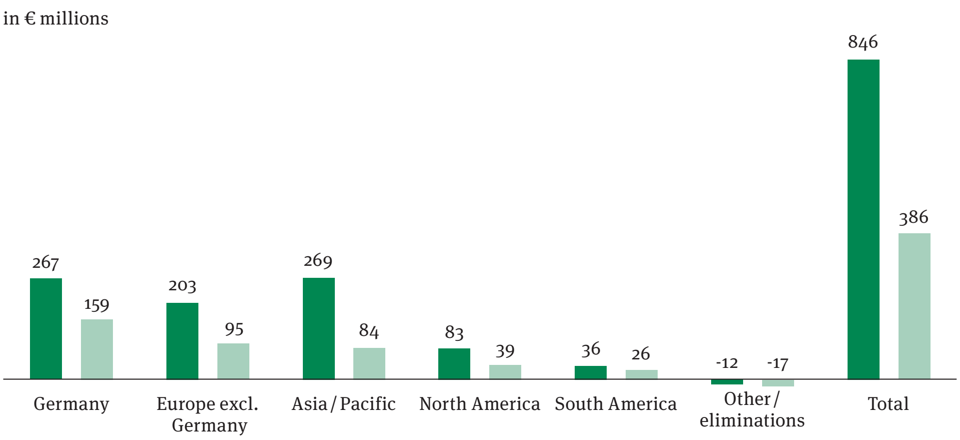
The relative increase was approximately equal in both divisions, with the Automotive division spending EUR 621 m (prior year: EUR 284 m) and the Industrial division making capital expenditures of EUR 225 m (prior year: EUR 102 m).

Capital expenditures



Local production facilities in Asia, mainly in China, were one regional focus of our investment activities in 2011, the objective being to increase the proportion of value added locally. Another focus was creating capacity for the start-up of production of new products and technologies in Germany, mainly at the Herzogenaurach, Schweinfurt, and Buehl locations. In addition, Schaeffler further expanded production at low wage locations, mainly in Slovakia and Romania in Eastern Europe and in Mexico in North America.

Capital expenditures by region



* of revenue ■ 2011 ■ 2010

3.5 Schaeffler Group financing

The Schaeffler Group's key financing structure remains unchanged.

The refinancing of the Junior Facility Agreement in late March 2011 at the level of the IHO Group significantly affected the Schaeffler Group as follows:

A cash dividend of EUR 400 m was paid in January 2011 for purposes of repaying IHO Group debt. In addition, Schaeffler AG distributed 12,043,528 Continental AG shares to its parent company, Schaeffler Verwaltungs GmbH, as a dividend in kind in May 2011.

Schaeffler AG assumed financial debt of EUR 600 m from its parent company as at July 1, 2011 at the terms underlying the existing Senior Facility Agreement (SFA) under an assumption of debt in discharge of the previous debtor. This increased the financial debt under the Senior Facility Agreement, which consists of a term loan of EUR 6,950 m and an additional line of credit (revolver) of EUR 793 m.

Furthermore, a dividend in kind of EUR 600 m was distributed on September 22, 2011 by creating a loan due from Schaeffler AG to Schaeffler Verwaltungs GmbH. EUR 186 m of this loan had been repaid by December 31, 2011.

Please refer to the report on subsequent events for details of additional refinancing arrangements made in January and February 2012.

3.6 Schaeffler Group liquidity

At December 31, 2011, cash and cash equivalents amount to EUR 397 m and consist primarily of bank balances, EUR 95 m of which are located in countries with foreign exchange restrictions. In addition, the Schaeffler Group has a revolving credit facility of EUR 793 m.

4. Research and development

Strong innovative ability – top position in the official patent statistics in Germany

Schaeffler has further expanded its global network of development locations, further strengthening the foundation for forward-looking innovation. The statistics demonstrating our strengthened innovative ability are impressive: At the end of 2011, nearly 6,000 R&D staff were employed at 40 development locations worldwide. More than 1,700 inventions reported internally were the result, a significant increase over the prior year. As a consequence, we are expecting a further increase in the official patent statistics of the German Patent and Trademark Office ("Deutsches Patent- und Markenamt" – DPMA), again putting us in a top position in Germany.

Our innovation management is an important cornerstone of our research and development and was awarded the Best Open Innovator Award of Zeppelin University Friedrichshafen in 2011 for the best overall concept. Open innovation is systematically, strategically and deeply rooted within Schaeffler. Particular recognition was given to our wide portfolio of methodologies within a comprehensively structured overall concept.

Schaeffler also follows a holistic approach in the field of electric mobility and has concentrated the required expertise in its eMobility Systems division in 2011. Aggregating our wide-ranging expertise across the Industrial and Automotive divisions in one place facilitates accessing the market at the systems level. Schaeffler is initially expanding its development capacity to 300 employees, focusing on the German locations Herzogenaurach, Buehl and Suhl. We are also reinforcing our electric mobility activities in China and North America.

Apart from electric mobility, we consider surface technology another trend of the future. That is why Schaeffler has increased capacity for developing multi-functional coating systems by expanding its Surface Technology Competence Center in 2011. New coating equipment and development facilities create the basis for expanding Schaeffler's leading position in technology and in the market.

4.1 Automotive division

In the future, mobility will be equally driven by electric mobility and optimized combustion engines. Schaeffler rises to these challenges by providing solutions for the drive train of today, tomorrow and beyond under the slogan “efficient future mobility”.

For instance, Schaeffler considers conventional combustion engines to have potential for improvement of up to 30 %. That potential can be realized by optimizing thermodynamics, minimizing pumping losses and frictional resistance, using power-on-demand auxiliary units, targeted thermal management, downspeeding, downsizing and the start-stop-function. This is done by using intelligent solutions reflected in a large number of components, modules, and systems that help to significantly improve consumption and emissions of modern automobiles.

The significance of innovative attention to detail in the field of internal combustion engines was demonstrated in 2011 by the PACE Award, which Schaeffler received for its lightweight balancer shaft with rolling bearing supports. The rolling bearing supports with reduced friction characteristics significantly improve energy efficiency compared to the plain bearings that were used previously. Less need for oil cooling makes pressure lubrication redundant, and the weight-optimized layout of the balancer shaft reduces its mass by approximately one third. In addition, the filigree design minimizes the shaft’s rotational inertia, reducing the required driving force.

Premiere of ACTIVeDRIVE

Schaeffler is also giving due attention to the field of electric mobility, which is becoming increasingly important. One example of this is the concept vehicle ACTIVeDRIVE, which premiered in 2011. It is a purely electric vehicle with four-wheel drive based on the Škoda Octavia Scout. The core of this prototype is its active electric differential, which has been named the eDifferential. It combines the electric drive with the possibility to selectively control drive power for each wheel, also called torque vectoring. The eDifferential significantly improves power transmission when driving on surfaces with different friction coefficients. It also supports the steering function and has a positive effect on driving dynamics, safety and driving comfort. With the solution shown in the ACTIVeDRIVE, Schaeffler is a pioneer in this type of electric concept for vehicle drives.

The wheel hub drive “eWheel Drive” is even more future oriented. Schaeffler received the eCar Tec Award, the Bavarian State Award for Electric Mobility, in the category drive technology, electrical systems and test systems for the eWheel Drive in recognition of Schaeffler’s innovative expertise. The eWheel Drive is a wheel hub drive that enables the development of future-oriented vehicle architecture and interior concepts, particularly in electric city vehicles. In addition to increasing the useable space and improving maneuverability, further advantages of the eWheel Drive are its braking assistance function, which increases driving safety, and a more rapid response. Its unique technological feature is the highly integrated design with the drive motor, power electronics, liquid cooling, friction brake, and control system all installed in the wheel.

4.2 Industrial division

Stengthening of renewable energies – world's largest and most powerful large-size bearing test rig „Astraios" put into operation

The test rig "Astraios", the largest and most powerful large-size bearing test rig in the world, which was put into operation in 2011, impressively demonstrates the strengthening of Schaeffler's development expertise in the field of renewable energy. The test rig is particularly suited for testing rotor bearing supports for wind turbines under realistic conditions in order to better understand the system as a whole, influencing factors and interrelations in wind turbine drive trains. The technological know-how will lead to the development of bearings with lower friction and increased design safety.

The increasing importance of renewable energy generation is driving the growing demand for production equipment that can be used to reliably and efficiently manufacture the required components. Turning large and heavy components in particular is proving challenging. An innovative Schaeffler solution for this issue, a rotary table bearing support based on the ball roller bearing, is on its way to mass production. The benefits to machine tool manufacturers include increased rigidity and accuracy, simplified assembly processes and potential for reducing system cost. Following the successful completion of the internal validation process under test rig conditions, the final tests are being conducted under realistic conditions in the actual machine. The first rotary table bearings are being tested by selected pilot customers.

In the field of direct drive technology for machine tools, Schaeffler has developed an innovative solution – the new IDAM RKI motors. The drives have 30 % higher torque levels than conventional torque motors. Speed and mechanical power have been increased by a factor of five, while power loss is reduced by up to 60 %.

Combining these drives with the new rotary table bearings permits doubling the speed and creates the highest performance rotary axis in the world. It opens up possibilities for turning and milling that were impossible with standard components.

Schaeffler has strengthened its technological leadership in the field of needle roller bearings with innovative new developments. The new steel cage in the X-life machined needle roller bearing increases load ratings by up to 25 %. The cage is designed such that both the number of needle rollers and their load bearing length can be increased while maintaining identical bearing dimensions. The new machined needle roller bearing with the plastic TWin Cage provides higher efficiency as a result of lower friction. Two short needle rollers can be inserted next to each other in one cage pocket, reducing friction by up to 25 % compared to conventional needle roller bearings. The new slimline drawn cup needle roller bearings reduce friction by up to 60 % and have a radial section height of only 1.5 mm, making them particularly suitable for replacing plain bearings in automatic transmissions. At the same time, they simplify the adjacent construction noticeably.

In 2011, Industrial aftermarket presented "FAG SmartCheck", an innovative measuring system that permits the cost-efficient real-time monitoring of small, redundant or non-redundant units for the first time. The system records not only the standard parameters – vibration and temperature – but also other operating parameters such as pressure or flow rate. This provides a broad basis of information which permits experts to make a very accurate assessment of a machine's condition that contributes to optimizing processes and reducing life cycle cost. Typical fields of application include electric motors, pumps, compressors, ventilators, fans, and gearboxes.

5. Procurement

In 2011, procurement markets were in a strong growth phase following the unexpectedly quick recovery from the economic crisis in 2010.

The high demand for our products made supplying our plants with purchased parts challenging, particularly during the first half of the year. We were able to avoid a significant adverse impact of this market situation on both supply and prices by utilizing our global procurement sources in the form of existing and new suppliers, particularly in the strong growth markets of Asia, India, the U.S., and Brazil. Schaeffler's consistent crisis management and close cooperation between the corporate and the Asian procurement organization enabled it to avert the threat to certain parts of our production from the natural disaster in Japan. Substantial efforts and the high level of flexibility of our suppliers enabled us to eliminate sporadic supply bottlenecks in time, preventing them from affecting our supply to customers. Overall, we were able to fully satisfy the procurement needs of our 70 plants around the world throughout the year without any disruptions in supply.

Due to the further rise in commodities prices, price increases for some purchased parts could not be avoided entirely.

In the area of production materials, our renewed focus was on the supply and price trend of steel products, which are of particular significance to Schaeffler.

Most steel producers had re-established their full plant capacities after the ramp-up in 2010; as a result, supply was largely smooth. Schaeffler used the calmer situation to come to agreements on fundamental principles regarding logistics processes with those suppliers in order to be able to counter future fluctuations in supply with improved planning processes.

In 2011, prices for coking coal, iron ore and scrap metal remained at a historic high until the fall, keeping price pressures high, particularly for flat steel products. In addition, manufacturers' sometimes very short-term pricing policies increased uncertainty, which did not help the much needed stabilization of prices in the steel market.

In addition to ongoing cost reductions, procurement of components for production during the year was primarily focused on securing supply, which was successfully achieved by reserving capacity early on and entering into agreements on new logistics and supply concepts. Schaeffler cooperated closely with its business units in establishing global supply strategies and seeking out new local suppliers, particularly in the growth region Asia/Pacific.

Schaeffler has again made considerable progress regarding the quality of purchased parts. The number of complaints declined by 20 % from the prior year. Measures specifically initiated to reduce the cost of inadequate deliveries have also begun to produce results. We further improved the investigation of the reasons for expenses incurred.

Although the trend towards increasing prices also characterized the market situation in general purchasing, Schaeffler was able to more than offset its impact with the help of economies of scale and cost saving projects with suppliers. Electricity, gas and products based on oil and tungsten were the only areas where an increase in cost was unavoidable.

There were a few insolvencies among our suppliers during the year. Thanks to Schaeffler's risk management system, combined with close communication with the suppliers concerned, these insolvencies did not lead to disruptions in supply.

Schaeffler continued to optimize its payment conditions with its suppliers during the year. Systematically avoiding early payments and applying standardized payment conditions contributed significantly to the management of working capital.

Since the closing of an agreement on a purchasing cooperation with Continental AG in March 2009, the purchasing functions of both companies have been working together successfully for the third year. This applies to both production materials as well as indirect materials.

The joint activities enabled both companies to achieve sustainable cost reductions. Teams successfully worked together on systematically developing uniform standards and to coordinate requests for proposals of both companies to ensure a joint market presence and market success. Both companies cooperated closely on the strategic direction and in operations not only within each individual purchasing sector, but also globally in all significant markets in Western and Eastern Europe as well as in Asia and North and South America.

Schaeffler intends to continue its successful cooperation with Continental AG in the coming years.

6. Production

Production volumes 15 % higher than prior year

Production volumes for 2011 were approximately 15 % higher than in 2010. In accordance with the long-term localization strategy of counteracting currency and other risk factors, ensuring proximity to customers and optimizing the value-chain, the highest increase in production volumes was generated in the growth region Asia/Pacific. Thus, that region's portion of the total Schaeffler Group production volume was expanded further.

All Schaeffler Group plants worldwide operate to the highest standards of quality and environmental protection. The worldwide "MOVE" program ("Mehr Ohne VErschwendung" – More Without Waste) was initiated in 2008 to further improve our competitive position. MOVE is a holistic program for increasing efficiency; its key objective is to safeguard the zero-defect-principle and to remain true to the high principle of quality. The Schaeffler Group uses this program to optimize its production, which results in improving its own performance, more quickly expanding potential for adding value through new activities, and in further increasing customer satisfaction. The knowledge gained from the program again helped implement measures to increase productivity and improve production cost in 2011.

Thus, despite the large number of various projects started or ramped up and the growing volume of production, Schaeffler was able to consistently maintain its high level of quality and minimize the number of claims. This is confirmed by the many awards and prizes given to Schaeffler Group as a supplier in the automotive and industrial sectors by its customers.

At the end of 2011, 70 production locations represented the Schaeffler Group around the world.

The expansion of the production location in Taicang, China, where the Schaeffler Group has started adding two new plants to the existing three production plants, made progress in 2011. Schaeffler has also started construction on a new plant in Nanjing, China, during the year. The first construction phase is planned for completion in late 2012, allowing production to start-up in 2013. Reacting to increasing demand for our products in Asia, the Schaeffler Group built a new plant in Savli, India. In addition to setting up new plants, Schaeffler also increased its degree of vertical integration in the Asia/Pacific region. This also significantly expands production capacities, reducing delivery lead times for our customers which will further improve our market position in the Asia/Pacific area.

The start of full production in 2011 at the Irapuato, Mexico, production location has considerably increased production capacity there.

Production capacities in the Eastern European plants were also expanded significantly.

The main plant in Herzogenaurach focused on the integration of new production start-ups and technically optimizing production capacities in order to maintain efficiency and flexibility at the highest level.

7. Employees

The Schaeffler Group employed an average of 71,896 employees (prior year: 65,041) in 2011. The number of employees at December 31, 2011 was 74,031, 9.7 % above the prior year level of 67,509.

No. 009

Number of employees [1]	12/31/2011	12/31/2010	Change in %
Germany	29,443	27,938	5.4
Europe excluding Germany	22,004	20,063	9.7
Asia/Pacific	11,181	9,258	20.8
North America	6,781	5,866	15.6
South America	4,622	4,384	5.4
Schaeffler Group	**74,031**	**67,509**	**9.7**

[1] Figures as of December 31.

The headcount rose by 6,522 across all regions and functional areas in 2011. The Eastern European and Asian companies saw the largest increase in staffing levels in terms of absolute numbers.

Employee qualification and continuing education

The objective of the Schaeffler Group's human resources development and continuing education activities is to support and qualify employees to meet complex challenges at all times. 3,626 continuing education events took place in Germany during 2011, 1,489 more than last year. The number of participants in continuing education courses increased by 13,010 to 35,199 compared to the prior year. Reasons for the significant increase over the prior year include the end of the special cost saving measures in place until April 2010 and various training projects in 2011, such as project management and MOVE workshops.

Labor turnover

The worldwide labor turnover rate within the Schaeffler Group remained low in 2011; however, it rose slightly by 0.6 percentage points to 2.7 % (prior year: 2.1 %).

Absenteeism due to illness

Worldwide absenteeism due to illness experienced by the Schaeffler Group has decreased slightly by 0.1 percentage points in 2011 to 3.2 %, although it varies strongly across regions.

8. Sustainability and corporate social responsibility

8.1 Corporate responsibility

Environmental protection and occupational safety have been an important part of the Schaeffler Group's management principles for more than 15 years. We contribute to the company's continuation in business and success by creating and maintaining safe working environments that promote health and performance and by actively pursuing environmental protection. We acknowledge our global responsibility towards employees, fellow human beings and future generations. The major issues concerning sustainability have been combined in an integrated management system in order to meet this responsibility. Environmental protection, occupational safety, occupational medicine, fire protection and security form the backbone of the Schaeffler Group's environmental and safety management system (E&S). Regular internal and external audits and certifications provide us with continuous information about the status and further development of the E&S management system, our focus being on continuously improving our performance in this area.

The Schaeffler Group's code of conduct is based on the principles of the "Global Compact", "The Global Sullivan Principles of Corporate Social Responsibility", and the standards of "Social Accountability International". For us, these principles represent minimum standards and in many instances our own internal requirements are much higher. They do not place restrictions on additional country-specific versions that conform to specific cultural practices.

The Schaeffler Group defines its minimum requirements on a global basis. There are also local environmental and occupational safety policies in the different countries which expand on the Schaeffler Group policy and can be used to clarify the definitions for the specific location. These have proven very helpful for implementing our strategic requirements in practice. All local requirements are designed to structure processes and to give those concerned more certainty and support.

The E&S management system developed step-by-step over the past few years has since been introduced and put into practice at all Schaeffler Group locations worldwide. At the end of 2011, all manufacturing locations of the Schaeffler Group are validated regarding environmental protection in accordance with EMAS and ISO 14001 and certified regarding occupational safety in accordance with OHSAS 18001. Those certifications conducted by independent assessors outside Europe play an extremely important role in international comparison; there are very few industrial companies worldwide that can demonstrate a similar degree of success.

The shareholders, executive board, and employees in every business unit and location support the environmental protection and occupational safety efforts because they are convinced that they will ensure the company's success.

8.2 Environmental protection

Protection of the environment is a significant part of sustainable management. Continuously developing new technologies, constantly striving for further reductions in resources consumed, preventing waste, improving energy efficiency and many other practical environmental protection measures are important components of sustainable management.

The strength of the E&S management system lies in the close cooperation between the group's strategic and operating units. Those responsible for E&S at each location are brought together in a regional network, ensuring an active exchange of information within each region. In turn, the regions are in close and constant touch with the central E&S Competence Center (CC E&S), which is responsible for global strategy. Supporting the implementation of strategies at operating entities and carrying out internal audit work are additional significant tasks of the Competence Center. Adhering to these two roles, support and advisory on the one hand and supervision and control on the other, permits staff at the CC E&S to always keep both sides in view.

Contamination of the environment and depletion of resources are to a large extent due to increasing consumption of products. Thus, the longevity of a product is also an indication of its sustainability. By further improving the efficiency of material and energy input and hence decreasing the impact on the environment of manufacturing a product, we are increasingly meeting this target. The focus here is on a holistic view and design of material and energy flows from the receipt of materials and goods to shipping the product or waste material, through the end of the utilization phase and the subsequent recycling opportunities.

Existing procedures and technologies are subjected to critical analysis and further possibilities for process improvement are identified and implemented. Many of the resulting measures are initiated individually at the locations, in a manner appropriate to the political and social environment; however, this is done with ongoing support and advice from the central staff departments.

Successful sustainable management requires extensive analysis of the economic, social and ecological performance of a company and is not limited to environmental protection. Sustainable management is integrated into day-to-day operations. This integration and openness in dealing with questions help identify new solutions that contribute to the sustainability of our company.

8.3 Occupational safety

The theme of employee protection has been embedded in our corporate philosophy since before the certification under OHSAS 18001. The risk analyses carried out consistently throughout the world have contributed to a steady reduction in the number of accidents at work. Knowledge gained at individual workplaces is communicated via the CC E&S and helps other locations avoid errors.

We have the ambition of maintaining the safe and healthy working environments that we have created worldwide. We want to prevent workplace-related injuries and occupational diseases by carrying out appropriate measures. We significantly exceed the applicable national legal requirements at most locations when implementing these measures. Tasks include providing active support in workplace design and ensuring local medical care as well as providing assistance for business travelers.

The Schaeffler Group trains a large number of apprentices every year and is a role model with regard to training. Many apprentices remain with the company after completing their technical or commercial training and use our comprehensive range of training measures in order to strengthen their job-related and interpersonal skills.

The only way to preserve the environment, protect employees and support social projects in the long run is by setting clear and realistic goals. Environmental and occupational safety programs must include measures that can be implemented. That is why such projects are usually initiated directly at the locations. These projects are tailored to the surroundings, the social environment, and requirements in the region and are supported by CC E&S.

8.4 Social responsibility

Commitment to cultural and social activities and issues has been inherent in the Schaeffler Group's corporate philosophy for a long time. In light of this, the Schaeffler Group supports projects it believes in.

Innovation Award 2010

The Schaeffler Group's FAG Foundation granted the Innovation Award 2010 for outstanding dissertations, theses, and school projects on February 24, 2011. In a ceremony in Schweinfurt, Maria-Elisabeth Schaeffler and Robert Schullan awarded the prizes to six young engineers. Established in 1983, the FAG Foundation promotes science, research and teaching in the field of scientific engineering and also supports school achievements that promote school development. The Innovation Award ranks among Germany's leading technology foundation awards.

Rainbow Nation Club Schaeffler South Africa

Schaeffler South Africa launched the "Rainbow Nation Club" project during the Soccer World Cup in 2010 in response to the tensions between the various ethnic groups in South Africa. The underlying vision of the association is a unified, multi-ethnic nation co-existing in a climate of mutual respect and tolerance and is based on the fundamental ideas of Nelson Mandela. The Rainbow Nation Club is the largest non-profit association in South Africa and aims to bring about positive change in the country's future.

Schaeffler Iberia supports student team

The team from the University of Navarra (UPNA) has won the best industrial project award in the Motostudent competition. The team was supported by Schaeffler Iberia, which provided both advice and rolling bearings for various applications of the team's prototype. In the competition, which was sponsored by the Moto Engineering Foundation, student teams developed and built prototypes for a racing motorcycle which then went into action on the Alcañiz racetrack (in Aragón).

The German dual system of training is exemplary worldwide

A local qualification program for trainees was established at the Schaeffler plant in Irapuato, Mexico. "Schaeffler University" is run in cooperation with the German-Mexican Chamber of Commerce and Industry. The initiative is based on the German dual training system, a combination of on-the-job training and academic studies that is exemplary worldwide. 120 employees are currently attending Schaeffler University, including 60 trainees and more than 20 junior engineers.

9. Overall assessment of the 2011 business year

The worldwide economic recovery continued with growth of approximately 3.8 % in 2011. The recovery was again driven by the developing countries, primarily China, with growth of approximately 9.2 %. We not only benefitted from this growth because of our strong local presence in Asia/Pacific, but also in Germany and the European region in the form of increased exports.

Being a leading globally integrated technology company, the Schaeffler Group has taken excellent advantage of this situation and benefitted from the upswing more than proportionally.

Revenue increased 12.6 % over the record year 2010 to EUR 10,694 m. Both the Automotive and the Industrial divisions contributed increases of 13.2 % and 15.3 %, respectively, to this revenue growth. The excellent development of our business was driven by the continuing increase in demand for our components, modules, and systems in the Automotive division and from the key sectors production machinery and power transmission in the Industrial division.

Gross profit of EUR 3,231 m (prior year: EUR 2,989 m) reflects higher raw materials prices and energy costs as well as expenses resulting from additional expansion of capacity which were only partially offset by price increases, improvements in efficiency, and economies of scale.

Our EBIT increased again considerably from the prior year record of EUR 1,509 m to EUR 1,689 m. The EBIT margin of 15.8 %, nearly unchanged, remained high. We increased research and development expenses by 6.0 % to EUR 495 m. We accelerated our activities in this area in order to further expand our technological expertise, particularly in energy efficiency and environmental technology.

Our return on capital employed (ROCE) improved to 27.2 % following 25.1 % in 2010.

We improved our cash flows from operating activities by 21.8 % to EUR 1,084 m. Cash paid for capital expenditures on property, plant and equipment of EUR 758 m more than doubled compared to the prior year. Cash paid for acquisitions of intangible assets declined slightly to EUR 15 m (prior year: EUR 21 m) in 2011. The refinancing arrangement completed in March 2011 significantly reduced financial debt at the parent INA holding company and improved its financing conditions. As a consequence of this agreement, Schaeffler GmbH distributed dividends totaling EUR 2,364 m before it was converted to a stock corporation, bringing consolidated shareholders' equity to EUR 1,714 m as at December 31. With the additional refinancing arrangement completed on January 27, 2012 and its newly optimized capital structure, Schaeffler AG has laid the foundation for its continued successful strategic development.

The overall very positive course of business in 2011, with its more than proportionately strong development of revenue and earnings compared to the overall economy, validates the Schaeffler Group's global strategic direction. As in the past, we are currently excellently represented in the particularly high-growth markets of tomorrow, particularly in Asia, and plan to build on our innovations and increased capital expenditures of 2011 to continue generating profitable growth.

10. Risk report

The Schaeffler Group intentionally takes manageable business risks in order to implement its corporate strategy and realize the related earnings opportunities. However, the Schaeffler Group is exposed to a large number of risks that can adversely affect its business and, in extreme cases, jeopardize the company's existence. We are currently not aware of any such risks that are probable to occur.

Schaeffler defines risks as possible future developments or events that can result in negative deviations from budgeted results.

Responsibilities for identifying and controlling significant risks are clearly divided within the Schaeffler Group at various levels and organizational units. Risks are monitored by local management at the subsidiaries as well as group-wide by the statutory board of directors. Local management is responsible for managing risks without significant adverse effects at the level of the Schaeffler Group. Risk evaluation is based on an estimate of the monetary impact on net income and the related probability of occurrence.

The risk management system is constantly improved and updated. As the risk management system was rolled-out to additional group companies in stages in 2011, the system has now been implemented in all regions. The risk management guideline has been integrated into the Schaeffler Group Management Handbook, making it available to all employees. In addition to the process description, the allocation of responsibilities and the structure of the risk management system, it includes, in particular, a description of the content of the risk categories and suggested risk assessments.

Identified risks and related measures are combined at group level by risk management, monitored and regularly reported to the appropriate members of management. Within its area of responsibility, management decides what measures are required and ensures that their implementation is managed on an ongoing basis. The executive board monitors the development of all identified risks and the status of measures taken. Reports on these measures and the status of their implementation were provided to the audit committee of the supervisory board during the year.

In order to be able to operate successfully in its business environment, the Schaeffler Group has established an effective internal control system which is an integral part of its risk management system. The objective of the internal control system relating to accounting and financial reporting is to ensure the accuracy of the accounting system and the related reporting.

Schaeffler's system of internal controls over financial reporting includes the following measures:

- extensive system-based plausibility checks integrated in the day-to-day reporting system;
- regular consultations with operating units on accounting matters;
- controls using reviews (by a second member of staff) carried out regularly at individual company level as well as at group reporting level;
- accounting policies applied uniformly throughout the group; and
- processes for recognizing and eliminating intragroup transactions.

The proper functioning of the internal control system was confirmed at the individual company level in 2011 with the help of a control self-assessment process. Identified control weaknesses were evaluated and analyzed at company and group level. Measures for continual improvement and for eliminating risks are being implemented with the help of the internal audit function.

Despite the steps taken to monitor its proper functioning and continuous improvement, the internal control and risk management system relating to the financial reporting process cannot with absolute certainty prevent accounting misstatements from occurring.

Management divides the risks to which the Schaeffler Group is exposed into strategic, operating, legal and financial risks.

10.1 Strategic risks

Decisions made in connection with the strategic approach of our group and our product portfolio always bear the risk that market trends and technological changes are not recognized on a timely basis, or are incorrectly evaluated.

Extensive market analyses are carried out in order to be able to limit such risks. Trends are analyzed and evaluated early on and alternative development decisions are considered with respect to their effects on the product portfolio and strategic approach of the group.

Planning our geographic presence is driven by the need to be close to our customers. This leads to the risk that, due to the lack of a local presence, new customer orders cannot be obtained or existing customer orders cannot be processed entirely locally.

We counter this risk by strategically planning our geographic presence, with the aim, amongst other matters, of establishing or expanding production capacities timely at the relevant locations. This is demonstrated by our international reach.

Changes affecting the social, political, legal, or economic stability in certain markets may lead to a restriction of our planned expansion.

10.2 Operating risks

Demand for our products both in the Automotive and in the Industrial sector is significantly affected worldwide by economic conditions. In addition, cyclical fluctuations in individual sectors represent another risk to the utilization of production capacity and, consequently, earnings.

The development and bringing to market of new products bears the risk that timing, quality or planned costs can not be met.

In order to mitigate this risk, the Schaeffler Group has implemented a group-wide system to manage its research and development processes. This system allows decision makers to monitor the relevant projects efficiently and influence further progress timely. Particularly in the Automotive division we can further reduce the above-mentioned risks by closely cooperating with our key customers in the areas of customer-specific development and continuous improvement.

Maintaining our technological leadership and developing new and improved products requires significant capital expenditures. Such capital expenditures may be restricted not only by a deterioration of earnings, but also by financial covenants (see group management report 10.4), jeopardizing the development they are intended to facilitate.

Procurement risks arise both from market price fluctuations and from lack of availability of raw materials of the appropriate quality and quantity. Manufacturing our products requires large amounts of raw materials and components, mainly a wide variety of steel alloys, as well as energy.

These risks are mitigated by systematically selecting and evaluating suppliers. Existing knowledge of local markets is integrated in the development of the purchasing strategy. For this reason, regional purchasing organizations are involved in the process, from developing a strategy to country-specific implementation. The Schaeffler Group also mitigates the volatility of raw material prices by entering into tranche transactions (such as for energy) and by passing on price fluctuations to customers using price adjustment clauses. Derivative financial instruments are not used to hedge raw material prices.

The continuing success and forecasted growth of the Schaeffler Group depend above all upon recruiting, integrating and retaining appropriate personnel. Competition for highly-qualified employees, particularly for engineers and managers, remains considerable, which firstly makes attracting new staff difficult and secondly can result in the loss of key personnel. The deliberate expansion of personnel marketing is intended to increase the awareness and attractiveness of the Schaeffler Group. Measures to develop and train personnel are designed to improve staff qualification and motivation.

Poor quality of delivered products can represent a product liability risk. The use of defective products leads to damage, unplanned repairs or recalls which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can result in increased guarantee and warranty claims by our customers. We respond to this risk by adopting strict quality control measures and continually improving our production processes.

Sales risks arise from price risks and the risk of delays in making products available to customers. This can lead to a loss of orders and a loss of market share. We mitigate this risk by systematically improving our production and delivery logistics.

Many of our customers are OEMs or Tier 1 suppliers. Close product development cooperation with these customers and strict product quality control measures prevent substitution of our products and, at the same time, help maintain price levels.

Regular credit checks of our customers reduce the risk of customers defaulting.

The Schaeffler Group brands INA, LuK and FAG are inseparably connected with a high standard of quality, making them increasingly subject to product piracy. Combating product piracy is a high priority for Schaeffler. We protect intellectual property not only by global patents and industrial property rights but also by taking action against the increase in counterfeit products, which damage our image and our revenue.

Natural disasters, accidents, or pollution caused may give rise to potential risks to assets. Resulting possible disruptions to the supply chain or to production processes could adversely affect supply to our customers. This risk is mitigated by the ability to produce products at various locations which provides production alternatives, at short notice if necessary. We also have appropriate insurance coverage.

Our operations are based on complex IT systems, network infrastructure, as well as internal and external communication media. The resulting dependencies give rise to risks with respect to ongoing data availability and confidential treatment of data. Any disruption of information security as a result of intentional attacks or manipulation of the IT infrastructure could significantly affect our operations.

10.3 Legal risks

There are various legal claims against the Schaeffler Group that have been asserted or that could be asserted in the future. We consider these to be mainly normal, routine legal disputes arising in connection with our business.

In late 2011, several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. To date, the investigations have not yet been specified in more detail. There is a risk that the antitrust authorities will impose penalties, and that third parties may claim damages. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

If one or more of these risks become reality, our operations, our financial position, and our earnings would be adversely affected, making it more difficult to meet our obligations under our financial debt.

10.4 Financial risks

Overview

Due to the financing requirements of its global business activities, the Schaeffler Group is exposed to the following risks from its use of financial instruments:

(1) Credit risk
(2) Liquidity risk
(3) Market risk (currency, interest rate, and other price risk)

The Schaeffler Group's executive board has overall responsibility for the group's risk management system.

(1) Credit risk

The risk of a customer or business partner defaulting is called credit risk. Among Schaeffler's major customers in the Automotive segment are OEM's. There is a concentration of credit risk within trade receivables with regard to these business relationships.

Credit risk is managed by constant monitoring of customers' financial status, creditworthiness and payment history. Additional measures include our collection procedures and the use of commercial credit insurance.

The carrying amounts of financial assets represent the maximum credit exposure at the end of each reporting period as follows:

No. 010

	Carrying amount	
in € millions	12/31/2011	12/31/2010
Trade receivables	1,607	1,443
Other investments	14	8
Other assets		
· Marketable securities	4	3
· Other loans receivable	103	107
· Derivatives designated as hedging instruments	0	43
· Derivatives not designated as hedging instruments	13	77
Cash and cash equivalents	397	733
Total financial assets	**2,138**	**2,414**

Investments of funds as well as hedging instruments are only entered into with the significant banks commissioned by Schaeffler. These banks have low credit risk. Corporate Treasury continually manages individual exposures and monitors any change in credit risk of individual banks, including changes in their ratings.

(2) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its financial obligations as they become due is referred to as liquidity risk.

The Schaeffler Group secures the financing of its operations and its financial obligations by using equity, cash pooling arrangements, intercompany loans and existing lines of credit.

The Schaeffler Group's contractual payments of interest and principal on financial debt and derivative financial liabilities are summarized as follows:

No. 011

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2011					
Non-derivative financial liabilities	**8,553**	**9,126**	**1,810**	**7,309**	**7**
· Financial debt	7,485	8,058	751	7,307	0
· Trade payables	873	873	873	0	
· Other liabilities	195	195	186	2	7
Derivative financial liabilities	**316**	**320**	**176**	**144**	
Total	**8,869**	**9,446**	**1,986**	**7,453**	**7**
December 31, 2010					
Non-derivative financial liabilities	**7,289**	**8,820**	**1,269**	**7,547**	**4**
· Financial debt	6,477	7,993	456	7,537	0
· Trade payables	729	744	737	3	4
· Other liabilities	83	83	76	7	
Derivative financial liabilities	**444**	**433**	**218**	**215**	**0**
Total	**7,733**	**9,253**	**1,487**	**7,762**	**4**

The Schaeffler Group's medium and long-term financing requirements were met throughout the year by the Senior Facility Agreement (see Note 4.15) dated November 20, 2009 as amended by the refinancing arrangement completed in March 2011. The Schaeffler Group has a revolving credit facility of EUR 793 m and other bilateral lines of credit available to meet its financing needs.

The Senior Facility Agreement (SFA) dated November 20, 2009 contained certain constraints including a requirement to meet certain financial covenants relating to:

- ratio of net debt to EBITDA (senior debt leverage),
- ratio of EBITDA to interest expense (senior interest cover),
- ratio of cash flow to debt service (senior cash flow cover), and
- capital expenditures.

The SFA gave the creditors the right to call the debt before maturity for certain reasons, including if the covenants are not met, which would result in the debt becoming due immediately.

Compliance with covenants is monitored at group level. The applicable inputs to the calculations are defined in detail in the loan agreements and cannot be derived directly from the consolidated financial statements.

The senior debt leverage ratio in particular is an important financial ratio; it was not permitted to exceed a value of 4.04 at the reporting date December 31, 2011. In addition, the senior interest cover ratio for the year had to be at least 2.52. Senior debt service was covered by cash flow throughout 2011 and the prior year (senior cash flow cover as defined in the loan agreement). The Schaeffler Group's capital expenditures of EUR 783 m for 2011 also met the corresponding covenant.

Although the refinancing arrangement completed January 27, 2012 left the underlying calculations nearly unchanged, it redefined the financial covenants for the period to December 31, 2016 as follows:

- the debt leverage ratio cannot exceed a value of 3.90 and 3.50 at December 31, 2012 and December 31, 2013, respectively,
- the interest cover ratio has to be at least 3.50 for 2012 and 3.70 for 2013,
- cash flow still has to be sufficient to cover debt service, and
- capital expenditures can generally not exceed 8 % of consolidated revenue.

The Schaeffler Group has complied with the financial covenants throughout both 2011 and the prior year, and also expects to comply with them during the next two years, 2012 and 2013, and the years beyond.

In addition to liquidity risk related to financing, additional short-term liquidity risk can arise if, contrary to assumptions made in budgeting working capital, receivables are not collected on a timely basis. Corporate Treasury prepares a rolling four-week liquidity plan to monitor and control the group's short-term liquidity risk. Short-term fluctuations in working capital requirements are monitored daily and can be offset by using lines of credit. Structural short-term and medium-term liquidity requirements can generally be met by drawing down the revolver.

A strict working capital management system whose methods and aims are regularly reviewed and adjusted as necessary also helps manage short-term liquidity risk.

Medium-term liquidity risk is monitored and managed using a rolling 12-month liquidity budget. Compliance with financial covenants is monitored and managed by the executive board using forecasted and actual data and is reported to the lending banks each month.

(3) Market risk

Market risk is defined as the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Schaeffler Group's net income or the value of its financial instruments. Our objective is to limit market risk while managing and controlling the optimization of returns.

In order to manage market risk, the Schaeffler Group enters into derivatives (see Note 4.15).

Interest rate risk

Schaeffler's interest-bearing financial instruments can be summarized by type of interest as follows as of each December 31:

No. 012

	Carrying amount	
in € millions	12/31/2011	12/31/2010
Variable interest instruments	**6,964**	**6,304**
· Financial debt	6,964	6,304
Fixed interest instruments	**521**	**173**
· Financial debt	521	173

The floating rate senior term loan gives rise to interest rate risk relating to fluctuations in the 1-month EURIBOR. This interest rate risk is hedged by entering into interest rate swaps, caps and collars. Existing interest rate hedging transactions were entered into at a higher interest rate level than current rates and limit the risk of fluctuations in the 1-month EURIBOR over the entire term of the senior term loan. Interest rate risk and developments in the interest rate markets are continually monitored as part of market risk reporting.

With regard to a sensitivity analysis of variable interest instruments, a change in the yield curve by 100 basis points (bp) as at December 31, 2011 would have affected (increased/decreased) net income by the following amounts. The amounts are based on the assumption that all other variables, particularly foreign exchange rates, are held constant.

No. 013

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As of December 31, 2011				
Variable interest instruments	-27	27		
Interest rate derivatives designated as hedging instruments	16	-2	96	-94
Interest rate derivatives not designated as hedging instruments	5	-5		
Total	**-6**	**20**	**96**	**-94**
As of December 31, 2010				
Variable interest instruments	-65	36		
Interest rate derivatives not designated as hedging instruments	260	-213		
Total	**195**	**-177**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income and shareholders' equity from interest rate derivatives is entirely due to changes in fair value. The effect of fair value changes of interest rate derivatives designated as hedging instruments on net income is EUR 16 m and EUR -2 m and the effect on the reserve in shareholders' equity is EUR 96 m and EUR -94 m. The impact of interest rate derivatives not designated as hedging instruments on net income is EUR 5 m and EUR -5 m.

Due to the hedging relationship of the variable interest payments under the Senior Facility Agreement, both economic and for accounting purposes, sensitivities for the variable interest instruments have been determined based on the net interest rate risk exposure. In the prior year, the line item variable interest instruments reflected only interest expense on the Senior Facility Agreement. The impact of interest on interest rate derivatives was shown under interest rate derivatives not designated as hedging instruments.

Currency risk

The Schaeffler Group is exposed to diverse foreign exchange risks due to its international reach. The largest foreign currency risks result from exchange rate fluctuations of the U.S. Dollar and the Romanian Leu. Potential foreign currency fluctuations have an effect on sales as well as on procurement costs. The various specific effects on earnings are monitored as part of the monthly reporting.

Foreign exchange risk is managed centrally by Schaeffler AG's Corporate Treasury. It aggregates currency risk across the group and hedges it using hedging instruments. Hedging instruments used include forward exchange contracts and options. Currency risk, market values of foreign currency derivatives and developments in foreign exchange markets are continuously monitored as part of the risk management system.

The Schaeffler Group's significant expected currency risk exposures by currency based on face values as of the end of each reporting period are as follows:

No. 014

in € millions	USD	RON	JPY	HUF
December 31, 2011				
Estimated currency risk from operations	1.062	-190	108	-93
Forward exchange contracts	-639	152	-82	76
Currency options	-156	0	0	0
Remaining currency risk from operations	**267**	**-38**	**26**	**-17**
December 31, 2010				
Estimated currency risk from operations	852	-198	98	-84
Forward exchange contracts	-599	157	-78	67
Currency options	-225	0	0	0
Remaining currency risk from operations	**28**	**-41**	**20**	**-17**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance organization. Thus, this exposure represents the difference between recognized hedged items and hedged items in the form of expected future foreign currency cash flows that have not yet been recognized on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (e.g. China, Brazil) is monitored by Schaeffler's finance organization. The most significant currency risk in these countries arises on the USD and amounts to an estimated EUR -314 m (prior year: EUR -227 m).

The sensitivity analysis for currency risk is based on a hypothetical 10 % weakening of the Euro against each of the group's significant foreign currencies as of December 31. The analysis covers foreign currency receivables and payables as well as derivative financial instruments used to hedge foreign currency risk and assumes that all other variables, particularly interest rates, remain constant.

The following table shows the potential effect on net income and shareholders' equity of translating balances at the closing rate and of measurement at fair value:

No. 015

in € millions	12/31/2011 Net income (loss)	12/31/2011 Shareholders' equity	12/31/2010 Net income (loss)	12/31/2010 Shareholders' equity
USD	15	-77	-23	-4
JPY	-4	-6	-1	0
HUF	-5	8	0	0
RON	-18	16	1	0

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31 would have had the same but opposite effect, again holding all other variables constant.

Other price risk

Risks related to stock-market prices and stock price indices only arise from securities. The market price risk associated with this exposure is not considered significant.

Overall risk assessment

The Schaeffler Group's situation with respect to risk has not changed significantly. Key risks are the financing risk related to the company's high level of debt, revenue trends and a decrease in the quality of earnings.

11. Report on subsequent events

On January 27, 2012, Schaeffler AG entered into a new EUR 8 billion loan agreement with eight banks. The new agreement replaces the existing loan agreements dated November 2009, improves the maturity profile of the financial debt and the collateral package and optimizes Schaeffler's debt financing.

The new loan agreement replaces the existing credit facility totaling EUR 7.7 billion, which would have been available until the end of June 2014 including the option to extend it by one year. The new refinancing package includes EUR 5.0 billion in loans repayable at maturity (Term Loans), one tranche to be replaced by corporate bonds, and a revolving credit facility of EUR 1.0 billion. The loans have staggered maturities of up to five years.

In preparation for the refinancing package, Schaeffler AG had its creditworthiness reviewed by two leading international rating agencies. The ratings were published for the first time on January 27, 2012. Standard & Poor's currently assigns a B rating with a positive outlook to Schaeffler AG. Moody's rates Schaeffler AG at B2 with a stable outlook.

The new loan agreement became effective on February 9, 2012. As the Schaeffler Group issued corporate bonds with a total volume of EUR 2.0 billion at the same time, the tranche that was to be replaced by the corporate bonds was not drawn down.

The corporate bonds consist of two Euro- and two Dollar-denominated tranches. The two Euro-tranches totaling EUR 1.2 billion carry maturities of five and seven years and bear interest at 7.75 % p. a. and 8.75 % p. a. The two Dollar-tranches totaling approximately EUR 1.1 billion also carry maturities of five and seven years and have interest coupons of 7.75 % p. a. and 8.50 % p. a. The corporate bonds have been rated B by Standard & Poor's and B1 by Moody's.

In addition, Schaeffler AG plans to place parts of the loan with additional banks and institutional investors. Schaeffler has already been able to syndicate a total volume of EUR 1.4 billion, consisting of a EUR 450 m Euro-tranche and a Dollar-tranche of approximately USD 1.3 billion, to institutional investors in mid-February 2012. This transaction enabled the Schaeffler Group to obtain favorable terms: A margin of 500 basis points above EURIBOR for the Euro-tranche and a margin of 475 basis points above LIBOR for the Dollar-tranche.

On February 20, 2012, Continental AG announced its intention to propose a dividend of EUR 1.50 per share for 2011 to its annual general meeting. This would result in a gross dividend of approximately EUR 108 m on the investment in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG.

No other material events occurred that we expect to have a significant impact on the net assets, financial position or results of operations of Schaeffler AG.

12. Report on expected developments

The Schaeffler Group expects solid growth in the coming years, despite the existing economic uncertainties. This growth will be based on our technological leadership, excellent quality of our products, innovative products offered, and our strong regional presence in the growth markets.

12.1 Expected economic environment

Leading economic research institutions expect the global economy to cool off in 2012. While supportive momentum will still be provided by emerging markets, economic expansion in the industrialized economies will be weak. The turbulence in the financial markets caused by the debt problem in many industrialized economies will likely put a damper on consumption and capital expenditures. However, the measures taken to control the European debt crisis are showing first signs of success. We expect consumer and producer confidence in the industrialized economies to recover slightly during the second half of 2012.

Based on the forecast by the International Monetary Fund, we believe that the global economy will grow by 3.3 % in 2012.

No. 016

Economic growth trend (in % compared with the prior year, in real terms)	2011	2012	2013
Germany	3.0	0.3	1.5
EU	1.6	-0.5	0.8
U.S.A.	1.8	1.8	2.2
Japan	-0.9	1.7	1.6
China	9.2	8.2	8.8
World	**3.8**	**3.3**	**3.9**

Source: IMF, WEO Update January 2012.

We anticipate an increase of approximately 4 % in the worldwide production of passenger vehicles and commercial vehicles in 2012, with development varying widely between regions. The Asian developing countries, China in particular, but also North America will continue to play a key role in global automobile production. We are anticipating production of passenger cars and light commercial vehicles to increase by approximately 8 % in Asia and approximately 6 % in North America. We expect growth in South America to come in at approximately 4 %, while automobile production in Europe will likely decline by 5 % compared to the prior year.

Based on the VDMA forecast, we expect sales for the global engineering industry to grow by approximately 7 % in real terms in 2012. Significant momentum will again be provided by China, where the engineering sector is expected to expand by approximately 15 % in real terms despite growth slowing down compared to 2011. We believe the engineering sector in the industrialized countries will grow by 3 %.

12.2 Schaeffler Group outlook

Anticipated growth in sales of more than 5 % in 2012

Provided conditions develop as expected, we anticipate growth in Schaeffler Group sales of more than 5 % in 2012. Due to our excellent positioning in the various business areas on the one hand and in regional growth markets on the other hand, we again expect a single-digit percentage growth rate for 2013.

Based on a slightly weaker economic development of the markets, the Automotive division anticipates moderate revenue growth in 2012. This forecast is based on the start-up or ramp-up of various projects, including projects in the engine- and transmission systems sectors. The Schaeffler Group also profits from its strong position with respect to the overall trend towards resource efficiency and environmental technologies.

We are planning for moderate growth in sales in the Industrial division in 2012. The main drivers of this growth are the above-average growth in demand for our products in the Asian markets together with continuing good prospects in the key sectors of power transmission and production machinery as well as in our aftermarket business.

The Schaeffler Group again anticipates making capital expenditures of 6 % to 8 % of revenue in both 2012 and 2013, mainly for new products and capacity expansion. These capital expenditures are the foundation of our organic growth. In addition to Germany, the regional focus will be concentrated on the growth region Asia.

We will maintain our development activities at the prior years' level. We plan to invest approximately 5 % of our consolidated revenue in researching and developing new products and processes in 2012 and 2013.

Net income for 2012 will continue to be held back by interest expense. As Continental AG is accounted for indirectly at equity in the consolidated financial statements of the Schaeffler Group, the financial result is affected by the economic performance of Continental AG.

We are expecting positive free cash flow in 2012 and 2013.

The forecast is based on the assumptions described under "Economic environment" (see group management report section 1.). We perceive opportunities in a stronger recovery of the world economy if investors and consumers regain confidence in the stability of the European monetary union sooner than expected, and consumer demand in the U.S. increases markedly. Such a scenario would provide potential for a more favorable development of business for Schaeffler in 2012 and 2013.

In addition, the fundamental changes in vehicle technology, which we are helping to shape together with our customers in the automotive sector, offer considerable opportunities in the medium term. Our innovations for optimizing the classic internal combustion engine drive train as well as our hybrid solutions and products for electric mobility are leading the way for these developments. This position may lead to additional growth potential both for revenue and earnings in the medium term.

Herzogenaurach, March 13, 2012

The Executive Board

Consolidated financial statements

1. Consolidated income statement

No. 017

in € millions	Note	2011	2010	Change in %
Revenue	3.1	10,694	9,495	12.6
Cost of sales		-7,463	-6,506	-14.7
Gross profit		**3,231**	**2,989**	**8.1**
Research and development expenses		-495	-467	-6.0
Selling expenses		-725	-645	-12.4
Administrative expenses		-408	-366	-11.5
Other income	3.2	330	375	-12.0
Other expenses	3.3	-244	-377	35.3
Earnings before financial result and income taxes (EBIT)		**1,689**	**1,509**	**11.9**
Share of net income (loss) of equity-accounted investees	2.2	324	-349	> 100
Interest income	3.5	40	51	-21.6
Interest expense	3.5	-773	-861	10.2
Financial result	**3.5**	**-409**	**-1,159**	**64.7**
Earnings before income taxes		**1,280**	**350**	**> 100**
Income taxes	3.6	-378	-277	-36.5
Net income		**902**	**73**	**> 100**
Attributable to shareholders of the parent company		889	63	> 100
Attributable to non-controlling interests		13	10	30.0

2. Consolidated statement of comprehensive income

No. 018

in € millions	2011 before taxes	2011 taxes	2011 after taxes	2010 before taxes	2010 taxes	2010 after taxes
Net income	**1,280**	**-378**	**902**	**350**	**-277**	**73**
Foreign currency translation differences for foreign operations	-24	0	-24	199	0	199
Effective portion of changes in fair value of cash flow hedges	-33	10	-23	121	-32	89
Net change in fair value of available-for-sale financial assets	0	0	0	1	0	1
Defined benefit plan actuarial gains (losses)	-114	34	-80	10	-9	1
Share of other comprehensive income (loss) of equity-accounted investees	-40	4	-36	126	0	126
Total other comprehensive income (loss)	**-211**	**48**	**-163**	**457**	**-41**	**416**
Total comprehensive income (loss) for the period	**1,069**	**-330**	**739**	**807**	**-318**	**489**
Total comprehensive income (loss) attributable to shareholders of the parent company	1,063	-330	733	794	-318	476
Total comprehensive income (loss) attributable to non-controlling interests	6	0	6	13	0	13
Total comprehensive income (loss) for the period	**1,069**	**-330**	**739**	**807**	**-318**	**489**

See notes 2.2, 4.11 and 4.15 to the consolidated financial statements.

3. Consolidated statement of financial position

No. 019

in € millions	Note	12/31/2011	12/31/2010	Change in %
ASSETS				
Intangible assets	4.1	553	575	-3.8
Property, plant and equipment	4.2	3,328	3,041	9.4
Investments in equity-accounted investees	4.3	4,772	5,252	-9.1
Other investments		14	8	75.0
Other assets	4.7	95	166	-42.8
Income tax receivables	4.7	22	0	-
Deferred tax assets	4.4	350	289	21.1
Total non-current assets		**9,134**	**9,331**	**-2.1**
Inventories	4.5	1,562	1,482	5.4
Trade receivables	4.6	1,607	1,443	11.4
Other assets	4.7	200	257	-22.2
Income tax receivables	4.7	89	98	-9.2
Cash and cash equivalents	4.8	397	733	-45.8
Total current assets		**3,855**	**4,013**	**-3.9**
Total assets		**12,989**	**13,344**	**-2.7**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves		1,324	2,801	-52.7
Accumulated other comprehensive income (loss)		-163	-7	< -100
Equity attributable to shareholders of the parent company		**1,661**	**3,294**	**-49.6**
Non-controlling interests		53	47	12.8
Total shareholders' equity	**4.9**	**1,714**	**3,341**	**-48.7**
Provisions for pensions and similar obligations	4.11	1,217	1,111	9.5
Provisions	4.12	79	127	-37.8
Financial debt	4.10	7,168	6,413	11.8
Income tax payables	4.14	172	102	68.6
Other liabilities	4.14	261	423	-38.3
Deferred tax liabilities	4.4	124	116	6.9
Total non-current liabilities		**9,021**	**8,292**	**8.8**
Provisions	4.12	208	317	-34.4
Financial debt	4.10	317	64	> 100
Trade payables	4.13	873	729	19.8
Income tax payables	4.14	184	115	60.0
Other liabilities	4.14	672	486	38.3
Total current liabilities		**2,254**	**1,711**	**31.7**
Total shareholders' equity and liabilities		**12,989**	**13,344**	**-2.7**

4. Consolidated statement of cash flows

No. 020

in € millions	2011	2010	Change in %
Operating activities			
EBIT	1,689	1,509	11.9
Interest paid	-686	-644	-6.5
Interest received	13	10	30.0
Income taxes paid	-238	-298	20.1
Depreciation, amortization and impairments	554	588	-5.8
Gains (losses) on disposal of assets	0	-2	100.0
Other non-cash items	2	-3	> 100
Changes in:			
· Inventories	-80	-257	68.9
· Trade receivables	-153	-241	36.5
· Trade payables	83	271	-69.4
· Provisions for pensions and similar obligations	-61	-55	-10.9
· Other assets, liabilities and provisions	-39	12	< -100
Cash flows from operating activities [1]	**1,084**	**890**	**21.8**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	11	25	-56.0
Capital expenditures on intangible assets	-15	-21	28.6
Capital expenditures on property, plant and equipment	-758	-340	< -100
Investments in other financial investments	-10	-4	< -100
Other investing activities	7	16	-56.3
Cash used in investing activities	**-765**	**-324**	**< -100**
Financing activities			
Dividends paid to non-controlling interests	-1	-1	0,0
Receipts from loans	13	3	> 100
Repayments of loans	-42	-83	49.4
Dividends paid to Schaeffler Verwaltungs GmbH	-400	-134	< -100
Receipts (payments) from other financing activities [2]	-216	15	< -100
Cash used in financing activities	**-646**	**-200**	**< -100**
Net increase (decrease) in cash and cash equivalents	**-327**	**366**	**< -100**
Effects of foreign exchange rate changes on cash and cash equivalents	-9	17	< -100
Cash and cash equivalents as of beginning of period	733	350	> 100
Cash and cash equivalents as of end of period	**397**	**733**	**-45.8**

[1] Excluding interest payments, cash flows from operating activities for the period from 1/1 to 12/31/2011 amount to EUR 1,770 m (prior year: EUR 1,534 m).
[2] Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 186 m (prior year: nil)

See note 5.3. to the consolidated financial statements.

5. Consolidated statement of changes in shareholders' equity

No. 021

in € millions	Share capital	Reserves	Accumulated other comprehensive income (loss) [1]: Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses	Subtotal	Non-controlling interests	Total
Balance as of January 1, 2010	**0**	**3,239**	**-190**	**-206**	**0**	**-25**	**2,818**	**34**	**2,852**
Net income		63					63	10	73
Other comprehensive income (loss)		-1	369	86	1	-42	413	3	416
Total comprehensive income (loss) for the period	**0**	**62**	**369**	**86**	**1**	**-42**	**476**	**13**	**489**
Capital increase	500	-500					0		0
Acquisitions in stages		-6					-6		-6
Other items from equity-accounted investees recognized directly in shareholders' equity		6					6		6
Balance as of December 31, 2010	**500**	**2,801**	**179**	**-120**	**1**	**-67**	**3,294**	**47**	**3,341**
Balance as of January 1, 2011	**500**	**2,801**	**179**	**-120**	**1**	**-67**	**3,294**	**47**	**3,341**
Net income		889					889	13	902
Other comprehensive income (loss)			-61	-11	-1	-83	-156	-7	-163
Total comprehensive income (loss) for the period	**0**	**889**	**-61**	**-11**	**-1**	**-83**	**733**	**6**	**739**
Dividends		-2,364					-2,364		-2,364
Other items from equity-accounted investees recognized directly in shareholders' equity		-2					-2		-2
Balance as of December 31, 2011	**500**	**1,324**	**118**	**-131**	**0**	**-150**	**1,661**	**53**	**1,714**

[1] Including the effect of equity-accounted investees (including Continental AG).

See note 4.9 to the consolidated financial statements.

6. Consolidated segment information

No. 022

	Automotive		Industrial		Other		Total	
	1/1 – 12/31		1/1 – 12/31		1/1 – 12/31		1/1 – 12/31	
in € millions	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Revenue	7,160	6,325	3,462	3,002	72 [1]	168 [2]	10,694	9,495
Cost of sales	-5,209	-4,483	-2,182	-1,855	-72	-168	-7,463	-6,506
Gross profit	1,951	1,842	1,280	1,147	0	0	3,231	2,989
EBIT	1,074	990	615	519	0	0	1,689	1,509
· in % of revenue	15.0	15.7	17.8	17.3	-	-	15.8	15.9
Depreciation, amortization and impairments	-375	-401	-179	-187	0	0	-554	-588
Inventories [3]	862	827	700	655	0	0 [5]	1,562	1,482
Trade receivables [3]	1,089	977	518	466	0	0 [5]	1,607	1,443
Property, plant and equipment [3]	2,257	1,988	1,071	1,053	0	0 [5]	3,328	3,041
Capital expenditures [4]	621	284	225	102	0	0 [5]	846	386

[1] The amount consists mainly of materials provided to subcontractors.
[2] The amount consists mainly of scrap sales and materials provided to subcontractors.
[3] Amounts as of December 31.
[4] Including non-cash additions to property, plant and equipment during the reporting period.
[5] The segment reporting process was changed to reflect the allocation of these items to the segments starting in 2011. Prior year amounts have been adjusted to correspond with current year presentation.

See note 5.4 to the consolidated financial statements.

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG (until October 13, 2011: Schaeffler GmbH), Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1–3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 13202). The consolidated financial statements of Schaeffler AG as at December 31, 2011 comprise Schaeffler AG and its subsidiaries, investments in associated companies and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). Schaeffler is a supplier to automotive, aerospace and other manufacturing customers with operations worldwide.

1.2 Basis of preparation and presentation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2011 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code). The term IFRS includes all International Financial Reporting Standards and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

As permitted by section 315a (3) HGB, the company has chosen to prepare its consolidated financial statements under IFRS.

Presentation of comparative information

The ultimate Group parent company INA-Holding Schaeffler GmbH & Co. KG (“IHO Group”) implemented an extensive reorganization of the group’s legal structure in 2009 and 2010 in order to establish a structure suitable for the capital markets, with Schaeffler AG functioning as holding company of the sub-group. The change of the legal form to a stock corporation (“Aktiengesellschaft”) became effective when it was entered in the Commercial Register on October 13, 2011.

For legal purposes, the Schaeffler Group was created upon the entry of a hive-down and assumption of investments and contractual relationships from Schaeffler Verwaltungs GmbH in the Commercial Register on June 28, 2010. As a result, part of the comparative reporting period ending on December 31, 2010 occurred before the current structure of the Schaeffler Group legally existed.

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

Assets, liabilities, expenses and income allocated to the Schaeffler Group were transferred from the consolidated IFRS financial statements of the IHO Group (predecessor accounting) at their carrying values. For the periods prior to the legal creation of the Schaeffler Group, the assets and liabilities transferred to the Schaeffler Group were recognized and measured in accordance with IFRS, IAS and the interpretations issued by the IFRIC as well as the former SIC, as adopted by the EU and effective at the end of each of the reporting periods.

Assets, liabilities, expenses and income were generally allocated to the Schaeffler Group based on the hive-down agreement dated May 25, 2010. In addition, certain financial statement line items were allocated appropriately based on certain assumptions, estimates and the principle of substance over form. The assumptions and estimates made affect the recognition, measurement and presentation of assets and liabilities as well as the amounts and presentation of the corresponding items of income and expense. The Schaeffler Group’s executive board considers the allocation methods applied to be appropriate and justifiable.

Please refer to the 2010 consolidated financial statements of the Schaeffler Group for a detailed description of the carve-out.

New accounting pronouncements

In 2011, the new Standards and Interpretations and amendments to Standards and Interpretations adopted by the EU as European law and summarized below were required to be applied for the first time. This initial application had no effect.

No. 023

Standard/Interpretation	Effective date	Subject of Standard/Interpretation or amendment
IFRS 1, IFRS 7	7/1/2010	Elimination of certain comparative IFRS 7 disclosures upon first-time adoption of IFRS
IAS 24	1/1/2011	Clarification of the definition of a related party and of the disclosure requirements regarding transactions; exemptions for entities controlled, jointly controlled, or significantly influenced by the state
IAS 32	2/1/2010	Rights issues in foreign currency
IFRIC 14	1/1/2011	Prepayments of a minimum funding requirement
IFRIC 19	7/1/2010	Extinguishing financial liabilities with equity instruments
Annual Improvements 2010		
IFRS 1	1/1/2011	Minor amendments
IFRS 3	7/1/2010	Amendments of revised IFRS 3 with respect to measuring non-controlling interests, share-based payment and contingent consideration
IFRS 7	1/1/2011	Amendments to various disclosures on risks arising from financial instruments
IAS 1	1/1/2011	Clarification regarding the statement of changes in shareholders' equity
IAS 21, IAS 28, IAS 31	7/1/2010	Prospective application of amendments of revised IAS 27
IAS 34	1/1/2011	Changed wording with respect to significant events and transactions
IFRIC 13	1/1/2011	Additional interpretive guidance (application guidance, basis for conclusions)

The International Accounting Standards Board (IASB) has issued the following amendment to IFRS 7. Application of this amendment is contingent on adoption by the EU under its IFRS endorsement process, which occurred in November 2011. The Schaeffler Group will initially apply the amendment in its 2012 financial year. Assuming that the Schaeffler Group will continue to not be party to transactions affected by this amendment in the future, the amendment will have no impact on the Schaeffler Group.

No. 024

Standard/Interpretation	Effective date	Subject of Standard/Interpretation or amendment
IFRS 7	7/1/2011	Disclosure requirements related to transfers of financial assets

In addition, the IASB has issued new Standards and amendments to existing Standards and Interpretations which have not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue by Schaeffler Group management. The Schaeffler Group has not applied any of the following new Standards or amendments to existing Standards and Interpretations early:

No. 025

Standard/ Interpretation	Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1	7/1/2011	Aspects of first-time adoption of IFRS with respect to financial instruments and hyperinflation	none
IFRS 7	1/1/2013	Disclosures on financial assets and liabilities that are offset	none
IFRS 9	1/1/2015	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments [1]
IFRS 10	1/1/2013	Consolidated financial statements; replaces the corresponding guidance in IAS 27	none
IFRS 11	1/1/2013	Joint arrangements; replaces IAS 31	none
IFRS 12	1/1/2013	Disclosure of interests in other entities	Expanded disclosures regarding investments and unconsolidated structured entities
IFRS 13	1/1/2013	Fair value measurement	Expanded disclosures on fair values of financial instruments
IAS 1	7/1/2012	Presentation of other comprehensive income	Changes to the presentation of the consolidated statement of comprehensive income
IAS 12	1/1/2012	Deferred taxes on investment property measured at fair value through profit or loss	none
IAS 19	1/1/2013	Changes resulting from IAS 19 rev. 2011	Accounting for obligations under partial retirement arrangements; extent of disclosures
IAS 27	1/1/2013	Guidance on separate financial statements; elimination of guidance on consolidation (IFRS 10)	none
IAS 28	1/1/2013	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12	none
IAS 32	1/1/2014	Offsetting financial assets and liabilities	none
IFRIC 20	1/1/2013	Stripping costs in the production phase of a surface mine	none

[1] Detailed statements regarding the extent of the impact are not yet possible.

Basis of preparation

These consolidated financial statements are presented in Euros, the functional and presentation currency of the Schaeffler Group. Unless stated otherwise, all amounts are in millions of Euros (EUR m).

Schaeffler classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period or within its normal operating cycle. Similarly, liabilities are classified as current if they are expected to be settled within the normal operating cycle or if Schaeffler is contractually required to settle them within twelve months after the end of the reporting period.

As amounts (in millions of Euros) and percentages have been rounded, rounding differences may occur.

Measurement bases

Except for the following, these consolidated financial statements have generally been prepared on the historical cost basis:

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

These instruments were measured at fair value.

Estimation uncertainty and management judgment

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

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

The following issues affected by estimation uncertainty in the application of accounting policies have the most significant impact on amounts recognized in the consolidated financial statements:

- determination of the useful lives of intangible assets and property, plant and equipment,
- determination of valuation allowances on inventories,
- impairment tests of goodwill and non-current assets, including determination of recoverable amounts and the underlying assumptions (e. g. discount rate),
- accounting for employee benefits, including actuarial assumptions,
- recognition and measurement of other provisions,
- assessment of the recoverability of deferred tax assets, and
- measurement of financial instruments with respect to assessing recoverability and determining fair values.

The following issues in particular are affected by the application of management's professional judgment:

- identification of cash-generating units and
- classification of lease agreements as finance or operating leases.

In 2011, there was no significant impact from changes in assumptions made in the past or the resolution of previously existing uncertainties related to the above items.

1.3 Accounting policies

The accounting policies set out below have been applied consistently by all Schaeffler Group entities for all periods presented in these consolidated financial statements. The financial statements of all Schaeffler Group entities have been prepared as of the same date as these consolidated financial statements.

Consolidation principles

Subsidiaries are entities Schaeffler controls. Control exists if Schaeffler has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights that are currently exercisable are taken into account when assessing control. In accordance with SIC 12 "Consolidation – Special Purpose Entities", Schaeffler's consolidated financial statements also include companies that Schaeffler controls without holding a majority of the voting rights, e. g. where Schaeffler in substance retains the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities. Subsidiaries' financial statements are included in the consolidated financial statements from the date Schaeffler obtains control until the date Schaeffler loses control.

Associated companies are those entities over which Schaeffler has significant influence, but not control, over the financial and operating policy decisions of the investee. Significant influence is presumed to exist if Schaeffler holds, directly or indirectly, between 20 % and 50 % of the voting power of an investee. Where Schaeffler's direct or indirect holdings represent less than 20 % of the voting rights, significant influence is presumed not to exist unless such influence can be clearly demonstrated.

Investments in associated companies and joint ventures are accounted for using the equity method. Under this method, the investment is initially recognized at cost. The carrying amount of Schaeffler's investments in associated companies includes goodwill identified on acquisition of an associated company. After initial recognition, the carrying amount of the investment is increased or decreased by the investor's share of the investee's net income or loss and other comprehensive income (loss) from the date that significant influence commences until the date significant influence ceases. If Schaeffler's share of losses of an associated company reaches or exceeds the amount of the investment, the carrying amount of that investment is reduced to zero and no further losses are recognized except to the extent that Schaeffler has incurred a legal or constructive obligation to make payments or has made payments on behalf of the associated company.

Balances and transactions with consolidated subsidiaries and any related income and expenses are completely eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associated companies are eliminated against the carrying amount of the investment in the associated company to the extent of Schaeffler's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent there is no evidence of impairment. Deferred taxes on temporary differences related to the elimination of such balances and transactions are measured at the tax rate of the acquiring entity.

Foreign currency translation

Foreign currency transactions

Upon initial recognition, purchases and sales denominated in foreign currencies are translated at the exchange rate applicable at the time of the transaction. Since receivables and payables denominated in foreign currencies arising from these transactions are monetary items within the scope of IAS 21, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. The resulting exchange gains and losses are recognized in the entity's separate and in the consolidated income statement of Schaeffler Group.

Translation of foreign currency financial statements

The Schaeffler Group presents its financial statements in Euros, the functional currency of Schaeffler AG. Assets and liabilities of subsidiaries whose functional currency is not the Euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in accumulated other comprehensive income and reclassified to the income statement upon disposal of the subsidiary.

The following table illustrates the most significant exchange rates used in preparing the consolidated financial statements:

No. 026

Currencies		Closing rate		Average rate	
1 € in		12/31/2011	12/31/2010	2011	2010
Brazil	BRL	2.42	2.22	2.32	2.33
Canada	CAD	1.32	1.33	1.37	1.37
Switzerland	CHF	1.22	1.25	1.23	1.38
China	CNY	8.16	8.82	8.99	8.98
United Kingdom	GBP	0.84	0.86	0.87	0.86
Hong Kong	HKD	10.05	10.39	10.81	10.31
Hungary	HUF	314.58	277.95	279.44	275.36
India	INR	68.71	59.76	64.80	60.61
Japan	JPY	100.20	108.65	110.86	116.46
South Korea	KRW	1,498.69	1,499.06	1,537.97	1,532.89
Mexico	MXN	18.05	16.55	17.25	16.75
Romania	RON	4.32	4.26	4.24	4.21
Sweden	SEK	8.91	8.97	9.03	9.55
Singapore	SGD	1.68	1.71	1.75	1.81
U.S.A.	USD	1.29	1.34	1.39	1.33
South Africa	ZAR	10.48	8.86	10.08	9.71

Revenue recognition

Revenues from the ordinary business activities of the Schaeffler Group are shown as revenue and recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates based on the general terms and conditions. Other revenues such as from equipment sales and rental income are included in other income.

Revenue from the sale of goods is recognized when, based on the arrangement with the customer, (1) the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, (2) it is sufficiently probable that the economic benefits from the sale will flow to Schaeffler, (3) the costs associated with the sale and possible return of goods can be estimated reliably, (4) Schaeffler has no continuing managerial involvement with the goods, and (5) the amount of revenue can be measured reliably. Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery, provided that the conditions listed above are met.

Product-related expenses

Product-related expenses comprise all direct costs attributable to the process of producing goods and rendering services as well as allocated production-related overheads.

Costs incurred for advertising, sales promotion and other selling related activities are expensed as incurred. Warranty provisions are recognized on a case-by-case basis or, in cases involving a large population of items, using the expected value method taking into account the related specific legal and contractual agreements.

Research and development expenses

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

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

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Related development costs are only capitalized as intangible assets if (1) technical feasibility can be demonstrated, (2) Schaeffler intends to complete the intangible asset and use or sell it, (3) Schaeffler has the ability to use or sell the intangible asset, (4) future economic benefits from sale or use of the intangible asset can be demonstrated to exist, (5) adequate technical, financial and other resources are available to complete the development and for the subsequent sale or use, and (6) the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalized costs include costs directly attributable to the development process and development-related overheads. Capitalized development expenditures are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the average expected useful life of six years beginning when the intangible asset is ready for use. Amortization expense is presented in cost of sales. In contrast to costs of developing new or substantially improved products, advance development costs and costs incurred to produce customer-specific applications (i. e. to customize existing products without substantial improvement) are not capitalized, but instead expensed as incurred.

Goodwill

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

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

Other intangible assets

Purchased intangible assets including software and patents are capitalized at acquisition cost, internally generated intangible assets meeting the requirements of IAS 38 regarding capitalization, including software and development projects, at production cost. Intangible assets with a determinable useful life are amortized on a straight-line basis over their estimated useful lives of three years for software, six years for development costs and ten years for patents. Amortization commences when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Other intangible assets are tested for impairment when there is an indication that the asset may be impaired. The Schaeffler Group does not have any intangible assets with indefinite useful lives.

Subsequent expenditures are only capitalized when they meet the recognition criteria for an intangible asset, i. e. it is probable that the future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. All other expenditures, including expenditures for internally generated goodwill and brands, are expensed as incurred.

Amortization expense and impairment losses related to an intangible asset are presented in the consolidated income statement within the functional area in which the intangible asset is utilized.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all costs directly attributable to the acquisition of the asset. Self-constructed assets are initially measured at the directly attributable construction cost that is necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the consideration received with the carrying amount of the asset. They are presented net in other income or other expenses, respectively.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Estimated useful lives range from 15 to 25 years for buildings and outside facilities, from 2 to 10 years for technical equipment and machinery and from 3 to 8 years for other equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the asset's useful life. Land is not depreciated. Depreciation expense and impairment losses are presented in the consolidated income statement under the appropriate functional area.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period. Useful lives are determined by estimating the period during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological developments.

Leases

Leases that transfer substantially all risks and rewards of ownership to Schaeffler are classified as finance leases. The leased asset is initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A liability is recognized at the same amount. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. Financing costs are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases under which the lessor retains substantially all risks and rewards of ownership are classified as operating leases, and the related lease payments are expensed on a straight-line basis over the lease term.

Impairment

Financial assets

Financial assets are tested for impairment individually at the end of each reporting period and when objective evidence of impairment exists. Schaeffler has established group-wide guidelines to help determine the relative amount of the impairment (such as commencement of judicial collection procedures, compulsory enforcement) when analyzing evidence that impairment exists. Group companies apply these guidelines taking into account the circumstances specific to the financial asset being considered. Impairment losses in respect of a financial asset measured at amortized cost are calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the effective interest rate originally determined at initial recognition (discounted cash flow method). An impairment loss in respect of an available-for-sale financial asset is calculated based on the asset's fair value.

All impairment losses are recognized in profit or loss. If an impairment is recognized in respect of an available-for-sale financial asset, any cumulative losses previously recognized in other comprehensive income related to that asset are reclassified from accumulated other comprehensive income to profit or loss.

An impairment loss is reversed if the reversal of the impairment loss can be related objectively to an event occurring after the impairment was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognized in other comprehensive income.

Non-financial assets

IAS 36 requires the carrying amounts of non-financial assets to be tested for impairment on the basis of individual assets or the smallest unit with largely independent cash inflows (cash-generating units). The Schaeffler Group's cash-generating units are its segments, Automotive and Industrial.

If there is an indication of impairment, intangible assets and property, plant and equipment are tested for impairment during the year. Goodwill and intangible assets not yet available for use are also tested annually for impairment at the end of the reporting period.

Recoverable amount is the higher of fair value less costs to sell and value in use. Initially, Schaeffler determines recoverable amount under the value in use concept using the discounted cash flow method. If value in use does not exceed the carrying amount of the cash-generating unit, the second step taken is to determine recoverable amount using fair value less costs to sell.

Expected cash flows of the cash-generating units are based on a three-year-forecast and future projections which are reviewed regularly by the Schaeffler Group management. The medium-term forecast is based on specific assumptions regarding macroeconomic indicators, external sales expectations and internal assessments of demand and projects, as well as sales prices, commodity price trends, and capital expenditures. Projections beyond the detailed forecast horizon are made using a growth rate for each segment.

An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses (except on goodwill) are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

If the resulting impairment loss exceeds the amount of recognized goodwill, goodwill is fully impaired first. The remaining impairment loss is allocated to the other assets in the cash-generating unit.

The discount rate reflects current market expectations and the risks specific to the asset.

At the end of each reporting period, the Schaeffler Group assesses whether there is any indication that its equity method investments may be impaired. If such an indication exists, Schaeffler is required to test that equity method investment for impairment. An equity method investment is impaired when its carrying amount exceeds the higher of its value in use and fair value less costs to sell.

Financial instruments

In accordance with IAS 32 a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include (1) non-derivative financial instruments and (2) derivative financial instruments. Normal sales and purchases of financial assets are recognized using settlement date accounting.

Please refer to Note 4.15 for an analysis of the Schaeffler Group's financial instruments by class as required by IFRS 7.6.

(1) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and receivables, and trade and other payables. Non-derivative financial instruments are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

Schaeffler classifies its financial instruments in one of the following categories as defined in IAS 39:

Available-for-sale financial assets

Except for investments in associated companies (IAS 28), Schaeffler classifies its investments in equity securities as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein – other than impairment losses and exchange differences on available-for-sale monetary assets – are recognized in other comprehensive income (including related deferred taxes). Fair values are derived from market prices unless no quoted prices are available or there is no active market; in these cases, fair value is determined using valuation techniques such as the discounted cash flow method. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be measured reliably are recognized at cost.

When an available-for-sale financial asset is derecognized, the cumulative gain or loss previously recognized in accumulated other comprehensive income is reclassified to profit or loss.

Loans and receivables

Loans and receivables are measured at amortized cost less any impairment losses. Trade and other receivables within this category are carried at face value. Impairment losses on trade and other receivables are recognized in profit or loss unless the receivable is covered by credit insurance. Non-interest bearing receivables with a maturity of more than one year are discounted. Loans and receivables sold to third parties are derecognized if and when substantially all risks and rewards associated with the loans and receivables sold have been transferred.

This category also includes cash and cash equivalents. Schaeffler considers all liquid investments with a maturity of less than three months from the date of acquisition to be cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities

With the exception of derivative financial instruments, Schaeffler measures all financial liabilities at amortized cost, which includes any transaction costs attributable to the liability. Obligations under finance leases are initially measured at an amount equal to the lower of the fair value of the leased asset and the present value of minimum lease payments.

(2) Derivative financial instruments

Schaeffler holds derivative financial instruments to hedge its currency and interest rate risk exposures inherent in assets and liabilities and in future cash flows.

In accordance with IAS 39, derivatives are initially recognized as an asset or liability at fair value; attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss and classified as financial assets/liabilities held for trading (HfT). The Schaeffler Group does not have any fair value hedges or hedges of a net investment in a foreign operation.

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

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

Inventories

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

Income taxes

Income tax expense for the period includes current and deferred tax expense. Income taxes are recognized in profit or loss, except for income taxes relating to items recognized directly in equity or in accumulated other comprehensive income, which are also recognized in equity or in accumulated other comprehensive income.

Current taxes are calculated based on local tax rules and regulations effective at the end of the reporting period or shortly thereafter in the countries in which the subsidiaries and associated companies operate and generate taxable income. Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and, where appropriate, recognizes provisions based on amounts expected to be payable to taxation authorities.

Under IAS 12 “Income Taxes”, deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets and liabilities are recognized on temporary differences that will result in taxable or deductible amounts in determining taxable profit of future periods, unless the differences are the result of the initial recognition of an asset or a liability in a transaction which is not a business combination and at the time of the transaction has affected neither pre-tax profit or loss nor taxable profit (initial differences). IAS 12 also requires the recognition of deferred tax assets on tax loss carryforwards and tax credits.

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that future taxable profit will be available.

Deferred tax liabilities arising on temporary differences associated with investments in subsidiaries and associated companies are recognized unless the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future as a result of this control.

Deferred taxes are measured using tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period and that are expected to apply to the period when the deferred tax asset is expected to be realized or the deferred tax liability is expected to be settled. The effects of changes in tax rates or tax laws on deferred tax assets and liabilities are recognized in profit or loss unless the deferred tax assets and liabilities were originally recognized outside profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right of offset exists and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend to settle net.

Provisions for pensions and similar obligations

Employee benefits include both defined benefit plans and defined contribution plans.

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market assessments of expected return on plan assets and anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent Schaeffler is entitled to a refund or reduction of future contributions to the fund.

Schaeffler immediately recognizes all actuarial gains and losses arising from defined benefit plans in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the expected return on plan assets are included in interest income and interest expense.

For defined contribution plans, Schaeffler pays fixed contributions to a third party without any legal or constructive obligation to make additional contributions. The contributions are recognized as personnel expense within the appropriate functional expenses.

Provisions

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

Estimating future costs is subject to a large degree of uncertainty, particularly for restructuring measures involving several parties and extending over a long period of time.

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

2. Principles of consolidation

2.1 Scope of consolidation

In 2011, the Schaeffler Group includes, in addition to Schaeffler AG, 154 (prior year: 152) fully consolidated subsidiaries; 50 (prior year: 50) companies are domiciled in Germany and 104 (prior year: 102) are foreign entities.

The following changes have occurred since December 31, 2010:

Schaeffler Ukraine GmbH, Kiev (Ukraine), which was founded in late 2010, is consolidated beginning January 1, 2011. The newly founded companies Schaeffler Manufacturing (Thailand) Co., Ltd., Rayong (Thailand), Schaeffler (Nanjing) Co., Ltd., Nanjing City (China) and Schaeffler Finance B.V., Barneveld (Netherlands) are also consolidated for the first time. FAG (UK) Ltd., Sutton Coldfield (UK) and LuK Africa (Proprietary) Limited, Port Elizabeth (South Africa), which no longer had any operations, were wound up during the year and ceased to be consolidated. The number of consolidated companies has increased by two.

Two foreign subsidiaries (prior year: two) are consolidated because Schaeffler AG has the ability to control these companies, although it does not hold the majority of the voting rights.

In the consolidated financial statements as at December 31, 2011, ten (prior year: nine) investments (including three joint ventures (prior year: two)) are accounted for at equity. Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach was founded in 2011.

Schaeffler AG transferred 12,043,528 Continental AG shares to Schaeffler Verwaltungs GmbH on May 5, 2011, reducing the Schaeffler Group's interest in Continental AG to 36.14 %.

Schaeffler AG's shares in Continental AG were transferred to Schaeffler Beteiligungsholding GmbH & Co. KG on September 30, 2011. Schaeffler Beteiligungsholding GmbH & Co. KG is a joint venture as defined in IAS 31 and is accounted for at equity in the consolidated financial statements. As Schaeffler AG is the limited partner and holds 100 % of the shares, the transfer of the Continental AG shares does not change the underlying economics of this investment. For this reason, the accounting treatment and presentation in the consolidated financial statements were continued unchanged (see Notes 2.2 and 5.5).

See Note 5.9 for details of the Schaeffler Group's investments.

2.2 Investments in equity-accounted investees

In substance, investments in equity-accounted investees represent primarily the indirectly held shares in Continental AG. Schaeffler Beteiligungsholding GmbH & Co. KG holds 72,290,458 shares or 36.14 % of the voting interest in Continental AG as at December 31, 2011.

Continental AG is a leading automotive supplier with worldwide operations, headquartered in Hanover, Germany. The following table provides summarized financial information about the Continental Group:

No. 027

in € millions	2011	2010
Revenue (1/1 – 12/31)	30,505	26,047
Net income [1] (1/1 – 12/31)	1,325	646
Assets (as of 12/31)	26,038	24,391
Liabilities (as of 12/31)	18,495	18,188

[1] Including non-controlling interests.

All equity-accounted investees have the same reporting date as Schaeffler AG.

Purchase price allocation

In accordance with the equity method, the acquisition cost of Schaeffler AG's interest was allocated based on the fair value of the assets and liabilities of Continental AG. The equity-method carrying amount at the time of transfer of the 36.14 % investment in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG on September 30, 2011 represented Schaeffler AG's investment of 100 % of the limited partner shares of Schaeffler Beteiligungsholding GmbH & Co. KG at that time, which is accounted for at equity in the consolidated financial statements.

As Schaeffler AG has indirect influence (via Schaeffler Beteiligungsholding GmbH & Co. KG) over Continental AG and since Schaeffler Beteiligungsholding GmbH & Co. KG does not have any operations except for holding the investment in Continental AG, Schaeffler has maintained both the purchase price allocation and the carrying amount of the investment in Continental AG determined in accordance with IAS 28 for purposes of its equity-method accounting for Schaeffler Beteiligungsholding GmbH & Co. KG subsequent to September 30, 2011.

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

The share of net income (loss) of equity-accounted investees is mainly the result of measuring the investment in Continental AG (held indirectly since September 30, 2011) using the equity method. The Schaeffler Group's share of depreciation, amortization and impairments on fair value adjustments and its share of Continental AG's net income, including non-recurring items realized through the purchase price allocation and net of offsetting deferred tax effects, result in income after tax of EUR 311 m. The effect on Schaeffler AG's net income is as follows:

No. 028

in € millions	2011	2010
Depreciation, amortization and impairments of fair value adjustments	-265	-296
Share of net income of Continental AG	477	246
Dilution of ownership interest due to non-participation in Continental AG capital increase	0	-396
Effect before income taxes	**212**	**-446**
Deferred taxes	74	83
Effect on income before special items [1]	**286**	**-363**
Special items[1]		
· Reversal of step down of financial debt recognized at the time of the PPA	0	-5
· Reversal of cash flow hedges existing at the time of the PPA	20	12
· Recognition of Continental AG pension obligations at fair value	5	8
Effect on income after special items[1]	**311**	**-348**

[1] Realized through purchase price allocation (PPA).

Special items realized through the purchase price allocation reflect adjustments to transactions that have since been realized by Continental AG.

Due to the partial disposal of the Continental AG shares by distribution as a dividend in kind on May 5, 2011, EUR 13 m of the Schaeffler Group's share of the accumulated other comprehensive income (loss) of Continental AG were reclassified to the consolidated income statement. This has brought the total income from equity-accounted investees to EUR 324 m.

Share of other comprehensive income (loss) of equity-accounted investees

The Schaeffler Group's share of other comprehensive income (loss) of Continental AG amounts to EUR 14 m (prior year: EUR 181 m).

An adjustment to reflect the use of uniform methods in accounting for pension obligations of EUR 17 m (prior year: EUR 43 m) and changes in cash flow hedges of EUR 20 m (prior year: EUR 12 m) had an offsetting effect on other comprehensive income (loss). Accumulated other comprehensive income of EUR 13 m (prior year: EUR nil) was reclassified to income as a result of the partial disposal of shares in Continental AG.

In total, these items decrease accumulated other comprehensive income (loss) by EUR 36 m after tax (prior year: EUR + 126 m).

In addition, the exercise of share options by certain members of Continental AG management and Schaeffler's share of the impact of acquisitions in stages by Continental AG have decreased reserves by EUR 2 m (prior year: EUR 6 m) without affecting net income.

Nature and extent of significant restrictions

Debt covenants restrict Continental AG's ability to pay dividends. Continental AG did not pay any dividends for 2008, 2009 and 2010.

Market capitalization

The fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (36.14 %) on December 31, 2011 was EUR 3,477 m. On December 31, 2010 the fair value of the Continental AG shares held by the Schaeffler Group (42.17 %) was EUR 4,988 m.

3. Notes to the consolidated income statement

3.1 Revenue

No. 029

in € millions	2011	2010
Revenue from the sale of goods	10,499	9,223
Other revenue	195	272
Total	**10,694**	**9,495**

Revenue from the sale of goods consists of invoiced sales of goods to customers, net of early payment discounts. Other revenue includes EUR 103 m (prior year: EUR 94 m) in revenue from other services consisting mainly of research and development services as well as revenue from the sale of tools and special machines.

3.2 Other income

No. 030

in € millions	2011	2010
Exchange gains	292	308
Reversal of provisions	6	4
Reduction of allowances	3	8
Gains on disposal of assets	3	5
Miscellaneous income	26	50
Total	**330**	**375**

Exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate.

3.3 Other expenses

No. 031

in € millions	2011	2010
Exchange losses	219	319
Increase in allowances	3	4
Losses on disposal of assets	3	3
Miscellaneous expenses	19	51
Total	**244**	**377**

Exchange losses of EUR 219 m (prior year: EUR 319 m) include both realized and unrealized exchange losses. The development of exchange rates, particularly against the U.S. Dollar, led to a decline in exchange losses realized on derivative currency hedging instruments compared to the prior year.

3.4 Personnel expense and headcount

The number of employees at December 31, 2011 was 74,031, 9.7 % above the prior year level of 67,509. In 2011, the Schaeffler Group had an average of 71,896 employees (prior year: 65,041) and 748 temporary staff (prior year: 488).

No. 032

Number of employees by region	2011	2010
Germany	29,001	27,457
Europe excluding Germany	21,425	19,016
North America	6,474	5,505
South America	4,636	4,368
Asia/Pacific	10,360	8,695
Total	**71,896**	**65,041**

No. 033

Number of employees by functional area	2011	2010
Production	56,457	50,886
Research and development	5,465	4,902
Selling	5,793	5,366
General administration	4,181	3,887
Total	**71,896**	**65,041**

The Schaeffler Group's personnel expense can be analyzed as follows:

No. 034

in € millions	2011	2010
Wages and salaries	2,484	2,264
Social security contributions	495	437
Pensions and similar benefit expenses	49	57
Total	**3,028**	**2,758**

The increase in personnel expense in 2011 is mainly due to the encouraging volume of business and the related increase in staffing levels in all regions.

Pensions and similar benefit expenses consist mainly of expenses related to defined benefit pension plans, contributions to defined contribution pension plans, expenses in connection with the "Pensionssicherungsverein" (German pension assurance association), and other employee benefits.

3.5 Financial result

No. 035

in € millions	2011	2010
Expected return on pension plan assets	26	25
Interest income on financial assets	13	12
Miscellaneous financial income	1	14
Interest income	**40**	**51**
Interest expense on financial debt	-494	-386
Interest expense from compounding of pensions and other provisions	-86	-84
Net interest expense on interest rate derivatives	-176	-373
Miscellaneous financial expense	-17	-18
Interest expense	**-773**	**-861**
Share of net income (loss) of equity-accounted investees	324	-349
Financial result	**-409**	**-1,159**

The Schaeffler Group's financial result comprises interest income of EUR 40 m (prior year: EUR 51 m) and interest expense of EUR 773 m (prior year: EUR 861 m) as well as the share of net income (loss) of equity-accounted investees of EUR 324 m (prior year: EUR -349 m).

The income (loss) from equity-accounted investees consists almost entirely of income from Schaeffler's 36.14 % interest in Continental AG up to September 30, 2011 and since that date from Schaeffler's 100 % limited partner share in Schaeffler Beteiligungsholding GmbH & Co. KG, which now holds the 36.14 % interest in Continental AG and is also accounted for under the equity method in these consolidated financial statements.

Interest income relates primarily to expected returns on plan assets of funded pension plans and income from discounting various line items in the statement of financial position.

Interest expense of EUR 494 m (prior year: EUR 386 m) was primarily incurred on financial debt, EUR 176 m (prior year: EUR 373 m) on interest rate derivatives, and EUR 86 m (prior year: EUR 84 m) relate to compounding of pensions and other provisions.

Interest expense on financial debt of EUR 494 m (prior year: EUR 386 m) includes primarily interest payments of EUR 395 m (prior year: EUR 282 m) for the Senior Facility Agreement and expenses of EUR 78 m (prior year: EUR 30 m) relating to transaction costs amortized over the term of the financial debt, as well as interest expense of EUR 20 m (prior year: EUR 25 m) on the annuity loan. The amortization of transaction costs includes EUR 47 m resulting from the adjustment of the term of the loan, which was shortened in connection with the refinancing agreement reached with the banks on January 27, 2012.

Net interest expense on interest rate derivatives of EUR 176 m (prior year: EUR 373 m) includes EUR 170 m (prior year: EUR 252 m) in compensation payments on interest rate derivatives and EUR 75 m (prior year: EUR 91 m) in expenses arising from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009. These interest expenses are partially offset by EUR 69 m in gains (prior year: losses of EUR 30 m) arising from unrealized non-cash fair value changes of interest rate derivatives. These gains are presented in interest expense as well since they economically relate to interest expense on the company's financial debt.

3.6 Income taxes

Income taxes consist of the following:

No. 036

in € millions	2011	2010
Current income taxes	386	314
Deferred income taxes	-8	-37
Income taxes	378	277

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

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

In 2011, current income tax expense related to prior years amounts to EUR 16 m (prior year: EUR 19 m). In addition, Schaeffler had deferred tax income of EUR 14 m (prior year: EUR 20 m) related to prior years.

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

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

No. 037

in € millions	2011	2010
Net income before tax	**1,280**	**350**
Expected tax expense	358	98
Addition/reduction due to deviating local tax bases	-1	4
Foreign/domestic tax rate differences	-4	-1
Non-recognition of deferred tax assets	4	7
Change in tax rate and law	0	-5
Non-deductible expenses	122	146
Share of net income (loss) of equity-accounted investees	-90	54
Taxes for previous years	2	-1
Other	-13	-25
Reported tax expense	378	277

The additional income tax on non-deductible expenses is almost entirely caused by interest expense that is non-deductible because of the interest deduction cap (German Zinsschranke). As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards.

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

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

No. 038

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as of January 1, 2010	**483**	**998**	**212**	**1**	**1,694**
Additions	0	6	15	0	21
Disposals	0	-11	-17	-1	-29
Transfers	0	0	0	0	0
Foreign currency translation	0	4	1	0	5
Balance as of December 31, 2010	**483**	**997**	**211**	**0**	**1,691**
Balance as of January 1, 2011	**483**	**997**	**211**	**0**	**1,691**
Additions	0	5	10	0	15
Disposals	0	-1	0	0	-1
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as of December 31, 2011	**483**	**1,002**	**221**	**0**	**1,706**
Accumulated amortization and impairment losses					
Balance as of January 1, 2010	**0**	**968**	**108**	**0**	**1,076**
Additions	0	16	32	0	48
Disposals	0	-11	0	0	-11
Transfers	0	0	0	0	0
Foreign currency translation	0	3	0	0	3
Balance as of December 31, 2010	**0**	**976**	**140**	**0**	**1,116**
Balance as of January 1, 2011	**0**	**976**	**140**	**0**	**1,116**
Additions	0	10	27	0	37
Disposals	0	-1	0	0	-1
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as of December 31, 2011	**0**	**986**	**167**	**0**	**1,153**
Net carrying amounts					
As of January 1, 2010	**483**	**30**	**104**	**1**	**618**
As of December 31, 2010	**483**	**21**	**71**	**0**	**575**
As of January 1, 2011	**483**	**21**	**71**	**0**	**575**
As of December 31, 2011	**483**	**16**	**54**	**0**	**553**

At the end of 2011, intangible assets purchased from third parties have a net carrying amount of EUR 16 m (prior year: EUR 21 m). Additions totaled EUR 5 m (prior year: EUR 6 m) in 2011.

Capitalized development costs included in internally generated intangible assets decreased to EUR 32 m (prior year : EUR 45 m) as a result of EUR 13 m (prior year: EUR 13 m) in amortization in 2011.

Internally generated intangible assets include EUR 22 m (prior year: EUR 26 m) in internally generated software, mainly relating to the implementation of SAP. In 2011, additions of EUR 10 m (prior year: EUR 12 m) are offset by amortization of EUR 14 m (prior year: EUR 19 m).

Amortization of internally generated intangible assets totaling EUR 37 m (prior year: EUR 48 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 14 m (prior year: EUR 15 m), research and development expenses EUR 3 m (prior year: EUR 2 m), selling expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 15 m (prior year: EUR 26 m).

Internally generated intangible assets with a carrying amount of EUR 10 m (prior year: EUR 13 m) are not yet subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 495 m (prior year: EUR 467 m) were recognized in the consolidated income statement in 2011.

At December 31, 2011, intangible assets with a carrying amount of EUR 5 m (prior year: EUR 7 m) were pledged as collateral for bank loans.

Goodwill

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under General Information (Accounting policies). The key assumption in our forecast relates to constant growth rates for the Automotive and Industrial segments exceeding the corresponding assumptions for the market. We are further confident that we can be sufficiently flexible in our cost structure to be able to maintain our EBITDA margin at its current level in the coming years.

For purposes of determining the recoverable amount, cash flows beyond the detailed forecast horizon of 2014 are based on an annual growth rate of 0.5 % (prior year: 0.5 %) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 13.87 % (prior year: 13.05 %) as the weighted average cost of capital for the Automotive segment and 13.89 % (prior year: 13.05 %) for the Industrial segment. This corresponds to a post-tax interest rate of 9.64 % for the Automotive segment (prior year: 9.12 %) and 9.75 % for the Industrial segment (prior year: 9.18 %).

Valuation assumptions are normally identical across cash-generating units.

As the value in use of the cash-generating units exceeds their carrying amount both for the current and the prior year, they are not impaired. Even adjusting an assumption the forecasted cash flows are based upon, e. g. by reducing forecast EBIT by 15 % or increasing cost of capital by 5 %, does not result in an impairment loss.

The carrying amounts of goodwill allocated to the cash-generating units are unchanged from the prior year, amounting to EUR 275 m (prior year: EUR 275 m) (Automotive) and EUR 208 m (prior year: EUR 208 m) (Industrial).

4.2 Property, plant and equipment

No. 039

in € millions	Land and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as of January 1, 2010	**1,987**	**5,466**	**824**	**167**	**8,444**
Additions	16	160	36	153	365
Disposals	-12	-188	-72	-10	-282
Transfers	5	92	4	-101	0
Foreign currency translation	57	167	18	6	248
Balance as of December 31, 2010	**2,053**	**5,697**	**810**	**215**	**8,775**
Balance as of January 1, 2011	**2,053**	**5,697**	**810**	**215**	**8,775**
Additions [1)]	32	313	73	413	831
Disposals	-6	-119	-42	-2	-169
Transfers	9	100	8	-117	0
Foreign currency translation	0	-20	-3	0	-23
Balance as of December 31, 2011	**2,088**	**5,971**	**846**	**509**	**9,414**
Accumulated depreciation and impairment losses					
Balance as of January 1, 2010	**854**	**3,788**	**655**	**18**	**5,315**
Depreciation	67	414	57	0	538
Impairment losses	0	2	0	0	2
Impairment reversals	0	0	0	-5	-5
Disposals	-10	-183	-69	0	-262
Transfers	0	-1	1	0	0
Foreign currency translation	18	113	15	0	146
Balance as of December 31, 2010	**929**	**4,133**	**659**	**13**	**5,734**
Balance as of January 1, 2011	**929**	**4,133**	**659**	**13**	**5,734**
Depreciation	66	389	62	0	517
Impairment losses	0	0	0	0	0
Impairment reversals	0	0	0	0	0
Disposals	-1	-115	-41	0	-157
Transfers	0	-4	4	0	0
Foreign currency translation	2	-9	-2	1	-8
Balance as of December 31, 2011	**996**	**4,394**	**682**	**14**	**6,086**
Net carrying amounts					
As of January 1, 2010	**1,133**	**1,678**	**169**	**149**	**3,129**
As of December 31, 2010	**1,124**	**1,564**	**151**	**202**	**3,041**
As of January 1, 2011	**1,124**	**1,564**	**151**	**202**	**3,041**
As of December 31, 2011	**1,092**	**1,577**	**164**	**495**	**3,328**

[1)] Including non-cash additions to property, plant and equipment of EUR 58 m (prior year: EUR 19 m) during the reporting period.

At EUR 831 m (prior year: EUR 365 m), the Schaeffler Group made significantly higher capital expenditures in 2011 than in 2010.

The increase in worldwide automobile production, positive developments in engineering and plant construction, and the expansion strategy for the company's presence in the growth regions led to significant capital expenditures both for expanding existing production capacity and for establishing new production facilities. In addition to Germany, capital expenditures focused on the production facilities in China and Korea, in Slovakia, and in the U.S.

At December 31, 2011, property, plant and equipment with a carrying amount of EUR 1,703 m (prior year: EUR 1,627 m) were pledged as collateral for bank loans.

4.3 Investments in equity-accounted investees

No. 040

in € millions	12/31/2011	12/31/2010
Schaeffler Beteiligungsholding GmbH & Co. KG [1]	4,770	5,248
Other	2	4
Total	**4,772**	**5,252**

[1] In 2010 Continental AG.

Please refer to the comments in Note 2.2 for details of changes in investments in equity-accounted investees.

4.4 Deferred tax assets and liabilities

Total deferred tax assets and liabilities result from the following items:

No. 041

in € millions	12/31/2011	12/31/2010
Intangible assets	-15	-19
Property, plant and equipment	-91	-92
Financial assets	-4	-1
Inventories	21	17
Trade receivables and other assets	-12	-57
Provisions for pensions and similar obligations	112	106
Other provisions and other liabilities	141	173
Loss carryforwards	25	25
Other	49	21
Deferred taxes, net	**226**	**173**
Deferred tax assets	350	289
Deferred tax liabilities	-124	-116

In accordance with IAS 12, deferred taxes are calculated using tax rates effective or substantively enacted at the end of the reporting period and expected to apply when the deferred taxes are realized. In 2011, an average trade tax rate of 12.0 % (prior year: 12.0 %) was used for German partnerships, a combined tax rate of 27.9 % (prior year: 27.9 %) including corporation tax, solidarity surcharge, and trade tax was used for German corporations, and the applicable local tax rates were used for foreign entities.

In 2011, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 8 m (prior year: EUR 19 m). Recovery of these net deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2011, Schaeffler had gross loss carryforwards of EUR 140 m (prior year: EUR 160 m) for corporation tax and EUR 48 m (prior year: EUR 32 m) for trade tax, including EUR 77 m (prior year: EUR 70 m) for which no deferred taxes have been recognized. In addition, the group had carryforwards under the interest deduction cap amounting to EUR 481 m (prior year: EUR 303 m) at the end of the reporting period, for which deferred taxes have not been recognized. The majority of the unrecognized loss carryforwards and the interest carryforwards can be utilized indefinitely. Interest expense of EUR 178 m was not tax deductible in 2011 because of the interest deduction cap.

At December 31, 2011, the accumulated amount of deferred taxes recognized in accumulated other comprehensive income is EUR 86 m (prior year: EUR 38 m) and mainly relates to derivatives and pensions and similar obligations.

No Schaeffler Group subsidiary is expected to be disposed of within the foreseeable future. As a result, deferred taxes were only recognized for planned dividends.

4.5 Inventories

No. 042

in € millions	12/31/2011	12/31/2010
Raw materials and supplies	311	283
Work in progress	401	401
Finished goods and merchandise	845	792
Advance payments	5	6
Total	**1,562**	**1,482**

In 2011, Schaeffler recognized a valuation allowance of EUR 192 m (prior year: EUR 200 m) on inventories. The allowance includes a provision for slow-moving and obsolete items as well as all evident storage and inventory risks. Inventories of EUR 7,367 m (prior year: EUR 6,423 m) were recognized as an expense in the consolidated income statement during the reporting period.

Inventories of EUR 1,078 m (prior year: EUR 1,035 m) were pledged as collateral for bank loans.

4.6 Trade receivables

No. 043

in € millions	12/31/2011	12/31/2010
Trade receivables	1,607	1,443

All trade receivables are current.

At December 31, 2011, trade receivables of EUR 884 m (prior year: EUR 795 m) were pledged as collateral for bank loans.

The Schaeffler Group recognizes impairment allowances for uncollectible receivables as well as for general credit risks on an individual basis. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. In that case, the impairment loss is recognized directly against the gross amount of the receivable. Movements in impairment allowances on trade receivables can be reconciled as follows:

No. 044

in € millions	2011	2010
Impairment allowances as of January 1	**22**	**25**
Additions	3	3
Allowances used to cover write-offs	-4	-2
Reversals	-3	-4
Impairment allowances as of December 31	**18**	**22**

Trade receivables past due are summarized as follows:

No. 045

in € millions		12/31/2011	12/31/2010
Carrying amount		**1,607**	**1,443**
Not past due		**1,492**	**1,355**
Past due	up to 60 days	109	81
	61–120 days	3	5
	121–180 days	1	0
	181–360 days	1	1
	more than one year	1	1

Trade receivables past due, both gross and net of impairment allowances, changed as follows during the year:

No. 046

in € millions	Past due up to 60 days	61–120 days	121–180 days	181–360 days	more than one year
December 31, 2011					
Gross	110	6	2	3	10
Impairment allowance	1	3	1	2	9
Net	**109**	**3**	**1**	**1**	**1**
December 31, 2010					
Gross	81	8	1	3	10
Impairment allowance	0	3	1	2	9
Net	**81**	**5**	**0**	**1**	**1**

Please refer to Note 5.5 for related party receivables.

4.7 Other assets and income tax receivables

No. 047

in € millions	12/31/2011	12/31/2010
Other assets	295	423
Income tax receivables	111	98

At December 31, 2011, income tax receivables amount to EUR 111 m (prior year: EUR 98 m), including non-current balances of EUR 22 m (prior year: nil).

The following summary shows the current and non-current portions of other assets:

No. 048

in € millions	12/31/2011 Non-current	12/31/2011 Current	12/31/2011 Total	12/31/2010 Non-current	12/31/2010 Current	12/31/2010 Total
Pension asset	43	0	43	46	0	46
Marketable securities	4	0	4	3	0	3
Loans receivable and financial receivables	16	0	16	22	0	22
Tax receivables	1	110	111	21	112	133
Derivative financial assets	2	11	13	43	77	120
Miscellaneous assets	29	79	108	31	68	99
Total	**95**	**200**	**295**	**166**	**257**	**423**

Changes in derivative financial assets are primarily due to changes in the fair value of derivative financial instruments used to economically hedge the Schaeffler Group's interest rate and currency risk. They consist of an interest rate hedging instrument of EUR 2 m (prior year: EUR 43 m) and EUR 11 m (prior year: EUR 77 m) in positive fair values of currency hedging instruments.

Other balances included here primarily comprise value-added tax and other tax receivables, the pension asset and loans receivable and financial receivables.

At December 31, 2011, other assets and income tax receivables of EUR 45 m (prior year: EUR 52 m) were pledged as collateral for bank loans.

4.8 Cash and cash equivalents

At December 31, 2011, cash and cash equivalents amount to EUR 397 m (prior year: EUR 733 m) and consist primarily of bank balances.

At December 31, 2011, cash and cash equivalents of EUR 259 m (prior year: EUR 531 m) were pledged as collateral for bank loans.

4.9 Shareholders' equity

The Schaeffler Group's shareholders' equity consists of the following:

No. 049

in € millions	12/31/2011	12/31/2010
Share capital	500	500
Reserves	1,324	2,801
Accumulated other comprehensive income (loss)	-163	-7
Equity attributable to shareholders of the parent company	**1,661**	**3,294**
Non-controlling interests	53	47
Total shareholders' equity	**1,714**	**3,341**

Schaeffler AG (until October 13, 2011: Schaeffler GmbH) was founded on September 29, 2009 with EUR 25,000 in share capital. On June 28, 2010, a capital increase in kind (in the form of a hive-down) raised Schaeffler GmbH's share capital to EUR 500,025,000.

Following the change in legal form of Schaeffler GmbH to Schaeffler AG, Schaeffler AG's share capital ("Grundkapital") continues to amount to EUR 500,025,000 at December 31, 2011. It is divided into 500,025,000 registered no-par-value shares, all of which are held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up, Schaeffler AG has no authorized or contingent capital, and there are no resolutions with respect to these types of capital.

Schaeffler GmbH paid dividends of EUR 2,364 m (or EUR 4.73 per share) to its shareholder before it was converted to a stock corporation ("AG") on October 13, 2011. EUR 400 m of these dividends represent a cash dividend paid on January 5, 2011, and EUR 764 m relate to the distribution of Continental AG shares as a dividend in kind on May 5, 2011. Furthermore, a further dividend payable (EUR 600 m dated July 1, 2011, see Note 4.10) was settled by way of an assumption of debt in discharge of the previous debtor, and, finally, another dividend in kind of EUR 600 m was distributed by creating a loan due from Schaeffler AG to Schaeffler Verwaltungs GmbH (dividend in kind dated September 22, 2011, see Note 4.10).

A dividend of EUR 300 m will be proposed to the annual general meeting for 2011.

Accumulated other comprehensive income (loss) consists of the following reserves:

- **Translation reserve**
  The translation reserve comprises all foreign currency differences arising on translation of the financial statements of foreign operations with a functional currency different from the presentation currency.

- **Hedging reserve**
  The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

- **Fair value reserve**
  The fair value reserve comprises all accumulated net changes in the fair value of available-for-sale financial assets incurred until these assets are derecognized or impaired.

- **Reserve for actuarial gains and losses**
  Schaeffler immediately recognizes all actuarial gains and losses arising on defined benefit plans in accumulated other comprehensive income (loss).

Expenses of EUR 75 m and income of EUR 76 m were reclassified from the hedging reserve to profit and loss in 2011 (see Note 4.15). Another EUR 13 m were reclassified from accumulated other comprehensive income (loss) to income from equity-accounted investees following the partial disposal of Continental AG shares by distribution as a dividend in kind in May 2011 (see Notes 2.1 et seq.).

Non-controlling interests represent interests in the equity of consolidated subsidiaries held by third parties.

4.10 Current/Non-current financial debt

No. 050

in € millions	12/31/2011 Total	12/31/2011 Due in up to 1 year	12/31/2011 Due in more than 1 year	12/31/2010 Total	12/31/2010 Due in up to 1 year	12/31/2010 Due in more than 1 year
Financial debt	7,485	317	7,168	6,477	64	6,413

At December 31, 2011, the Schaeffler Group had financial debt of EUR 7,485 m (prior year: EUR 6,477 m), consisting of EUR 7,168 m (prior year: EUR 6,413 m) in non-current financial debt and EUR 317 m (prior year: EUR 64 m) in current financial debt, both accounted for at amortized cost.

The agreement by IHO Group, defined as the consolidated group with the parent company INA-Holding Schaeffler GmbH & Co. KG, and its shareholders with the consortium banks on a comprehensive refinancing of the IHO Group's debt in late March 2011 has significantly affected the Schaeffler Group's original acquisition financing arrangement. In particular, Schaeffler AG has assumed debt in discharge of the previous debtor from its parent company Schaeffler Verwaltungs GmbH at the terms underlying the existing Senior Facility Agreement, increasing the Senior Facility Agreement obtained under the refinancing arrangement dated November 20, 2009 by EUR 600 m.

At the reporting date, the SFA principal of EUR 7,743 m (prior year: EUR 7,143 m) consists of a term loan of EUR 6,950 m (prior year: EUR 6,350 m) and a revolver of EUR 793 m (prior year: EUR 793 m). They are due on June 30, 2013 and bear interest at EURIBOR plus 425 basis points. The carrying amount of EUR 6,949 m (prior year: EUR 6,271 m) as at December 31, 2011, which is presented as non-current financial debt, differs from the principal amount due to unamortized transaction costs of EUR 1 m (prior year: EUR 79 m) and because the revolver has not been utilized as at the reporting date.

In addition, Schaeffler obtained an annuity loan to finance the purchase of an interest rate hedging instrument. At year-end, the loan has a carrying amount of EUR 101 m (prior year: EUR 140 m) and is included in non-current financial debt.

A dividend in kind of EUR 600 m was distributed on September 22, 2011 by creating a loan due from Schaeffler AG to Schaeffler Verwaltungs GmbH. Its carrying amount was EUR 417 m at December 31, 2011, consisting of a current portion of EUR 300 m and a non-current portion of EUR 117 m.

The SFA contains certain constraints including a requirement to meet certain financial covenants relating to senior debt leverage, senior interest cover, senior cash flow cover and capital expenditures. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the covenants are not met, which would result in the debt becoming due immediately.

Extensive security has been provided to the banks in connection with the loan agreement. Where these have to be disclosed, the disclosure is made in the notes for the various assets concerned.

4.11 Provisions for pensions and similar obligations

Employee benefits include both defined contribution plans and defined benefit plans, some of which are funded. While defined contribution plans entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are presented as follows in the statement of financial position:

No. 051

in € millions	12/31/2011	12/31/2010
Provisions for pensions (liabilities net of related plan assets)	1,215	1,110
Provisions for obligations similar to pensions	2	2
Provisions for pensions and similar obligations	**1,217**	**1,112**
Pension asset (plan assets net of related liabilities)	43	46
Net defined benefit obligation	**1,174**	**1,066**

Defined benefit obligation and plan assets amount to the following:

No. 052

in € millions	12/31/2011	12/31/2010
Present value of unfunded obligations	1,145	1,041
Present value of funded obligations	536	501
Present value of defined benefit obligations (total)	**1,681**	**1,542**
Fair value of plan assets	509	478
Net pension obligation recognized in the statement of financial position	**1,172**	**1,064**
Other employee benefits similar to pensions	2	2
Net defined benefit obligation	**1,174**	**1,066**

The Schaeffler Group grants its employees various types of pension benefits. The defined benefit pension obligations are largely towards beneficiaries in Germany and most of them are unfunded. Exceptions are pension arrangements where employees acquire rights to additional pension benefits by way of deferred compensation. Under these arrangements, Schaeffler agrees to accumulate additional capital using the compensation deferred, which is then paid out to the employee upon retirement, either in full or in installments. Deferred compensation is invested in specific funds.

In addition to the German pension plans, further significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds. At the end of 2011, approximately 86 % (prior year: 90 %) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

Plan assets consist of the following:

No. 053

in € millions	12/31/2011	12/31/2010
Equity instruments	177	172
Debt instruments	210	183
Real estate	15	14
Cash	2	2
Other (incl. reimbursement insurance)	105	107
Total	**509**	**478**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments.

The opening and closing balances of the present value of the defined benefit obligation can be reconciled as follows:

No. 054

in € millions	2011	2010
Defined benefit obligation as of January 1	**1,542**	**1,474**
Benefits paid	-83	-81
Current service cost	24	25
Interest cost	78	77
Contributions by plan participants	9	9
Transfers in/out	1	-1
Past service cost – vested	0	4
Past service cost – non-vested	0	1
Actuarial gains and losses recognized in other comprehensive income (loss)	100	8
Foreign currency translation	10	26
Defined benefit obligation as of December 31	**1,681**	**1,542**

The opening and closing balances of the fair value of plan assets can be reconciled as follows:

No. 055

in € millions	2011	2010
Fair value of plan assets as of January 1	**478**	**385**
Benefits paid	-22	-20
Expected return on plan assets	26	25
Contributions by employer/employee	33	52
· Employer contribution	24	44
· Employee contribution	9	8
Transfers in/out	-1	-1
Actuarial gains and losses recognized in other comprehensive income (loss)	-15	16
Foreign currency translation	10	21
Fair value of plan assets as of December 31	**509**	**478**

The actual return on plan assets for 2011 amounts to EUR 11 m (prior year: EUR 41 m).

For 2012, the Schaeffler Group will make contributions to plan assets of EUR 46 m.

The following amounts were recognized in profit or loss:

No. 056

in € millions	2011	2010
Current service cost	24	25
Interest cost	78	77
Expected return on plan assets	-26	-25
Amortization of past service cost	0	4
Net pension cost	**76**	**81**

The amounts are included in the following line items of the consolidated income statement:

No. 057

in € millions	2011	2010
Cost of sales	14	18
Research and development expenses	3	4
Selling expenses	3	3
Administrative expenses	4	4
Included in EBIT	**24**	**29**
Interest cost	78	77
Expected return on plan assets	-26	-25
Included in financial result	**52**	**52**
Total	**76**	**81**

The following expenses are recognized as personnel expense within the appropriate functional expenses:

No. 058

in € millions	2011	2010
Expenses related to defined benefit plans	24	29
Contributions to defined contribution plans	11	12
Total	**35**	**41**

The following summarizes the actuarial gains and losses recognized in accumulated other comprehensive income (loss). The amounts presented include related foreign currency translation gains and losses but not deferred tax effects.

No. 059

in € millions	2011	2010
Accumulated balance as of January 1	-43	-34
Gains/losses on defined benefit obligations	100	8
Gains/losses on plan assets	15	-17
Accumulated balance as of December 31	72	-43

Assumptions used to arrive at the defined benefit obligations, in particular discount rates, future salary increases and expected long-term rates of return on plan assets, are determined separately for each country.

The principal actuarial assumptions for the Schaeffler Group are as follows:

No. 060

	2011	2010
Discount rate as of December 31	4.9 %	5.3 %
Expected return on plan assets	5.7 %	6.0 %
Future salary increases	3.3 %	3.3 %
Future pension increases	1.7 %	1.7 %

Actuarial assumptions for the major countries are as follows:

No. 061

Germany	2011	2010
Discount rate as of December 31	5.0 %	5.3 %
Expected return on plan assets	4.5 %	4.2 %
Future salary increases	3.3 %	3.3 %
Future pension increases	1.5 %	1.5 %

No. 062

U.S.A.	2011	2010
Discount rate as of December 31	4.5 %	5.5 %
Expected return on plan assets	7.7 %	8.2 %
Future salary increases	n.a.	n.a.
Future pension increases	n.a.	n.a.

No. 063

United Kingdom	2011	2010
Discount rate as of December 31	5.0 %	5.5 %
Expected return on plan assets	5.6 %	6.2 %
Future salary increases	n.a.	n.a.
Future pension increases	3.0 %	3.0 %

The expected total long-term return on plan assets amounts to 5.7 % (prior year: 6.0 %) and is based on the return on the portfolio as a whole and not on the sum of the returns on individual asset categories. It has been determined on the basis of historical returns without making adjustments.

Mortality assumptions are based on published statistics and country-specific mortality tables. The mortality tables “Richttafeln 2005 G” by Heubeck are used for the German plans.

Experience adjustments on pension obligations and plan assets have been as follows:

No. 064

in € millions	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007 [1]
Present value of defined benefit obligation	1,681	1,542	1,474	1,292	1,403
Fair value of plan assets	509	478	385	329	405
Net unfunded benefit obligation	**1,172**	**1,064**	**1,089**	**963**	**998**
Experience adjustments arising on plan liabilities	7	7	14	10	-13
Experience adjustments arising on plan assets	15	15	20	-74	-5

[1] Amounts disclosed represent those in the consolidated IFRS financial statements of IHO Group.

Experience adjustments are caused by differences between actuarial assumptions made at the beginning of the period and those made at the end of the period.

4.12 Provisions

No. 065

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as of January 1, 2010	**212**	**39**	**47**	**9**	**17**	**117**	**441**
Additions	74	1	36	28	11	110	260
Utilization	-86	-13	-14	-2	-7	-78	-200
Changes in scope of consolidation	0	0	0	0	-1	-2	-3
Reversals	-9	-21	-20	0	-3	-16	-69
Interest expense	4	0	0	0	0	1	5
Foreign currency translation	2	1	1	1	1	4	10
Balance as of December 31, 2010	**197**	**7**	**50**	**36**	**18**	**136**	**444**
Balance as of January 1, 2011	**197**	**7**	**50**	**36**	**18**	**136**	**444**
Additions	34	1	45	6	4	37	127
Utilization	-92	-1	-17	-9	-4	-110	-233
Reversals	-8	-6	-15	-10	-3	-12	-54
Interest expense	4	0	0	0	0	0	4
Foreign currency translation	0	0	0	0	-1	0	-1
Balance as of December 31, 2011	**135**	**1**	**63**	**23**	**14**	**51**	**287**

Provisions have the following current and non-current portions:

No. 066

	12/31/2011			12/31/2010		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	66	69	135	117	80	197
Restructuring	0	1	1	0	7	7
Warranties	0	63	63	0	50	50
Other taxes	0	23	23	0	36	36
Liability and litigation risks	0	14	14	0	18	18
Other	13	38	51	10	126	136
Total	**79**	**208**	**287**	**127**	**317**	**444**

Employee benefits and restructuring
Provisions for employee benefits consist primarily of provisions for partial retirement, net of the related plan assets, of EUR 85 m (prior year: EUR 100 m). Obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are determined using the mortality tables "Richttafeln 2005 G" by Klaus Heubeck. The discount rate is 2.75 % (prior year: 2.75 %) at December 31, 2011, and future salary increases were assumed to be 3.25 % (prior year: 3.25 %). The provision for employee benefits also includes obligations arising from the adjustment funds (German Entgeltrahmenabkommen, ERA) based on a collective bargaining agreement with the metalworking and electrical engineering industry in Germany, long-time service awards, as well as other personnel and payroll-related provisions, particularly for early retirement, death and temporary assistance benefits.

At December 31, 2011, restructuring provisions of EUR 1 m (prior year: EUR 7 m) have been recognized primarily for expenses expected in connection with human resources measures.

Warranties
Warranty provisions are recognized on a case-by-case basis for each sales transaction or, in cases involving a large population of items, using the expected value method.

Other taxes
Tax provisions have been recognized for current and prior year taxes other than income taxes. In particular, provisions were recognized in the prior year for land transfer tax incurred in connection with the restructuring of the group in 2010.

Liability and litigation risks
Provisions for liability and litigation risks are recognized if, as a result of a past transaction or event, Schaeffler has a legal or constructive obligation for which an outflow of resources representing economic benefits is probable and which can be reliably estimated. Such provisions are recognized at their expected settlement amount, taking into account all identifiable risks, and are not offset against expected reimbursements.

Other
At the reporting date, other provisions include provisions for environmental risks, document retention and other items to be provided for. The balance decreased mainly as a result of accrued selling costs (particularly customer bonuses, early-payment discounts and rebates), which are presented under other liabilities at December 31, 2011 due to their high level of certainty.

4.13 Trade payables

At December 31, 2011, the Schaeffler Group has trade payables of EUR 873 m (prior year: EUR 729 m), all of which are current. At December 31, 2011, the amount includes EUR 50 m (prior year: EUR 25 m) in notes payable. The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15 on financial instruments.

4.14 Other liabilities and income tax payables

No. 067

in € millions	12/31/2011	12/31/2010
Other liabilities	933	909
Income tax payables	356	217

At December 31, 2011, income tax payables amount to EUR 356 m (prior year: EUR 217 m), including non-current balances of EUR 172 m (prior year: EUR 102 m).

Other liabilities consist of the following:

No. 068

	12/31/2011			12/31/2010		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	322	322	0	272	272
Social security contributions payable	5	39	44	8	28	36
Advance payments received	0	25	25	0	20	20
Other tax payables	0	81	81	0	74	74
Derivative financial liabilities	245	71	316	409	35	444
Miscellaneous liabilities	11	134	145	6	57	63
Total	**261**	**672**	**933**	**423**	**486**	**909**

Derivative financial instruments include in particular forward exchange contracts and interest rate hedging instruments used to economically hedge the Schaeffler Group's currency and interest rate risk. The decrease in this balance is primarily due to an adjustment to the hedging portfolio which led to some of the existing interest rate hedging instruments being terminated.

Amounts payable to staff comprise overtime accounts, accrued vacation, as well as profit sharing accruals.

Miscellaneous liabilities consist primarily of provisions for selling costs (customer bonuses, rebates, early-payment discounts).

The Schaeffler Group's exposure to currency and liquidity risk related to other liabilities is disclosed in Note 4.15 on financial instruments.

4.15 Financial instruments

The following summarizes the carrying amounts and fair values of financial instruments by balance sheet class and by category per IFRS 7.8. Derivatives designated as hedging instruments are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

No. 069

		12/31/2011		12/31/2010	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,607	1,607	1,443	1,443
Other investments [1]	AfS	14	-	8	-
Other assets					
· Marketable securities	AfS	4	4	3	3
· Other loans receivable [2]	LaR	103	103	107	107
· Derivatives designated as hedging instruments	n.a.	0	0	43	43
· Derivatives not designated as hedging instruments	HfT	13	13	77	77
Cash and cash equivalents	LaR	397	397	733	733
Financial liabilities, by class					
Financial debt	FLAC	7,485	7,568	6,477	6,555
Trade payables	FLAC	873	873	729	729
Other liabilities					
· Derivatives designated as hedging instruments	n.a.	69	69	4	4
· Derivatives not designated as hedging instruments	HfT	247	247	440	440
· Other liabilities [2]	FLAC	195	195	83	83
Summary by category					
Available-for-sale financial assets (AfS)		18	-	11	-
Financial assets held for trading (HfT)		13	-	77	-
Loans and receivables (LaR)		2,107	-	2,283	-
Financial liabilities at amortized cost (FLAC)		8,553	-	7,289	-
Financial liabilities held for trading (HfT)		247	-	440	-

[1] Investments accounted for at cost.
[2] Includes other assets/liabilities in the scope of IAS 39/IFRS 7.

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in limited liability companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2011, and no (partial) disposals are planned for the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of shares in investment funds mostly investing in government bonds and money market funds.

Hedge accounting is only applied to derivatives designated as hedges of currency and interest rate risk in cash flow hedges. Schaeffler uses forward exchange contracts, options and swaps as hedging instruments to hedge currency risk. Interest rate risk is hedged using interest rate options and swaps. The fair values of derivatives are shown in the table above and are calculated using valuation models with all significant inputs observable in the market.

The carrying amounts of trade payables and other liabilities are assumed to represent their fair value. The fair value of financial debt is the present value of the expected future cash flows, discounted using risk-adjusted discount rates in effect at the end of the reporting period.

Please refer to the notes on the various balance sheet line items for details of the amount of financial assets pledged as collateral. Financial and non-financial assets of the Schaeffler Group have been pledged on the basis of the Senior Facility Agreement (see Note 4.10). Collateral has generally been pledged until maturity of the Senior Facility Agreement and may be realized under the creditors' right to call the debt before maturity, for instance if defined financial covenants are not complied with.

Financial assets and liabilities measured at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in arriving at the measurements (Level 1 – Level 3). The classification is based on the method used to determine fair value. According to the levels of the hierarchy, the fair value of a financial instrument is determined using the following inputs:

- Level 1: Quoted prices in active markets for identical assets or liabilities. This includes Schaeffler's marketable securities, whose fair value is derived from the exchange-quoted price at the end of the reporting period.

- Level 2: Determined using a valuation method for which all significant inputs are based on observable market data. This level includes existing forward exchange contracts and currency options as well as interest rate hedging instruments, i. e. interest rate swaps, caps and collars, which are measured using valuation models based on input variables observable in the market.

- Level 3: Determined using a valuation method for which significant inputs are not based on observable market data. The Schaeffler Group does not have any financial instruments in this level.

No. 070

in € millions	Level 1	Level 2	Total
December 31, 2011			
Marketable securities	4		4
Derivatives designated as hedging instruments			0
Derivatives not designated as hedging instruments		13	13
Total financial assets	**4**	**13**	**17**
Derivatives designated as hedging instruments		69	69
Derivatives not designated as hedging instruments		247	247
Total financial liabilities	**0**	**316**	**316**
December 31, 2010			
Marketable securities	3		3
Derivatives designated as hedging instruments		43	43
Derivatives not designated as hedging instruments		77	77
Total financial assets	**3**	**120**	**123**
Derivatives designated as hedging instruments		4	4
Derivatives not designated as hedging instruments		440	440
Total financial liabilities	**0**	**444**	**444**

No transfers were made between the various levels of the fair value hierarchy (Level 1-3).

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

No. 071

	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	impairment loss	currency translation	2011	2010
Available-for-sale financial assets	1				1	1
Financial assets and liabilities held for trading	-170	130			-40	-320
Loans and receivables [1]	13		0	12	25	55
Financial liabilities at amortized cost	-494				-494	-386
Total	**-650**	**130**	**0**	**12**	**-508**	**-650**

[1] Net income (loss) for 2010 amounting to EUR 55 m includes currency translation effects. The impact of these effects was shown in the 2010 consolidated financial statements.

As shown above, net gains and losses include interest and dividends, changes in fair value recognized in profit or loss, impairment losses and impairment reversals, as well as currency translation effects. Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and interest expense on financial debt, respectively (see Note 3.5).

The net loss on financial assets and liabilities held for trading of EUR 40 m (prior year: EUR 320 m) relates almost entirely to derivatives. EUR 101 m (prior year: EUR 282 m) of this net loss is included in interest expense on interest rate derivatives, while income of EUR 61 m (prior year: expenses of EUR 38 m) has been recognized in other income and expense. Interest expense on interest rate derivatives of EUR 101 m (prior year: EUR 282 m) includes EUR 69 m in income from fair value changes (prior year: expenses of EUR 30 m) and EUR 170 m in expenses due to compensation payments (prior year: EUR 252 m).

In 2011, Schaeffler incurred net foreign exchange gains of EUR 12 m (prior year: EUR 27 m) on loans and receivables and financial liabilities accounted for at amortized cost. The impairment loss on financial assets classified as loans and receivables consists of an impairment reversal of EUR 3 m (prior year: EUR 8 m) and an impairment loss of EUR 3 m (prior year: EUR 4 m) and relates entirely to the trade receivables class. There was no net effect of impairment losses on financial assets in the other loans receivable class (prior year: EUR 12 m reversal).

Financial risk management

Overview

Due to its global business activities and the resulting financing requirements, the Schaeffler Group is exposed to the following risks from its use of financial instruments:

(1) Credit risk
(2) Liquidity risk
(3) Market risk (currency, interest rate, and other price risk)

The Schaeffler Group's executive board has overall responsibility for establishing and overseeing the group's risk management system. The finance organization is responsible for developing and monitoring this risk management system and reports regularly to the CFO on its activities in this area.

Group wide risk management policies are in place to identify and analyze Schaeffler's risks, to set appropriate risk limits and controls as well as to monitor risks and adherence to limits. Risk management procedures and systems are reviewed regularly to reflect changes in market conditions and Schaeffler's activities.

See the discussion in section 10.4 of the group management report for further details on financial risk management.

(1) Credit risk

The risk of financial loss to the Schaeffler Group due to a customer or a counterparty defaulting is referred to as credit risk and arises predominantly from trade receivables and other financial assets. Among Schaeffler's major customers in the Automotive segment are various OEM's. Within trade receivables there is a concentration of credit risk with regard to these business relationships (see Note 5.4).

Credit risk arising on trade receivables is managed by constant monitoring of customers' financial status, creditworthiness and payment history. Efficient collection procedures and classification of customers in defined risk categories are additional components of Schaeffler's credit risk management. Appropriate credit limits are set and commercial credit insurance policies further reduce credit risk. Depending on the customer's creditworthiness, these insurance policies cover up to 80 % of receivables outstanding. All relevant rules are outlined in a Schaeffler Group guideline.

The carrying amounts of financial assets represent the maximum credit exposure at the end of each reporting period as follows:

No. 072

	Carrying amount	
in € millions	12/31/2011	12/31/2010
Trade receivables	1,607	1,443
Other investments	14	8
Other assets		
· Marketable securities	4	3
· Other loans receivable	103	107
· Derivatives designated as hedging instruments	0	43
· Derivatives not designated as hedging instruments	13	77
Cash and cash equivalents	397	733
Total financial assets	**2,138**	**2,414**

The Schaeffler Group's executive board does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Management has determined that there are no indications that the counterparties to other financial assets, i.e. marketable securities, other loans and derivative financial assets will be unable to meet their future contractual obligation.

(2) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its financial obligations as they become due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they become due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to Schaeffler's reputation.

Liquidity risk is closely monitored by the finance organization based on a short-term (4 weeks) and medium-term (12 months) rolling timeframe. Both liquidity status and liquidity forecast are reported regularly to the CFO.

The Schaeffler Group ensures its ability to meet the financing requirements of its operations and its financial obligations by using equity, cash pooling arrangements, intercompany loans and existing lines of credit based on the relevant legal and tax regulations.

The Schaeffler Group's contractual payments of interest and principal on financial debt and derivative financial liabilities are summarized as follows:

No. 073

in € millions	Carrying amount	Contrac-tual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2011					
Non-derivative financial liabilities	**8,553**	**9,126**	**1,810**	**7,309**	**7**
· Financial debt	7,485	8,058	751	7,307	0
· Trade payables	873	873	873	0	
· Other liabilities	195	195	186	2	7
Derivative financial liabilities	**316**	**320**	**176**	**144**	
Total	**8,869**	**9,446**	**1,986**	**7,453**	**7**
December 31, 2010					
Non-derivative financial liabilities	**7,289**	**8,820**	**1,269**	**7,547**	**4**
· Financial debt	6,477	7,993	456	7,537	0
· Trade payables	729	744	737	3	4
· Other liabilities	83	83	76	7	
Derivative financial liabilities	**444**	**433**	**218**	**215**	**0**
Total	**7,733**	**9,253**	**1,487**	**7,762**	**4**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans.

(3) Market risk

Market risk is defined as the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Schaeffler Group's net income or the value of its financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters while optimizing returns.

The Schaeffler Group enters into derivatives in order to manage market risk. All such transactions are carried out within the risk management strategy approved by the executive board. The finance organization closely monitors, actively manages, and reports market risk to the CFO.

Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases and loans payable and receivable that are denominated in a currency other than the functional currency of the relevant Schaeffler Group entity.

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risks from operations in respect of forecasted sales and purchases over the next twelve months using forward exchange contracts, currency swaps and related options. Where necessary, forward exchange contracts are rolled over at maturity.

Loans between group entities denominated in a currency other than the functional currency of one of the entities involved are fully hedged using forward contracts with the same maturity as the loans. Schaeffler's investments in subsidiaries are not hedged as those currency exposures are considered to be long-term in nature.

The Schaeffler Group's significant expected currency risk exposures by currency based on face values as of the end of each reporting period are as follows:

No. 074

in € millions	USD	RON	JPY	HUF
December 31, 2011				
Estimated currency risk from operations	1,062	-190	108	-93
Forward exchange contracts	-639	152	-82	76
Currency options	-156	0	0	0
Remaining currency risk from operations	**267**	**-38**	**26**	**-17**
December 31, 2010				
Estimated currency risk from operations	852	-198	98	-84
Forward exchange contracts	-599	157	-78	67
Currency options	-225	0	0	0
Remaining currency risk from operations	**28**	**-41**	**20**	**-17**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance organization. Thus, this exposure represents the difference between recognized hedged items and hedged items in the form of expected future foreign currency cash flows that have not yet been recognized on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (e. g. China, Brazil) is monitored by Schaeffler's finance organization. The most significant currency risk in these countries arises on the USD and amounts to an estimated EUR -314 m (prior year: EUR -227 m).

Forward exchange contracts in certain currencies are accounted for as cash flow hedges with nearly perfect effectiveness. Changes in the fair value of these derivatives are recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to other income or other expense in the consolidated income statement when the hedged transaction (hedged item) affects net income. Both the majority of the forecast transactions and the resulting impact on net income occur within one year of the end of the reporting period.

The portion of the hedging reserve in accumulated other comprehensive income that relates to hedges of currency risk changed as follows:

No. 075

in € millions	2011	2010
Balance as of January 1	38	**8**
Additions	-170	48
Reclassified to income statement		
· to other income	84	21
· to other expenses	-8	-39
Balance as of December 31	-56	**38**

Currency risk arising from foreign currency loans is fully hedged economically and does not result in any significant additional currency risk exposure.

The sensitivity analysis for currency risk is based on a hypothetical 10 % weakening of the Euro against each of the significant foreign currencies as of December 31. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk and assumes that all other variables, particularly interest rates, remain constant.

The following table shows the effect on net income and shareholders' equity of translating balances at the closing rate and of measurement at fair value:

No. 076

	12/31/2011		12/31/2010	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	15	-77	-23	-4
JPY	-4	-6	-1	0
HUF	-5	8	0	0
RON	-18	16	1	0

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31 would have had the same but opposite effect, again holding all other variables constant.

Interest rate risk

Schaeffler's interest-bearing financial instruments can be summarized by type of interest as follows as of each December 31:

No. 077

	Carrying amount	
in € millions	12/31/2011	12/31/2010
Variable interest instruments	6,964	**6,304**
· Financial debt	6,964	6,304
Fixed interest instruments	521	**173**
· Financial debt	521	173

The Schaeffler Group enters into interest rate swaps, caps and collars to minimize its exposure to changes in interest rates on the variable interest debt under the Senior Facility Agreement (SFA). These instruments are used to economically hedge EUR 6,122 m of the principal of the variable rate debt. EUR 3,500 m of the hedges are interest rate swaps, EUR 300 m are interest rate collars and EUR 2,322 m represents an interest rate cap.

The interest rate swaps and the interest rate cap were accounted for using hedge accounting in accordance with IAS 39 (cash flow hedge) in 2011. The effective portion of changes in the fair value of these hedging instruments is thus recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to interest income or interest expense when the hedged transaction (hedged item) affects net income. As a result, accumulated other comprehensive income includes accumulated expenses of EUR 13 m arising from fair value changes on designated financial instruments as at December 31, 2011. The interest payments hedged will be expensed in 2012 and 2013.

The hedging relationships are proven to be effective both prospectively and retrospectively by regularly performing tests of effectiveness. Retrospective effectiveness is tested using both the dollar offset method, which compares the fair value changes of the hedged item to those of the hedging instrument, and regression analysis, which determines market sensitivities on the basis of a parallel shift in the yield curve by +/- 150 basis points (Bp).

As the test results show effectiveness to be within a range of 80 % – 125 %, the hedging relationship is considered to be highly effective. There was no ineffectiveness related to designated cash flow hedges that would have to be recognized in net income in 2011.

The equity reserve of EUR -286 m accumulated up to November 20, 2009 for the cash flow hedge relationship is being amortized to profit or loss using the effective interest method. In 2011, this resulted in an interest expense of EUR 75 m (prior year: EUR 91 m).

The Schaeffler Group has neither classified any fixed rate financial assets and liabilities as at fair value through profit or loss nor has it designated any derivatives as fair value hedges.

With regard to variable interest instruments a shift in the yield curve of 100 Bp as at December 31, 2011 would affect (increase/decrease) net income and shareholder's equity by the following amounts. This analysis assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0 %.

No. 078

in € millions	Net income (loss) Plus 100 Bp	Net income (loss) Minus 100 Bp	Shareholders' equity Plus 100 Bp	Shareholders' equity Minus 100 Bp
As of December 31, 2011				
Variable interest instruments	-27	27		
Interest rate derivatives designated as hedging instruments	16	-2	96	-94
Interest rate derivatives not designated as hedging instruments	5	-5		
Total	**-6**	**20**	**96**	**-94**
As of December 31, 2010				
Variable interest instruments	-65	36		
Interest rate derivatives not designated as hedging instruments	260	-213		
Total	**195**	**-177**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income and shareholders' equity from interest rate derivatives is entirely due to fair value changes. The impact of fair value changes of interest rate derivatives designated as hedging instruments on net income is EUR 16 m and EUR -2 m and the effect on the reserve in accumulated other comprehensive income (loss) is EUR 96 m and EUR -94 m. The impact of interest rate derivatives not designated as hedging instruments on net income is EUR 5 m and EUR -5 m.

Due to the hedging relationship of the variable interest payments under the Senior Facility Agreement, both economic and for accounting purposes, sensitivities for the variable interest instruments have been determined based on the net interest rate risk exposure. In the prior year, the line item variable interest instruments reflected only interest expense on the Senior Facility Agreement. The impact of interest on interest rate derivatives was shown under interest rate derivatives not designated as hedging instruments.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from changes in interest rates or exchange rates.

Other price risk required to be disclosed under IFRS 7 normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IAS 39, which is not the case for the Schaeffler Group. Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses. Derivative financial instruments are not used in this context.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group's holdings of such financial instruments, the price risk related to these items is considered insignificant.

4.16 Capital structure

At the end of the reporting period, the Schaeffler Group has the following capital structure:

No. 079

in € millions	12/31/2011	12/31/2010
Equity attributable to shareholders of the parent company	1,661	3,294
· in % of total capital	18.2	33.7
Non-current financial debt	7,168	6,413
Current financial debt	317	64
· in % of total capital	81.8	66.3
Total capital	**9,146**	**9,771**

The overriding objective of the Schaeffler Group's capital management is to ensure that Schaeffler is able to repay its debt and to provide access to sufficient financial resources. The most important instrument in this context is a detailed liquidity management at group company level; it is designed to ensure that sufficient liquidity reserves are available at all times to service the financial debt incurred under the bank financing agreement (see Note 4.10).

This financing agreement subjects the Schaeffler Group to certain financial covenants (see Note 4.10). Compliance with these covenants is continually monitored at group level. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from the consolidated financial statements.

The Schaeffler Group has complied with the agreed financial covenants both in 2011 and in 2010. Based on the current forecast, the Schaeffler Group also expects to comply with the financial covenants under the agreements entered into in January 2012 in 2012, 2013 and 2014.

In addition to the ratio of EBITDA to interest expense (senior interest cover) and cash flow to debt service (senior cash flow cover), the ratio of net debt to EBITDA (senior debt leverage) is an important indicator for the group. This ratio is defined as follows:

No. 080

in € millions	12/31/2011	12/31/2010
Current financial debt	317	64
Non-current financial debt	7,168	6,413
Total financial debt	**7,485**	**6,477**
Shareholder loans	420	33
Total financial debt excluding shareholder loans	**7,065**	**6,444**
Cash and cash equivalents	397	733
Total liquidity	**397**	**733**
Total net financial debt	**7,088**	**5,744**
Net financial debt excluding shareholder loans	**6,668**	**5,711**
EBITDA	**2,243**	**2,097**
Net financial debt excluding shareholder loans to EBITDA ratio	**3.0**	**2.7**

Capital management objectives, policies and processes for the reporting period are unchanged from the prior year.

4.17 Leases

The Schaeffler Group's obligations under finance leases are not significant.

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

No. 081

in € millions	12/31/2011	12/31/2010
Less than one year	44	34
Between one and five years	72	50
More than five years	4	4
Total	**120**	**88**

The obligations consist primarily of rental agreements for real estate, leases of company vehicles, and contracts for IT and logistics services.

In 2011, expenses of EUR 57 m (prior year: EUR 50 m) related to operating rental and lease agreements were recognized in the consolidated income statement.

5. Other disclosures

5.1 Commitments

At December 31, 2011, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 261 m (prior year: EUR 101 m). These commitments are expected to be settled as follows:

No. 082

in € millions	12/31/2011	12/31/2010
Less than one year	249	101
Between one and five years	12	0
More than five years	0	0
Total	**261**	**101**

5.2 Contingent liabilities

No. 083

in € millions	12/31/2011	12/31/2010
Obligations under guarantees and warranties	10	11
Security pledged to third parties	0	1
Other	34	18
Total	**44**	**30**

As in the prior year, obligations under guarantees and warranties consist primarily of security given and payment guarantees.

Other contingent liabilities consist primarily of claims raised by current and former employees as well as possible reassessments issued by taxation authorities. Due to the remote probability of an outflow of resources in each of these cases, they do not meet the conditions to be recognized as provisions.

In late 2011, several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. To date, the investigations have not yet been specified in more detail. There is a risk that the antitrust authorities will impose penalties, and that third parties may claim damages. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

5.3 Additional disclosures on the consolidated statement of cash flows

The consolidated statement of cash flows has been adjusted for exchange differences arising on translation to the Euro, as these amounts do not represent cash flows.

No. 084

in € millions	2011	2010
Interest received	13	10
Interest paid	-686	-644
Income taxes paid	-238	-298

Free cash flow for 2011 amounts to EUR 319 m (prior year: EUR 566 m). The significant decline in free cash flow in 2011 compared to the prior year was driven by the very substantial increase in cash outflows for capital expenditures.

Cash flows from operating activities were EUR 1,084 m (prior year: EUR 890 m). This inflow results primarily from improved earnings in 2011 as reflected in EBIT of EUR 1,689 m (prior year: EUR 1,509 m).

In 2011, cash totaling EUR 765 m was used in investing activities (prior year: EUR 324 m). Capital expenditures on intangible assets and property, plant and equipment amount to EUR 773 m, significantly more than the EUR 361 m spent in the prior year due to the growth-related expansion of capacity.

Cash of EUR 646 m (prior year: EUR 200 m) was used in financing activities. The dividend of EUR 400 m paid to Schaeffler Verwaltungs GmbH and the repayment of a loan due to Schaeffler Verwaltungs GmbH of EUR 186 m were the largest cash outflows. Other payments also include the repayment of a loan due to a IHO Group company (see Note 5.5 for this term) of EUR 30 m.

At December 31, 2011, cash and cash equivalents amount to EUR 397 m (prior year: EUR 733 m), including EUR 95 m (prior year: EUR 168 m) held by subsidiaries in Argentina, Brazil, China, Chile, Colombia, India, Indonesia, South Korea, South Africa, Taiwan, the Philippines, Venezuela and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to the parent entity is restricted.

5.4 Segment reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler Group executive board. Schaeffler engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group executive board and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

Schaeffler's operating segments are reported in a manner consistent with the internal reporting provided to the Schaeffler Group executive board. The Schaeffler Group is divided into the two segments Automotive and Industrial as described below, each focusing on a specific customer group worldwide. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations of each of the Schaeffler Group's two reportable segments:

Automotive: Product and service business with customers in the automotive sector. These include manufacturers of passenger cars and their suppliers (OEM, Tier 1 and Tier 2) as well as companies focusing on the distribution of spare parts for passenger cars and commercial vehicles (aftermarket). Products range from wheel bearings as well as chassis and steering components through transmission systems and developments to engine components and valve control systems.

Industrial: Product and service business with manufacturers of investment goods. These customers operate in the production machinery, rail traffic, wind power, consumer goods, heavy industries, power transmission and industrial aftermarket (MRO) sectors. The business with customers in the aerospace industry, i. e. aircraft manufacturers and their suppliers, is also included in this segment. The key products of this segment are rolling and plain bearings, linear guidance systems and direct drives.

Significant customers

In 2011, Schaeffler generated revenue of EUR 1,154 m (prior year: EUR 991 m) from one key customer, representing approximately 10.8 % (prior year: 10.4 %) of total group revenue and approximately 16.1 % (prior year: 15.7 %) of Automotive segment revenue.

Since segment reporting information is based on internal management accounting requirements and not all items can be allocated, the information for segment reporting purposes differs from that reported in accordance with IFRS.

Revenue from transactions in connection with materials provided to external service providers (contract manufacturing and subcontracting) is not allocated to the segments.

Information on the operating activities of the two reportable segments is included below. Performance is measured based on EBIT as the executive board believes that such information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

The amounts for revenue, EBIT, assets, capital expenditures, as well as amortization, depreciation, and impairments are reported based on the current allocation of customers to segments. In the past, assets, capital expenditures and amortization, depreciation, and impairments were reported based on an allocation of products to segments. Prior year figures were adjusted accordingly for comparability. Gains on transactions between operating segments are not included.

The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer structure.

No. 085

Reconciliation to earnings before income taxes in € millions	2011	2010
EBIT Automotive [1]	1,074	990
EBIT Industrial [1]	615	519
EBIT	**1,689**	**1,509**
Financial result	-409	-1,159
Earnings before income taxes	**1,280**	**350**

[1] Prior year information presented based on 2011 segment structure.

The reportable divisions Automotive and Industrial are managed on a global basis and operate production and distribution facilities in the geographical areas Germany, Europe excluding Germany, North America, South America and Asia/Pacific.

Information about geographical areas

No. 086

	Revenue [1]		Non-current assets [2]	
in € millions	2011	2010	12/31/2011	12/31/2010
Germany	2,856	2,575	1,690	1,415
Europe excluding Germany	3,452	3,037	969	1,064
North America	1,409	1,253	352	363
South America	628	602	177	220
Asia/Pacific	2,349	2,028	693	554
Total	**10,694**	**9,495**	**3,881**	**3,616**

[1] Revenue by customer location. Prior year information presented based on 2011 segment structure.
[2] Non-current assets by production location.
Non-current assets consist of property, plant and equipment and intangible assets.

For purposes of reporting information by geographical area, revenue is allocated to geographical areas based on the geographic location of customers, while assets are allocated based on the geographic location of the assets.

5.5 Related parties

Under the definitions of IAS 24, Maria-Elisabeth Schaeffler and Georg F.W. Schaeffler are related parties of the Schaeffler Group.

Related parties of the Schaeffler Group include the members of the executive board of Schaeffler AG: The members of the statutory board of directors Dr Juergen M. Geissinger, Wolfgang Dangel (since October 13, 2011), Professor Dr Peter Gutzmer, Kurt Mirlach, Klaus Rosenfeld, and Robert Schullan, as well as the other members of the executive board Rainer Hundsdoerfer, Norbert Indlekofer, Oliver Jung, Professor Dr Peter Pleus and Dr Gerhard Schuff.

The Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler AG, which, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: Professor Dr Hans-Joerg Bullinger, Dr Eckhard Cordes, Dr Hubertus Erlen, Professor Dr Bernd Gottschalk, Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr Siegfried Luther, Thomas Moelkner, Wolfgang Mueller, Tobias Rienth (since March 28, 2011), Stefanie Schmidt, Dirk Spindler, Robin Stalker, Juergen Stolz (until March 28, 2011), Salvatore Vicari, Juergen Wechsler, Dr Otto Wiesheu, and Juergen Worrich.

The Schaeffler Group's related companies consist of the direct and indirect parent companies of Schaeffler AG as well as other companies controlled by these parent companies. These related companies are referred to as "parent IHO companies" below.

In addition, the Continental AG Group companies are related to the Schaeffler Group.

The following table summarizes income and expenses from transactions with related parties recognized in the Schaeffler Group consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period.

No. 087

	Receivables		Payables	
in € millions	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Parent IHO companies	1	0	422	33
Continental Group companies	10	12	4	3

No. 088

	Expenses		Income	
in € millions	2011	2010	2011	2010
Parent IHO companies	12	5	1	1
Continental Group companies	24	19	75	72

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. The immediate parent company of Schaeffler AG is Schaeffler Verwaltungs GmbH. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG (IHO).

In 2011 and 2010, Schaeffler Group companies had various business relationships with the parent IHO companies. These include fees for bank guarantees of bills of exchange and various services recharged to the Schaeffler Group as well as shareholder loans from a parent IHO company. The shareholder loans consist primarily of the EUR 417 m loan from Schaeffler Verwaltungs GmbH discussed in Note 4.10.

In 2011, 12,043,528 Continental AG shares were distributed to Schaeffler Verwaltungs GmbH as a dividend in kind (see Notes 2.1 and 4.9) and a derivative financial instrument with a positive fair value was assigned on an arm's length basis to Schaeffler Verwaltungs GmbH for EUR 8 m.

Related-party business relationships exist with Continental Group companies in the form of the supply of vehicle components and tools, the rendering of development and other services, and the lease of commercial real estate. The transactions with the Continental AG Group were entered into at arm's length conditions.

In addition, on August 20, 2008, the Schaeffler Group entered into an investor agreement with Continental AG which is non-cancellable until the close of the Continental AG annual general meeting in 2014. The agreement stipulates, among other things, that Schaeffler AG commit itself to restricting its investment in Continental AG to 49.99 % until August 31, 2012 and to compensating Continental AG for certain tax disadvantages resulting from Continental AG losing the ability to utilize certain tax loss carryforwards.

In 2010, Schaeffler AG acquired a non-controlling interest in Schaeffler Immobilien GmbH & Co. KG consisting of 5.1 % of the limited partner shares from Georg F. W. Schaeffler for a purchase price of EUR 13 m. Mr Schaeffler converted the purchase price to an interest-free loan that was outstanding at December 31, 2011 and was repaid in January 2012.

The Schaeffler Group does not have any other significant direct business relations with Maria-Elisabeth and Georg F. W. Schaeffler.

In 2011, short-term employee benefits of EUR 17 m (prior year: EUR 16 m) were paid to members of the Schaeffler AG executive board, including EUR 10 m to members of the statutory board of directors (prior year: EUR 16 m to members of the executive management board). Post-employment benefit expenses of EUR 2 m (prior year: EUR 1 m) were recognized for members of the executive board. No termination benefits were incurred in 2011 (prior year: EUR 4 m). Total executive board remuneration for 2011 was EUR 19 m.

No advances or loans were granted to members of Schaeffler AG's executive board or supervisory board. The composition of the executive board of Schaeffler AG (in 2011: executive board of Schaeffler AG/executive management board of Schaeffler GmbH) has changed from the prior year (executive management board of Schaeffler GmbH).

The supervisory board was created in August 2010 due to legal requirements regarding employee co-determination. Short-term benefits paid to members of Schaeffler AG's supervisory board amounted to EUR 1 m in 2011 (prior year: EUR 0.4 m).

Former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies received remuneration of EUR nil in 2011 (prior year: EUR 1 m).

Provisions for pension obligations, net of related plan assets, for former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies amount to EUR 6 m at December 31, 2011 (prior year: EUR 6 m).

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2011 and required to be disclosed by section 314 (1)(9) HGB total EUR 3,948 thousand (prior year: EUR 3,252 thousand) and consist of EUR 1,674 thousand (prior year: EUR 1,407 thousand) for financial statement audit services, EUR 1,068 thousand (prior year: EUR nil) for other attestation services, EUR 242 thousand (prior year: EUR 759 thousand) for tax advisory services, and EUR 964 thousand (prior year: EUR 1,086 thousand) for other services.

These fees were paid for services rendered to Schaeffler AG and its German subsidiaries. KPMG AG Wirtschaftspruefungsgesellschaft is considered to be the auditor. Prior year figures were adjusted to ensure comparability because they included fees paid to other firms of KPMG's European network.

5.7 Exemptions under section 264 (3) HGB

The following domestic subsidiaries meet the requirements set out in section 264 (3) HGB to be eligible for the exemption for 2011 and are availing themselves of that exemption:

- AFT Atlas Fahrzeugtechnik GmbH, Werdohl
- AS Auslandsholding GmbH, Buehl
- Duerkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH - AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach
- IAB Verwaltungs GmbH, Herzogenaurach
- INA Automotive GmbH, Herzogenaurach
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Buehl mbH, Buehl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach
- LuK Auslandsholding GmbH, Buehl
- LuK Beteiligungsgesellschaft mbH, Buehl
- LuK Vermoegensverwaltungsgesellschaft mbH, Buehl
- PD Qualifizierung und Beschaeftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach

5.8 Events after the reporting period

On January 27, 2012, Schaeffler AG entered into a new EUR 8 billion loan agreement with eight banks. The new agreement replaces the existing loan agreements dated November 2009, improves the maturity profile of the financial debt and the collateral package and optimizes Schaeffler's debt financing.

The new loan agreement replaces the existing credit facility totaling EUR 7.7 billion, which would have been available until the end of June 2014 including the option to extend it by one year. The new refinancing package includes EUR 5.0 billion in loans repayable at maturity (Term Loans), one tranche to be replaced by corporate bonds, and a revolving credit facility of EUR 1.0 billion. The loans have staggered maturities of up to five years.

The new loan agreement became effective on February 9, 2012. As the Schaeffler Group issued corporate bonds with a total volume of EUR 2.0 billion at the same time, the tranche that was to be replaced by the corporate bonds did not need to be drawn upon.

The corporate bonds consist of two Euro- and two Dollar-denominated tranches. The two Euro-tranches totaling EUR 1.2 billion carry maturities of five and seven years and bear interest at 7.75 % p.a. and 8.75 % p.a. The two Dollar-tranches totaling approximately EUR 1.1 billion also carry maturities of five and seven years and bear interest at 7.75 % p.a. and 8.50 % p.a.

In addition, Schaeffler AG plans to place parts of the loan with additional banks and institutional investors. Schaeffler has already been able to syndicate a total volume of EUR 1.4 billion, consisting of a EUR 450 m Euro-tranche and a Dollar-tranche of approximately USD 1.3 billion, to institutional investors in mid-February 2012. This transaction enabled the Schaeffler Group to obtain favorable terms: A margin of 500 basis points above EURIBOR for the Euro-tranche and a margin of 475 basis points above LIBOR for the Dollar-tranche.

On February 20, 2012, Continental AG announced its intention to propose a dividend of EUR 1.50 per share for 2011 to its annual general meeting. This would result in a gross dividend of approximately EUR 108 m on the investment in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG.

No other material events occurred after December 31, 2011 that we expect to have a significant impact on the company's net assets, financial position and results of operations of Schaeffler AG.

5.9 List of shareholdings required by section 313 (2) HGB

The parent company is Schaeffler AG with its registered office located in Herzogenaurach.

No. 089

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (50)			
AFT Atlas Fahrzeugtechnik GmbH	Werdohl	DE	100.00
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH - AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics GmbH & Co. oHG (since 1/1/2012: INA - Drives & Mechatronics AG & Co. KG)	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	Herzogenaurach	DE	100.00
KWK Kraftfahrzeug-Werkstatt-Konzept Verwaltungs-gesellschaft mbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00
LuK Vermoegensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschaeftigung GmbH	Schweinfurt	DE	100.00

Entity	Location	Country code	Group ownership interest in %
Raytech Composites Europe GmbH	Morbach	DE	100.00
REDON Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.90
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen GmbH & Co. oHG (since 1/1/2012: Schaeffler Elfershausen AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Europa Logistik GmbH	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien GmbH & Co. KG (since 1/1/2012: Schaeffler Immobilien AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente GmbH & Co. KG (since 1/1/2012: Schaeffler Motorenelemente AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Technologies GmbH & Co. KG (since 1/1/2012: Schaeffler Technologies AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00
II. Foreign (104)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
FAG Servicos Industriais Ltda.	São Paulo	BR	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
HYDREL GmbH	Romanshorn	CH	100.00
INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00

Entity	Location	Country code	Group ownership interest in %
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
LuK-Aftermarket Service s.r.o.	Prague	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
RODISA, S.A.	Elgoibar	ES	100.00
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
FAG France SAS	Chatillon	FR	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (Hereford) Limited	Hereford	GB	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LUK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
FAG Bearings India Ltd.	Baroda	IN	51.33
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Madras	IN	100.00
FAG Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Seoul	KR	100.00
INA Mexico S.A. de C.V.	Mexico City	MX	100.00
LuK Puebla, S.A. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S.A. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00

Entity	Location	Country code	Group ownership interest in %
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, a.s.	Kysucke Nove Mesto	SK	100.00
INA Skalica spol. s.r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Valencia	VE	100.00
Schaeffler Vietnam Co., Ltd.	Ho Chi Minh City	VN	100.00
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

Entity	Location	Country code	Group ownership interest in %
B. Associated companies/Joint ventures			
I. Germany (5)			
Contitech-INA Beteiligungsgesellschaft mbH [1]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [1]	Hanover	DE	50.00
IFT Ingenieurgesellschaft fuer Triebwerkstechnik mbh	Clausthal-Zellerfeld	DE	49.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG [1] [2]	Herzogenaurach	DE	100.00
II. Foreign (4)			
Eurings Rt.	Debrecen	HU	37.00
Endorsia International AB	Gothenburg	SE	30.00
Colinx, LLC	Greenville	US	25.00
Roland Corporate Housing LLC	Cheraw	US	49.00

[1] Joint ventures accounted for using the equity method.
[2] Schaeffler Beteiligungsholding GmbH & Co. KG holds 36,14 % of the voting interest in Continental AG, Hanover.

Entity	Location	Country code	Group ownership interest in %
C. Entities not consolidated and investments			
I. Germany (11)			
Bauverein Schweinfurt eG	Schweinfurt	DE	0.05
GKS – Gemeinschaftskraftwerk Schweinfurt GmbH	Schweinfurt	DE	10.31
GSB Sonderabfall-Entsorgung Bayern GmbH	Baar-Ebenhausen	DE	0.18
GURAS Beteiligungs GmbH	Pullach	DE	1.00
IAV GmbH Ingenieurgesellschaft Auto und Verkehr	Berlin	DE	10.00
PARTSLIFE Recycling Systems GmbH	Neu-Isenburg	DE	9.68
SupplyOn AG	Hallbergmoos	DE	15.25
TECCOM GmbH	Ismaning	DE	1.70
TECDOC Informations System GmbH	Cologne	DE	3.03
twin-gears AG i. L. [3]	Schweinfurt	DE	100.00
Wohnungsbaugenossenschaft Hammelburg eG	Hammelburg	DE	3.00
II. Foreign (1)			
Consolidated Bearings Co. Ltd.	Cedar Knolls	US	10.00

[3] Further details omitted in accordance with section 313 (2)(4)(3) HGB.

5.10 Preparation of consolidated financial statements

The statutory board of directors of Schaeffler AG prepared the consolidated financial statements on March 13, 2012 and released them for submission to the supervisory board. The supervisory board is responsible for examining and approving the consolidated financial statements.

Herzogenaurach, March 13, 2012

The Executive Board

Report of the supervisory board

Ladies and Gentlemen,

During the past year, the supervisory board has performed the duties mandated by law, the company's articles of association, and its internal rules of procedure and has provided advice to the executive board and supervised its activities. The supervisory board was directly involved on a timely basis in all decisions that were of fundamental importance to the company. During the year, the executive board fully and regularly informed the supervisory board in written and oral reports about all budgeting matters relevant to the company, about the company's strategy, and about significant transactions of the company and the group as well as the related risks and opportunities. The supervisory board was continually updated in detail about revenue and earnings trends of the group and the divisions as well as about the financial position of the company.

In addition, the supervisory board monitored the activities of the executive board, scrutinized all significant transactions, and provided advice to the executive board on all material decisions. All members of the supervisory board were also available between meetings for consultations with the executive board. The chairman of the supervisory board in particular kept in contact regularly with the executive board and the chief executive officer in particular, and obtained information about current issues and developments at the company on an ongoing basis.

The supervisory board consists of ten shareholder representatives and ten employee representatives. The employee representatives had been appointed by the court on August 18, 2010. All employee representatives, except for Juergen Stolz, were elected to the supervisory board on March 28, 2011. Tobias Rienth was elected to replace Juergen Stolz. The supervisory board would like to thank Mr. Stolz for his commitment and his excellent work.

The company was converted from a limited liability company ("Gesellschaft mit beschraenkter Haftung") to a stock corporation ("Aktiengesellschaft") on October 13, 2011. The conversion did not affect the positions of the supervisory board members. There were no conflicts of interest of members of the supervisory board. The supervisory board is of the opinion that it had a sufficient number of independent members at all times.

When the conversion became effective, the term of office of the members of the executive management board of the limited liability company came to an end. Dr Juergen M. Geissinger, Wolfgang Dangel, Professor Dr Peter Gutzmer, Kurt Mirlach, Klaus Rosenfeld and Robert Schullan were appointed to the statutory board of directors of the stock corporation. Together with Rainer Hundsdoerfer, Norbert Indlekofer, Oliver Jung, Professor Dr Peter Pleus und Dr Gerhard Schuff, who are also part of the company's management, they make up the "executive board".

Georg F. W. Schaeffler

Main activities

The supervisory board held four regularly scheduled meetings and two telephone conferences which were attended, with a few exceptions, by all members of the supervisory board.

In its meeting on March 25, 2011, the supervisory board dealt with the separate financial statements and the consolidated financial statements 2010. In addition, proposals on rearranging the Schaeffler Group's financing were presented. These proposals were approved in a teleconference of the supervisory board on March 27, 2011.

The supervisory board discussed the company's earnings and financial position and the development of business at its meeting on May 27, 2011. In addition, company management provided information about product technologies for mechatronics, electric mobility, and renewable energy.

The supervisory board held another meeting on September 23, 2011, dealing primarily with the conversion of the company to a stock corporation. The supervisory board had prepared for this meeting in a teleconference on August 16, 2011. The members of the statutory board of directors were appointed at this meeting. Dr Juergen M. Geissinger was appointed chairperson of the statutory board of directors, and Kurt Mirlach was appointed labor relations officer. The supervisory board also established the details of the total remuneration of each member of the statutory board of directors. In addition, the supervisory board approved its revised internal rules of procedures.

In its meeting on December 16, 2011, the supervisory board approved the annual budget for 2012 including the capital expenditure budget. It also gave its final approval to a refinancing concept calling for the issue of high-yield bonds, among other things, which was discussed extensively by the committees beforehand.

In addition, the supervisory board passed resolutions by written consent on exercising voting rights at the annual general meeting of Continental AG, Hanover, on electing employee representatives to committees, and on approving the appointment of managing directors for INA Beteiligungsgesellschaft mit beschraenkter Haftung in accordance with section 8.4 of the internal rules of procedure of the supervisory board.

Committees

The supervisory board has established an executive committee, an audit committee, and a committee in accordance with section 27 (3) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) to assist it in its work.

The executive committee met five times during the year. These meetings were mainly held to prepare for the meetings of the supervisory board. The executive committee dealt primarily with the conversion of the company to a stock corporation and the related decisions about personnel as well as with the refinancing activities.

The audit committee held four regular meetings and two telephone conferences in 2011.

The executive board updated the audit committee continually and in detail about revenue and earnings trends of the group and the divisions and about the financial position of the company. Before the quarterly financial reports were published, the audit committee extensively discussed and scrutinized these reports and the development of earnings as well as the outlook for the full year. The committee was closely involved with compliance and risk management and obtained information about the work of the internal auditors and the structure of the Schaeffler Group's hedging transactions. The audit committee satisfied itself that the internal control system, the risk management system and internal audit are effective. The audit committee assigned the engagement for the audit to KPMG AG Wirtschaftspruefungsgesellschaft, Munich, ("KPMG") in May 2011 and defined the focal points for the audit. During the meeting on August 25, 2011 and during a teleconference on September 8, 2011, the audit committee discussed the documents prepared for the conversion of the company to a stock corporation, and made a positive recommendation to the supervisory board.

The mediation committee established in accordance with section 27 (3) MitbestG did not meet in 2011.

The adhoc financing committee was established during the supervisory board meeting in December 2011 and held its first meeting in January 2012. There are no other committees.

Separate and consolidated financial statements 2011

As proposed by the supervisory board, the shareholder meeting on March 28, 2011 appointed KPMG auditors of the separate financial statements of the company and of the consolidated financial statements. Prior to this, KPMG had confirmed to the supervisory board that there are no circumstances affecting their independence as auditors.

KPMG audited the separate financial statements as at December 31, 2011 prepared by the statutory board of directors in accordance with German commercial law, including the closing statement on the initial report on relations with affiliated companies in accordance with section 312 German Stock Companies Act ("Aktiengesetz") (dependency report ("Abhaengigkeitsbericht")) and the accounting records and the system of internal controls over financial reporting in accordance with the principles of the German Commercial Code ("Handelsgesetzbuch" (HGB)), and has issued an unqualified audit opinion thereon.

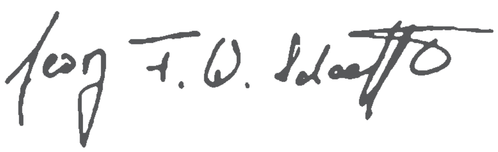
The consolidated financial statements 2011 of Schaeffler AG were prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to section 315a (1) HGB.

The auditors conducted the audit of the consolidated financial statements and the group management report in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer (Institute of Public Auditors in Germany – IDW), and have issued an unqualified audit opinion thereon.

The audit committee discussed the financial statement documents (including the dependency report) and the long-form audit reports with the executive board and the auditors on March 14, 2012. The audit committee scrutinized the development of earnings for 2011, the financial position and assets as at the reporting date and, particularly, provisions for risks. They were also dealt with in the supervisory board meeting convened to approve the financial statements on March 16, 2012. The required documents had been distributed to all members of the audit committee and the supervisory board in due time before these meetings to give the members sufficient opportunity to examine them. The auditor was present during the discussion. He reported on significant audit findings and was available to provide additional information to the audit committee and the supervisory board. Based on its own examinations of the separate financial statements, the dependency report (including the closing statement of the statutory board of directors), and the consolidated financial statements together with the group management report, and based on recommendations made by the audit committee, the supervisory board has approved the separate financial statements and the consolidated financial statements. No objections were raised. The separate financial statements have thus been adopted.

The dynamic recovery experienced during the prior year continued in 2011. To realize this growth and to prepare for and stabilize the future development as a stock corporation on the basis of the level reached so far, the company had to adjust internal structures in many areas. This was a significant challenge for the Schaeffler Group and all of its employees, who coped with it with extraordinary commitment and dedication. The supervisory board would like to express their sincere gratitude for this to the executive board and all employees.

On behalf of the supervisory board



Georg F. W. Schaeffler
Chairman
Herzogenaurach, March 16, 2012

Members of the supervisory board

Georg F. W. Schaeffler
Chairman

Maria-Elisabeth Schaeffler
Vice chairman

Juergen Wechsler*
Vice chairman

Professor Dr Hans-Joerg Bullinger
Dr Eckhard Cordes
Dr Hubertus Erlen
Professor Dr Bernd Gottschalk
Jochen Homburg*
Franz-Josef Kortuem
Norbert Lenhard*
Dr Siegfried Luther
Thomas Moelkner*
Wolfgang Mueller*
Tobias Rienth* (since March 28, 2011)
Stefanie Schmidt*
Dirk Spindler*
Robin Stalker
Juergen Stolz* (until March 28, 2011)
Salvatore Vicari*
Dr Otto Wiesheu
Juergen Worrich*

* Employee representative

Members of the executive board

Dr Juergen M. Geissinger*
Chief Executive Officer (CEO)

Wolfgang Dangel* (since October 13, 2011)
Automotive and Chassis Systems

Professor Dr Peter Gutzmer*
Research and Development

Rainer Hundsdoerfer
Industrial

Norbert Indlekofer
Transmission Systems

Oliver Jung
Global Operations and Development of Production Methods

Kurt Mirlach*
Human Resources and Labor Relations Officer

Professor Dr Peter Pleus
Engine Systems

Klaus Rosenfeld*
Chief Financial Officer

Dr Gerhard Schuff
Purchasing

Robert Schullan*
Industrial

* Member of the statutory board of directors of Schaeffler AG

Independent auditors’ report

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by Schaeffler AG, Herzogenaurach, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders’ equity and the notes, together with the group management report for the business year from January 1, 2011 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch “German Commercial Code”] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and the results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Munich, March 13, 2012

KPMG AG
Wirtschaftspruefungsgesellschaft

Kozikowski
Wirtschaftspruefer

Sailer
Wirtschaftspruefer

Additional information

Financial glossary

A

AfS: Abbreviation for “Available for sale”.

C

Capital employed: Key balance sheet measure; capital employed by the entity. Represents the total of working capital; property, plant and equipment; and intangible assets.

Cash Flow: Net inflow of funds generated by an entity’s business activities. Used to assess an entity’s financial strength.

Cost of capital: The cost of capital is derived from the return investors require for providing capital to the entity.

Covenants: Also called “financial covenants” or “financial ratios”; used to monitor compliance with loan agreements. If the agreed upon financial ratios are not met, the creditors can call the corresponding loans.

Currency swap: Exchange of amounts of principal denominated in different currencies.

D

Debt to EBITDA ratio: Ratio of net financial debt to EBITDA.

Deferred taxes: Deferred tax assets and liabilities are calculated based on temporary differences between carrying amounts for financial reporting and for tax purposes. They include differences arising on consolidation, loss carryforwards and tax credits.

Defined benefit pension obligations: Pension obligations requiring the company to provide a promised benefit to current and former employees. Pension plans are either funded or unfunded. The obligations are valued based on entitlements earned by employees as at the end of the reporting period. This requires actuarial assumptions to be made, which are then adjusted in subsequent years.

Defined contribution pension obligations: Pension obligations where the company does not have any obligation beyond making contribution payments (synonym “defined contribution benefits”).

Derivative financial instruments: Financial products whose value is predominantly driven by the price, price changes and expected prices of the underlying instrument (e.g. index, share or bond).

E

EBIT: Abbreviation for “earnings before interest and taxes”: Earnings before financial result and income taxes.

EBITDA: Abbreviation for “earnings before interest, taxes, depreciation and amortization”: Earnings before taxes, non-controlling interests, financial result, depreciation, amortization and impairment losses.

Effectiveness: The effectiveness of a hedging instrument is the degree to which changes in the fair value or the cash flows that are attributable to a hedged risk are offset by the hedging instrument.

Equity method: Method of accounting for investments in associated companies and joint ventures.

F

Fair value: The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

FLAC: Abbreviation for “Financial liability at amortized cost”.

Free cash flow: Total of cash flows from operating activities and cash flows from investing activities.

G

Goodwill: The amount by which the cost of a business combination exceeds the sum of the fair values of the individually identifiable assets and liabilities acquired.

H

Hedge accounting: Using financial instruments to hedge items recognized in the statement of financial position and future cash flows. Both effectiveness and documentation of the hedging relationship are prerequisites for reflecting hedging relationships in the financial statements.

HfT: Abbreviation for “Held for trading”.

I

IAS: Abbreviation for “International Accounting Standards”.

IASB: Abbreviation for “International Accounting Standards Board”.

IFRIC: Abbreviation for “International Financial Reporting Interpretations Committee”.

IFRS: Abbreviation for “International Financial Reporting Standards”.

Impairment test: Test to determine whether an asset is impaired by comparing the carrying amount of the asset with its fair value.

L

LaR: Abbreviation for “Loans and receivables”.

P

Purchase price allocation: Abbreviated “PPA”; identification and revaluation of all assets and liabilities acquired in a business combination or in connection with the acquisition of an investment in an associated company.

R

Rating: Assessment of a company’s creditworthiness made by rating agencies.

ROCE: Abbreviation for “Return on Capital Employed“: Profitability ratio; represents the ratio of EBIT to average capital employed on a quarterly basis.

S

Scope of consolidation: The scope of consolidation refers to the total of all companies included in the consolidated financial statements.

SIC: Abbreviation for the former “Standing Interpretations Committee”.

Swap: A financial contract in which two parties agree to exchange goods or cash flows at a future date.

W

Working capital: Defined as the total of inventories and trade receivables net of trade payables, excluding accrued trade payables where no invoice has been received yet (outstanding invoices accrued).

General glossary

A

ACTIVeDRIVE: Schaeffler concept vehicle for electric mobility; electric vehicle with active torque distribution.

Astraios: The world's largest and most powerful large-size bearing test rig; it enables large-size bearings of up to 15 tons and measuring up to 3.5 meters such as those used in wind power applications in particular to be tested in realistic conditions using a comprehensive simulation program.

Automotive: As a reliable partner to nearly all automobile manufacturers and major suppliers, the Automotive division of the Schaeffler Group offers expertise for the entire drive train: for engines, chassis, transmissions, and accessory units in passenger cars and commercial vehicles. The Automotive aftermarket sector is present worldwide in the replacement parts business.

D

Double clutch: The double clutch is an important development of automated manual transmissions. It comprises two automated sub-transmissions that are independent of each other and that each have a separate clutch.

E

eDifferential: The Schaeffler eDifferential supports the steering function and has a positive effect on driving dynamics, safety and driving comfort. Vehicles driven by an internal combustion engine can be hybridized by using eDifferentials, which also provide customers the benefits of an all-wheel drive in addition to a hybrid drive.

EMAS: EU environmental audit regulation according to which the Schaeffler Group locations have been validated.

eMobility Systems division: Schaeffler has bundled its numerous activities relating to electric mobility in its "eMobility Systems division". Schaeffler is thereby pursuing a holistic approach that integrates the expertise of both the Automotive and Industrial divisions. The purpose of the division is to bundle individual components in one sector and to open up the market on the systems level.

eWheel Drive: The eWheelDrive is a wheel hub drive that enables the development of forward-looking vehicle architecture and interior concepts, particularly in electric city vehicles. In addition to increasing the useable space and improving maneuverability, further advantages of the eWheelDrive are its braking assistance function for increasing driving safety and more rapid response.

G

Global Compact: One of the sources on which the Schaeffler Group Code of Conduct is based.

I

Industrial: Division of the Schaeffler Group that includes business with customers in the aerospace, consumer products/motorcycles, heavy industries, production machinery, wind power, power generation, railway, power transmission, hydraulics and pneumatics, and aftermarket sectors.

ISO 14001: An established international standard for environmental management systems.

L

Lightweight balancer shaft with rolling bearing supports: A balancer shaft with rolling bearing supports that reduce friction, which significantly improve energy efficiency in comparison with the plain bearings previously used.

M

MOVE: “Mehr Ohne VErschwendung” – more without waste: Program for improving processes and quality that predominantly serves to prevent waste to increase the productivity of each employee.

N

Needle roller bearing: Needle roller bearings are particularly compact rolling bearings. The rolling elements are similar to needles (hence the name needle roller bearing), because they are thin and very long cylindrical rollers. Needle roller bearings are often used in transmissions due to their low space requirements. The advantages of needle roller bearings include the very low section height and high load carrying capacity.

O

OEM: Original equipment manufacturer.

OHSAS 18001: OHSAS is the abbreviation for “Occupational Health and Safety Assessment Series”. OHSAS 18001 is a standard for occupational safety management systems.

S

Sustainability: Sustainability means making use of natural resources while taking economic, ecological and social framework conditions into account without ignoring the interests of future generations.

T

Torque converter: A torque converter is a hydraulic component that facilitates the transmission of forces between components that rotate at different speeds.

U

UniAir/MultiAir system: The world’s first fully-variable electrohydraulic valve control system optimizes the internal combustion process. This results in significant reductions in fuel consumption and emissions, while simultaneously improving the performance and response of engines.

List of tables

Index

Financial calendar 2012

March 20, 2012
Full year results 2011

May 29, 2012
First quarter results 2012

August 28, 2012
Second quarter results 2012

November 20, 2012
Third quarter results 2012

All information is subject to correction and may be changed at short notice.

Imprint

Published by:
Schaeffler AG
Industriestrasse 1–3
91074 Herzogenaurach
Germany

Responsible for content:
Corporate Accounting, Schaeffler AG, Herzogenaurach

Coordination/Editor:
Corporate Accounting, Schaeffler AG, Herzogenaurach
Investor Relations, Schaeffler AG, Herzogenaurach

Design and layout:
Peter Schmidt Group GmbH, Hamburg

Printed by:
Mediahaus Biering GmbH, Munich

Printed on FSC-certified paper. By using FSC paper we are actively supporting the preservation of our forests, promoting plant and wildlife protection, and are taking a stand against the exploitation of human beings in the forestry industry.

FSC RECYCLED Paper made from recycled material FSC® C010887 www.fsc.org

Print CO2 compensated Id-No. 1217764 www.bvdm-online.de

English translation by:
Alix von Reibnitz, Hamburg

Photos by:
Andreas Pohlmann, Munich
Torsten Pross, Juergen Jeibmann Photographik, Leipzig
Alejandro Castellanos Argueta, México D.F.
Eduard Timko, Atelier EDO, s.r.o., Skalica

March 2012

Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond Schaeffler's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Schaeffler does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

Variances for technical reasons

For technical reasons (e.g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

Rounding differences may occur.

This English version of the annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

Both language versions of the annual report can be downloaded from the internet at www.schaeffler-group.com/Investor Relations/Publications/Reports. An online version of the annual report is also available on our website.

Summary – 1st quarter 2010 to 4th quarter 2011

				2010				2011
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Income statement								
Revenue	2,160	2,402	2,452	2,481	2,697	2,682	2,703	2,612
EBITDA	484	553	545	515	613	552	605	473
· in % of revenue	22.4	23.0	22.2	20.8	22.7	20.6	22.4	18.1
EBIT	335	404	398	372	472	411	466	340
· in % of revenue	15.5	16.8	16.2	15.0	17.5	15.3	17.2	13.0
Net income (loss) 1)	**-357**	**97**	**147**	**176**	**438**	**203**	**102**	**146**
Statement of financial position								
Total assets	12,828	13,282	13,304	13,344	13,372	12,738	13,001	12,989
Shareholders' equity 2)	2,755	3,023	3,022	3,341	3,288	2,719	1,498	1,714
· in % of total assets	21.5	22.8	22.7	25.0	24.6	21.3	11.5	13.2
Net financial debt 3)	6,020	5,871	5,708	5,711	6,108	6,063	6,529	6,668
· Financial debt to EBITDA ratio				2.7				3.0
Capital expenditures 4)	57	75	70	184	122	190	212	322
Statement of cash flows								
Free cash flow 5)	127	209	190	40	11	66	152	90
Employees								
Headcount (at end of reporting period)	62,626	63,950	66,079	67,509	69,517	71,084	72,951	74,031

1) Attributable to shareholders of the parent company.
2) Including non-controlling interests.
3) Excluding shareholder loans.
4) Capital expenditures for the quarter.
5) Free cash flow for the quarter.

Multi-year comparison

in € millions	2007[1]	2008	2009	2010	2011
Income statement					
Revenue	9,013	8,905	7,336	9,495	10,694
EBITDA	1,746	1,731	1,103	2,097	2,243
· in % of revenue	19.4	19.4	15.0	22.1	21.0
EBIT	1,139	1,040	446	1,509	1,689
· in % of revenue	12.6	11.7	6.1	15.9	15.8
Net income (loss) [2]	**671**	**424**	**-1,204**	**63**	**889**
Statement of financial position					
Total assets	8,021	12,688	12,608	13,344	12,989
Shareholders' equity [3]	4,390	4,076	2,852	3,341	1,714
· in % of total assets	54.7	32.1	22.6	25.0	13.2
Net financial debt [4]	316	3,778	6,131	5,711	6,668
· Financial debt to EBITDA ratio	0.2	2.2	5.6	2.7	3.0
Capital expenditures	919	949	325	386	846
Statement of cash flows					
Free cash flow	246	-3,802	-1,400	566	319
Employees					
Headcount (at end of reporting period)	66,286	66,034	61,536	67,509	74,031

[1] Figures taken from consolidated financial statements of IHO Group, defined as the consolidated group with the parent company INA-Holding Schaeffler GmbH & Co. KG.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Excluding shareholder loans.

Contact details

Schaeffler AG
Industriestrasse 1–3
91074 Herzogenaurach
Germany

Investor Relations
tel: +49 (0)9132 82-4440
fax: +49 (0)9132 82-4444
e-mail: ir@schaeffler.com

Corporate Communications
tel: +49 (0)9132 82-3135
fax: +49 (0)9132 82-4994
e-mail: presse@schaeffler.com

Schaeffler online
www.schaeffler-group.com

You can find up-to-date news about Schaeffler on our website at www.schaeffler-group.com/ir.
You can also download all documents from this site.

Schaeffler AG

Industriestr. 1–3
91074 Herzogenaurach
Germany

www.schaeffler-group.com