SCHAEFFLER

Annual Report 2012

Schaeffler AG

Key figures

No. 001

in € millions	2012	2011		Change
Income statement				
Revenue	11,125	10,694	4.0	%
EBITDA	2,031	2,243	-9.5	%
• in % of revenue	18.3	21.0	-2.7	%-pts.
EBIT	1,413	1,689	-276	€ millions
• in % of revenue	12.7	15.8	-3.1	%-pts.
Net income [1]	872	889	-17	€ millions

in € millions	12/31/2012	12/31/2011		Change
Statement of financial position				
Total assets	13,546	12,989	4.3	%
Shareholders' equity [2]	2,107	1,714	393	€ millions
• in % of total asses	15.6	13.2	2.4	%-pts.
Net financial debt [3]	6,505	6,668	-2.4	%
• Financial debt to EBITDA ratio	3.2	3.0		
Additions to intangible assets and property, plant and equipment [4]	827	846	-19	€ millions

in € millions	2012	2011		Change
Statement of cash flows				
Cash flows from operating activities	1,213	1,084	129	€ millions
Free Cash Flow	381	319	62	€ millions

Employees				
Number of employees	76,099	74,031	2.8	%

[1] Attributable to shareholders of the parent company.
[2] Including non-controlling interests.
[3] Excluding shareholder loans.
[4] Statement of financial position additions.

Automotive

in € millions	2012	2011		Change
Revenue	7,663	7,157	7.1	%
EBITDA	1,429	1,470	-2.8	%
• in % of revenue	18.6	20.5	-1.9	%-pts.
EBIT	998	1,074	-76	€ million
• in % of revenue	13.0	15.0	-2.0	%-pts.

Prior year information presented based on 2012 segment structure.

Industrial

in € millions	2012	2011		Change
Revenue	3,401	3,463	-1.8	%
EBITDA	602	773	-22.1	%
• in % of revenue	17.7	22.3	-4.6	%-pts.
EBIT	415	615	-200	€ million
• in % of revenue	12.2	17.8	-5.6	%-pts.

Prior year information presented based on 2012 segment structure.

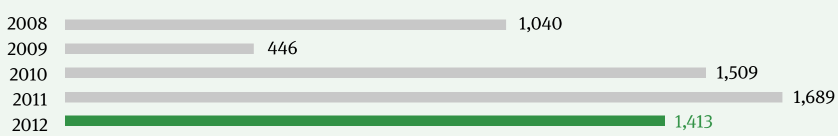
2012 in numbers

Revenue

in € millions

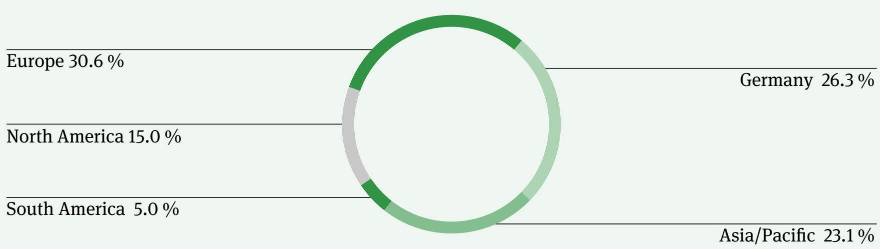
Earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT)

in € millions



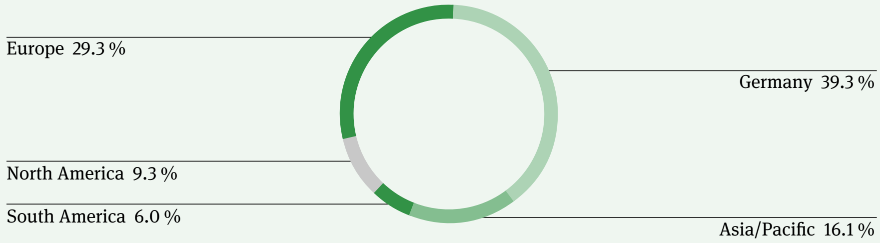
Revenue 2012 by region

in percent by market view



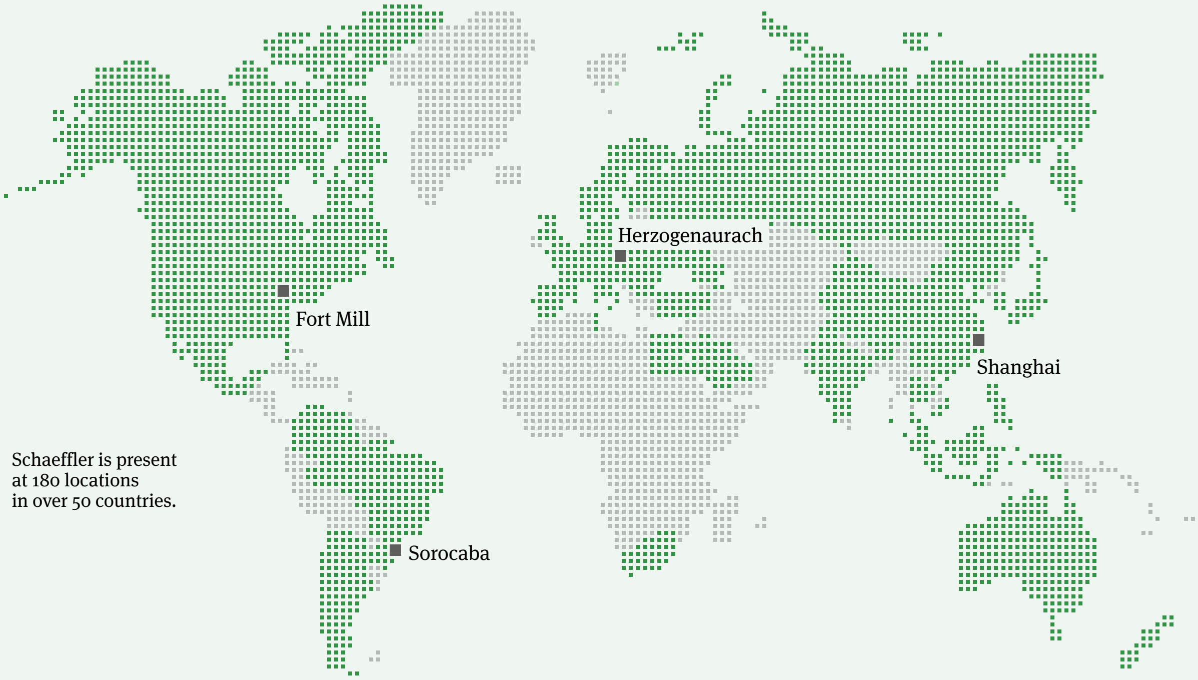
Headcount 2012 by region

Averages in percent



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

Regional presence



Schaeffler is present
at 180 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 production sites in Western Europe – primarily in France, Italy, and Spain – Schaeffler has important manufacturing plants in Eastern Europe.

Asia/Pacific

Schaeffler has maintained a presence in Asia for many years. The company's regional headquarters are in Shanghai in the People's Republic of China. In addition, its branch offices and large production plants in Korea, India, Japan, Taiwan, the Philippines, Malaysia, Vietnam, Thailand, Singapore, Indonesia, and Australia represent Schaeffler 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 another six locations in the U.S. (Michigan, Ohio, Connecticut, Missouri) as well as in Canada, and Mexico.

South America

Schaeffler has been present in the South America region in Argentina, Brazil, Chile, Colombia, and Venezuela for more than five decades. The company's regional headquarters are based in Sorocaba, Brazil.

No. 002

Overview	Germany	Europe	Asia/Pacific	North America	South America	Total
Revenue	2,926	3,401	2,573	1,665	560	11,125
Employees	29,778	22,069	12,664	7,246	4,342	76,099
Production plants	24	19	13	12	2	70
R&D facilities	13	9	10	7	1	40

Annual Report 2012

Schaeffler AG

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for the customer

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local knowledge all over
the globe

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Consistently
leading
the way
worldwide

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Company profile

Schaeffler develops and manufactures precision products for everything that moves – in machinery, equipment, and motor vehicles. We provide our customers with customized solutions that help them move the world – with innovation, high quality and sustainability.

The Schaeffler Group is present at 180 locations in over 50 countries and operates as an integrated entity across corporate and national boundaries. Cross-company functions and standardized processes facilitate consistent and fast decision making. Sales offices and companies in all relevant markets ensure customer proximity.

Since its beginnings, the Schaeffler Group with its brands INA, LuK and FAG has relied on its pioneering spirit and innovative products such as the invention of the ball grinding machine, the development of the cage-guided needle roller bearing, and the diaphragm spring dual clutch for tractors.

For more than 60 years, INA has been developing and producing rolling bearings, plain bearings and linear guidance systems for mechanical engineering as well as engine, transmission and chassis components for the automotive industry. The FAG brand with its more than 100-year tradition is one of the leading product brands for applications in mechanical engineering, the automotive industry as well as aerospace. LuK has been supplying systems and components for the automotive drive train to customers all over the world for over 40 years.

Schaeffler AG acts as a holding company. The business operates under the umbrella of its wholly-owned subsidiary Schaeffler Technologies AG & Co. KG. The company operates its business in two divisions: Automotive and Industrial. The corporate functions Research & Development, Manufacturing, Purchasing, Human Resources and Finance support these divisions.

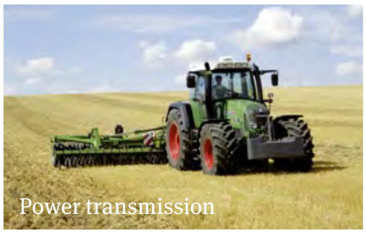
Schaeffler Automotive

Revenue 2012: EUR 7,663 m (prior year: EUR 7,157 m)

Schaeffler supplies technologically and economically sophisticated solutions for a wide variety of requirements within the automotive industry. Our broad portfolio of products includes components and systems for vehicles with internal combustion engines as well as applications for hybrid vehicles. Schaeffler collaborates with its customers to develop tailor-made solutions – from product development right up to mass production. Innovative ideas, creative engineering and comprehensive manufacturing expertise form the basis of our success. Schaeffler's Automotive Aftermarket operates in the replacement parts business worldwide.

Schaeffler Industrial

Revenue 2012: EUR 3,401 m (prior year: EUR 3,463 m)



Customers from around 60 different industrial sectors rely on 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 vast spectrum ranges from high-precision bearings only a few millimeters in size that rotate at speeds of several hundred thousand revolutions per minute for dentists' drills and rolling and linear bearings for machine tools to large "heavyweights" over four meters in diameter for tunnel boring machines or wind turbines. The diverse product portfolio offered via our catalog business rounds out our product range. Schaeffler's Industrial Aftermarket is responsible for the worldwide service and replacement parts business.

Important events in 2012

01 / January
Delhi, India & Detroit, USA

Schaeffler presents tailor-made innovations for the energy-efficient automobile of tomorrow

Schaeffler presented a wide range of forward-looking innovations for the automobile industry at the Auto Expo in Delhi and the North American International Auto Show (NAIAS) in Detroit. These included innovations for optimizing conventional drive trains based on the internal combustion engine and a variety of hybrid solutions and electric mobility products.

02 / February
Herzogenaurach, Germany

Schaeffler AG places bonds and loans in Europe and the U.S.

Schaeffler AG made its debut on the international capital markets by successfully placing bonds with a total volume of EUR 2 bn and loans totaling around EUR 1.4 bn with institutional investors. Due to tremendous demand for the bond issue, its volume was raised from the original EUR 1 bn to EUR 2 bn.

03 / March
Rayong, Thailand

New Schaeffler manufacturing location in Thailand

A new assembly plant for clutches and clutch disks, “Schaeffler Manufacturing Thailand” (SMT), was put into operation in the provincial capital of Rayong. This manufacturing location, located approximately 200 km south of Bangkok, offers tremendous advantages to its customers and increases both product variety and market presence.

Q1

Q2

04 / April
Schweinfurt, Germany

“365 Landmarks in the Land of Ideas” competition 2012: ASTRAIOS large-size bearing test rig is the national winner in the “Environment” category

Besides being a “Selected Landmark” in the 2012 “365 Landmarks in the Land of Ideas” competition, the ASTRAIOS large-size bearing test rig was also the national winner in the “Environment” category. The national winners are shining examples of Germany’s innovative force.

05 / May
Herzogenaurach, Germany

Schaeffler demonstrates its innovative force

Schaeffler registered 1,832 patents in Germany last year – the largest number ever. The German Patent and Trademark Office published the names of Germany’s most innovative companies in its annual statistics. Schaeffler increased the number of registered patents by 11.6 % compared to the prior year and once again ranks fourth behind Bosch, Daimler, and Siemens.

06 / June
Herzogenrath, Germany

FAG SmartCheck successfully positioned in the market

Schaeffler’s compact measuring device FAG SmartCheck has been a great success since its launch at the beginning of 2011. Users in a wide variety of sectors were convinced by this device, which is an uncomplicated and cost-effective solution for monitoring small machines or machinery whose failure would be less critical. The FAG SmartCheck provides customers with both reliable information to ensure availability and a comprehensive data basis about the behavior of their machines in the field.

07 / July
Schweinfurt, Germany

Schaeffler Global Technology Network

With its Global Technology Network, Schaeffler’s Industrial division combines its local expertise existing in the regions with the knowledge and innovative force of its experts all over the world – even those on the other side of the globe. The introduction of Schaeffler Technology Centers and collaboration in global expert networks strengthens Schaeffler’s local expertise, bringing engineering and service knowledge even closer to its customers.

08 / August
Herzogenaurach, Germany

Lightweight design as key technology for sustainable drive concepts

Reducing fuel consumption and CO_2 emissions are important areas of focus for developers in the automobile industry. Reducing overall vehicle weight, thus reversing the trend towards heavier vehicles, is one of the fields with potential for improvement. Lightweight construction will therefore become a fundamental technology for sustainable mobility in the future. Schaeffler, too, is focusing on innovative lightweight technologies as an important component of strategies to sustainably reduce CO_2 emissions.

09 / September
Berlin, Germany

Schaeffler at InnoTrans 2012

Schaeffler has been a leader in innovative surface and coating technology for rolling bearings for many years. For railway applications, this means preventing or reducing corrosion and fretting corrosion, wear, friction, slippage, and the passage of current on bearings in the traction motor and gearbox as well as in the wheelsets. Dr. Peter Ramsauer, Federal Minister of Transport, Building, and Urban Development, visited Schaeffler’s booth during his tour of the InnoTrans trade show in Berlin.

Q3

Q4

10 / October
Herzogenaurach, Germany

Suppliers are one of Schaeffler’s key success factors

During an event held in Herzogenaurach, Schaeffler honored its best production material suppliers. Quality, reliability, competitive cost structures, service, innovation, and global presence are all aspects in which the 16 suppliers from eight countries, who received the 2012 Schaeffler Supplier Award, have demonstrated excellence.

11 / November
Herzogenaurach, Germany

Prizes and awards

2012 saw Schaeffler receive more quality awards than in any previous year. The most recent of these were the “Renault Nissan Award”, the “Nissan Global Quality Award” for outstanding performance as a supplier, and the “Supplier Quality Excellence Award” from General Motors. These prizes came in addition to numerous other prestigious honors such as the Steel Innovation Award and the ASTRAIOS test rig’s victory in the “Environment” category of the “365 Landmarks in the Land of Ideas” competition.

12 / December
Ulyanovsk, Russia

Schaeffler establishes manufacturing location in Russia

Schaeffler, the governor of the Ulyanovsk region in Russia, Sergej Morozov, and the general director of the development agency of the Ulyanovsk region, Dmitrij Ryabov, have agreed on the construction of a Schaeffler plant in Ulyanovsk. Schaeffler plans to set up its first manufacturing location in Russia in the Volga region. The investment in this project in the Ulyanovsk region is worth around 2 bn rubles and it will create 450 new jobs in the next five years.

Message from the shareholders

Maria-Elisabeth Schaeffler & Georg F. W. Schaeffler

Ladies and Gentlemen,

2012 was a year of many successes for the Schaeffler Group. The company continued to grow despite the decline of the European markets. We completed several transactions that further improved the group's capital structure, and today, more than ever, Schaeffler is a successful family-owned company with a structure that is suitable for the capital markets. Schaeffler AG and its subsidiaries as reliable engineering partners satisfy their customers with creativity, distinctive innovative strength, and top quality. We will continue to focus on this, because, as a company, we will only be able to meet the challenges of the future if we continually reinvent ourselves, provide even better products and services tomorrow, and keep satisfying our customers. Breaking new ground again and again, turning new ideas into reality, and thinking beyond barriers is just as important today as it was during the company's early days.

Ingenuity and the drive to succeed – both embedded in our company culture by the founders of our company, Dr Georg Schaeffler and Dr Wilhelm Schaeffler – are still inherent in our corporate philosophy today and are firmly anchored in the minds of our 76,000 employees. This is also demonstrated by the large number of our patent applications. In addition, willingness to change and social responsibility are just as important to us. The Schaeffler FAG Foundation is one of the many ways in which we live up to our responsibility to society. Established in 1983, the foundation promotes science, research, and teaching in the field of scientific engineering by granting its annual "Innovation Award" for outstanding academic theses and also supports school projects in this area. Close cooperation between companies on the one hand and universities and institutions on the other hand forms the basis of the technological and scientific capability of German industry and therefore also represents one of our most important competitive advantages.

Focusing our capital expenditures on growth regions such as China, India, and Russia, is part of our strategy to protect our competitive edge and our leading position in the market. The Schaeffler Group is noted for the proximity and availability of our components and systems around the world just as much as for our ability to quickly react to our customers' individual requirements. We are still aiming to have all of our products take top positions in the world's key market regions by balancing our growth between industry, trade, and the automotive industry.

2012 was marked by excellent performance which is only possible with dedicated employees. That is why the guiding principle of the Schaeffler Group's human resources policy is to both support and challenge our staff. We provide comprehensive technical and commercial vocational training as well as opportunities for pursuing top-notch academic degree programs to approximately 3,000 employees around the world, including 1,500 in Germany, which puts the Schaeffler Group at the forefront of German industry. We are also meeting our responsibility outside of Germany, for instance in the Romanian city of Brasov, where our company played a key role in opening a vocational school modeled on the German dual training system.

We would like to thank all of our employees as well as the members of the executive board and the management of our subsidiaries around the world for their tremendous dedication, their loyalty, and their enthusiasm. We look forward to a successful future together.

Sincerely yours,

Maria-Elisabeth Schaeffler   Georg F. W. Schaeffler

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

Introduction by the Chief Executive Officer

Dr Juergen M. Geissinger

Ladies and Gentlemen,

Schaeffler continued on its course for growth in 2012, despite a market environment that grew increasingly weak over the course of the year. The difficult economic situation in Europe and the slowing economic momentum in the emerging countries affected especially our Industrial business. However, we still grew profitably, despite the challenging environment. The Schaeffler Group increased its revenue by 4.0 % to around EUR 11,125 m and its EBIT of EUR 1,413 m is the second-highest in company history. Also, with an EBIT margin of 12.7 %, profitability again reached a high level in 2012.

Our targeted capital expenditures helped us generate additional growth in our markets around the world in 2012. The Schaeffler Group opened new plants in Thailand, China, and India, consistently implementing its "In the region – For the region" strategy. This is also demonstrated by the fact that we are making all of our know-how as a technology leader and development and industrialization partner available to our customers all over the world, and that they are making good use of it. This past year, we also launched our "Consistently global" initiative – a strategic focus that includes and involves the entire company. The objective of this initiative is to ensure the best possible long-term customer satisfaction, guaranteed by consistently high quality and top service – all around the globe. "Consistently global" means Schaeffler is building on strategies that have proven successful over the last ten years and is positioning itself for a sustainable future. We are responding proactively to the increasing speed at which fundamental conditions are changing, such as the increasing localization of value creation in the growth regions, the rapid pace of technological change, ever-decreasing reaction times, demographic trends, and growing complexity. With our consistent and continual process improvements, more transparent flows of information and materials, highly-qualified employees, and continuing training at all locations we have set ourselves squarely on course for securing the company's long-term success.

The Schaeffler name stands for pioneering innovative force, applied creativity, and the ability to industrialize innovations. Our successful products on the global markets, 1,832 patent applications in Germany alone, as well as various awards received all over the world are impressive proof of this. In addition to building additional plants and expanding our global presence, we invested EUR 593 m in our research and development capacities in 2012. Our investments in this area cover a wide range of projects. One example is our agreement for a collaborative research project with the Karlsruhe Institute of Technology (KIT), which we signed in the summer of 2012. Schaeffler and the KIT will investigate issues affecting E-mobility in the future and jointly develop solutions to these issues. The ability to combine both partners' expertise and infrastructure such as test stands, laboratories, and knowledge networks is a key advantage of this project.

Speaking of knowledge networks: Since July 2012, Schaeffler has been combining the local expertise existing in the various regions with the knowledge and innovative strength of its global experts within its Global Technology Network. The cornerstones of this global network, the Schaeffler Technology Centers, strengthen Schaeffler's local engineering expertise and bring engineering and service knowledge even closer to its customers. Our customers all over the world benefit from this new approach and they receive innovative, customized solutions of the highest quality. At the same time, the overall cost of machines and systems is significantly reduced and efficient solutions increase our customers' competitiveness. A defined range of expertise in rolling bearings and related issues has been set as a benchmark for the Schaeffler Technology Centers. The title "Schaeffler Technology Center" is only awarded after a comprehensive audit and is therefore a seal of approval that these high quality standards are being met. To date, 21 Schaeffler Technology Centers in Europe, North and South America, as well as in the Asia/Pacific region have been certified. Others will follow as part of our increasingly global positioning.

Quality as a mindset has always been firmly anchored in Schaeffler's corporate culture and is applied in practice all over the world every day. A consistent and strong quality management system covering all phases – from design through to manufacturing – ensures the highest-possible product safety. Our quality policy is not only aimed at detecting and rejecting defective products. Instead, our quality mindset focuses on preventing defects from occurring in the first place. "Zero defects" is therefore one of the Schaeffler Group's explicit objectives. A uniform quality management system at all plants worldwide ensures compliance with high standards that is reviewed and monitored during regular audits. Numerous customer awards document the success of our quality policy.

Being an automotive and industrial supplier, Schaeffler has 70 manufacturing locations worldwide that receive production materials from around 1,250 suppliers. Schaeffler purchased around EUR 3.5 bn in production materials – primarily steel, components, and modules – this past year. Localization in growth markets is continually progressing. While local availability is posing challenges, modules, systems, and also particularly components are becoming increasingly complex, calling for comprehensive technical knowledge on the part of our suppliers. Ever-shorter reaction times, more complex supply chains, and our global presence with new and expanding manufacturing locations also demand changes within the company.

» *During the last ten years, Schaeffler has always succeeded in growing faster than the market by helping to drive innovation in industry worldwide. Despite the expected economic uncertainties, we still expect solid above-market revenue growth. Our highly qualified and motivated employees, consistently global organization, wide range of products, pursuit of top customer satisfaction, and tremendous innovative force and lateral thinking form the foundation of this growth.* «

We must constantly adapt our organization to this changing environment and establish uniform processes worldwide, which in turn places increasing demands on our purchasing management systems. This applies equally to Schaeffler's suppliers. The sixteen suppliers from eight countries who received the 2012 Schaeffler Supplier Award have demonstrated exemplary excellence in terms of quality, reliability, competitive cost structures, service, innovation, and global presence. My sincere thanks again to all of them for their great work.

A new milestone in our company's history was reached right at the beginning of the year. Schaeffler AG made its debut on the international capital markets, successfully placing bonds with a total volume of EUR 2 bn. These bond issues were part of a comprehensive multi-component refinancing package totaling EUR 8 bn which the Schaeffler Group agreed on with its banks at the beginning of the year. In June, we issued another EUR 326 m in secured bonds with private and institutional investors, gaining access to a new market segment. As part of this innovative offer, the Schaeffler Group also gave its staff the opportunity to purchase bonds issued by their own company. Our employee's demand for Schaeffler bonds demonstrated their strong commitment and loyalty towards their company, and we responded to this demand with this innovative, uniquely structured offer, the first of its kind in Germany.

My fellow executive board members and I are committed to developing the company responsibly and successfully. We have therefore set ourselves some very challenging targets for the next few years. Despite the expected economic uncertainties, the Schaeffler Group expects to generate solid growth during the next few years. We are planning to increase our revenue by approximately 4 % in 2013. Our focus also remains on further improving our capital structure and gradually reducing our debt.

To overcome the challenges of the future, we have continuously increased the number of our employees over the years, reaching 76,099 worldwide at the end of December 2012. Our clearly focused training programs are aimed at maintaining their high qualification levels. Being an attractive employer is very important to us. Schaeffler provides vocational training of the highest standard to around 1,500 young people in Germany alone. The programs we offer provide training for numerous occupations and fields of study.

On behalf of the entire executive board, I would like to thank all of our employees for their initiative, dedication and hard work. Our employees have always identified with the company's objectives and consistently pursued them. We would also like to express our appreciation to all union representatives for their constructive criticism and teamwork. Last but not least, we would like to express our gratitude to the supervisory board and our shareholders for their support and excellent cooperation.

Best regards,

Dr Juergen M. Geissinger
Chief Executive Officer


Kurt Mirlach*, Human Resources


Robert Schullan*, Industrial


Oliver Jung, Development of Production Methods


Dr Juergen M. Geissinger*, Chief Executive Officer


Dr Gerhard Schuff, Purchasing


Wolfgang Dangel*, Automotive

Prof. Dr Peter Gutzmer*, Research and Development

Prof. Dr Peter Pleus, Automotive – Engine Systems

Klaus Rosenfeld*, Chief Financial Officer

Norbert Indlekofer, Automotive – Transmission Systems

Executive board

The operations of the Schaeffler Group are managed by the executive board. This is formally made up of six executive officers* according to German corporate law and another four executives.

Consistently global

6:30 a.m. in the Mexican desert: We're testing our optimized torque converter under extreme conditions.

10:30 a.m. in São Paulo: Our colleagues at Schaeffler Brazil are thrilled to receive an award for excellent performance as a supplier for the fourth time in a row.

2:30 p.m. at our global headquarters in Herzogenaurach: Our corporate trainees are hard at work and learning something new every day.

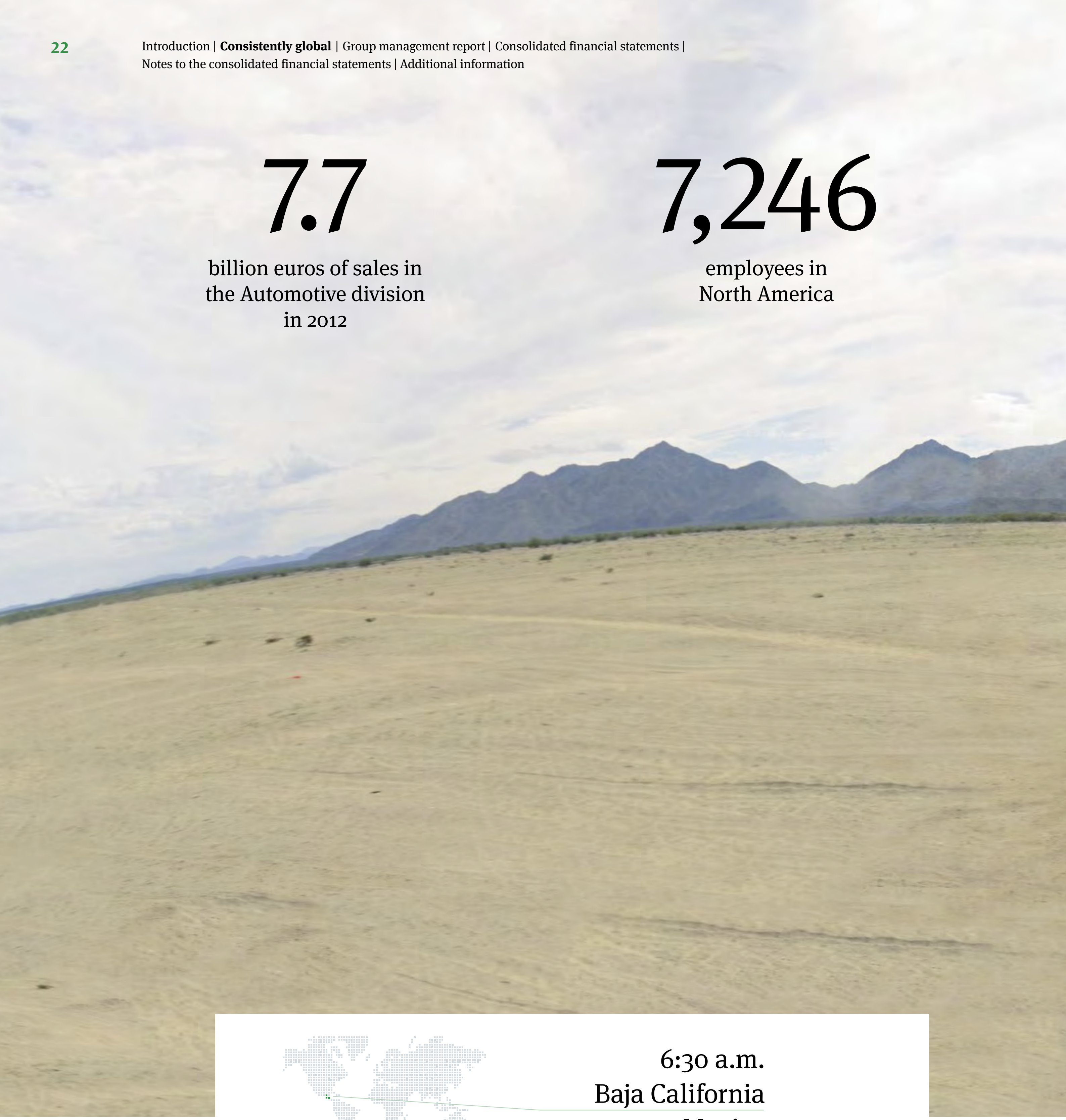
7:00 p.m. at our production plant in Mumbai: While staff in Germany are still considering, working, developing, and researching, our Indian colleagues are just starting their night shift.

9:30 p.m. at our Asia/Pacific headquarters in Shanghai: Even at this late hour, our colleagues from China exchange information about ongoing projects with the plant managers in Taicang, Suzhou and Yinchuan.

At the same time at 180 locations in over 50 countries – as global players, we're always working around the clock. Because the world is turning faster and faster – distances are shrinking and borders are losing their significance. Globalization is the key concept of our times.

This is why we've made it our goal to turn the challenges of globalization into opportunities – consistently! This means using an integrated organizational structure, a uniform strategy and consistent networking of all our expertise and knowledge. For our customers, for progress, for our joint developments. Across all continents and beyond national boundaries. Globally!

Together we move the world.



7.7

billion euros of sales in the Automotive division in 2012

7,246

employees in North America

6:30 a.m.
Baja California
Mexico

In the region – for the region

Consistently working for the customer

16

Schaeffler locations in the North America region

» *We take the needs of our customers seriously. That's why we're located right there where they are. This also applies to the development of our torque converters, which play a dominant role in American automatic transmissions and which we manufacture in America for this reason.«*

Jeff Hemphill, Chief Technical Officer at Schaeffler North America

1

2

The U.S. has the highest percentage of automatic transmissions in the world. It therefore makes sense to develop torque converters, one of the main components of transmissions, right in the region with the greatest demand for them – locally and working directly with the customer. In the region – for the region.

North American automobile manufacturers have traditionally favored automatic transmissions, whereas the manual transmission continues to be more popular in the European market. Automatic transmission efficiency was not a big issue in North America until fuel economy standards were raised. Faced with challenging new limits, automobile manufacturers found a solution – they turned to Schaeffler's LuK brand and its innovative torque converters and damper systems.

Since as far back as 1998, the company has been doing research in a dedicated R&D center in Wooster, Ohio, to create the newest innovations in converter technology. "While looking for the best solution, our team was and is constantly exchanging ideas and information with our customers, most of whom are located in Detroit, which is close by," explains Jeff Hemphill, Chief Technical Officer at Schaeffler North America. Experience has shown that exchanging ideas in this way is most successful when Schaeffler also stays close to its customers geographically.

"Innovations come from solving problems – something we know from experience," explains Jeff Hemphill. "That's why our engineers work very closely with engineers from the automotive sector". In addition, Schaeffler's key account managers maintain regular contact with customers, organize in-house trade shows, and demonstrate innovative new products in test vehicles.

The torque converter is just one of many examples of such successful teamwork. This applies not only to development, but also to production: Schaeffler has decided to manufacture the new torque converter locally – right where demand is highest.

The latest development to come out of this fruitful cooperation is the centrifugal pendulum-type absorber. "This product is a key step forward for our team in addition to our ongoing development activities. It's a real milestone," says a delighted Jeff Hemphill. The innovation almost entirely eliminates vibrations in the drive train. This allows the torque converter to stay in its more efficient locked-

3

4

5

1 f.l.t.r.: Patrick Lindemann, Product Development, Marc McGrath, Business Unit President, and Jeff Hemphill, Chief Technical Officer, make the successful Schaeffler torque converter core team.

2 R&D center in Wooster, Ohio

3 Our manufacturing facilities in Ohio ...

4 ... produce the torque converter.

5 Accuracy is the key: Very precise work is required to create an innovative product.

6

7

8

6 The torque converter with centrifugal pendulum-type absorber is among the products Schaeffler is showcasing at the Detroit Auto Show, the largest motor show in the U.S.

7 Schaeffler's booth at the Detroit Auto Show.

8 Schaeffler also used the show to present the torque converter to the press.

9 Jeff Hemphill and his coworkers test innovative developments of Schaeffler brand LuK, even under extreme conditions.

10 Nothing escapes his attention: Jeff Hemphill takes a closer look at the new generation of torque converters in the desert heat of Baja California.

9

10

up mode for longer periods of time, significantly reducing both fuel consumption and emissions. That in turn pleases customers, since the U.S. recently introduced limits for CO_2 emissions. Automobile manufacturers are increasingly coming to the conclusion that developing smaller, lighter, and significantly more fuel-efficient vehicle types will be inevitable in the future. This conclusion is paving the way for the use of modern converter technology.

"Our products are always one hundred percent reliable," says Jeff Hemphill. "To prove this, we thoroughly tested our optimized torque converter under the harshest possible conditions," he continues. High-speed test runs with a LuK-engineered converter were carried out in Baja California, a Mexican peninsula largely consisting of desert. And not in just any old car – the vehicle in question is a 750 horsepower rally car driven by German rally driver Armin Schwarz who then used it to compete in the Baja 1000, one of the longest and toughest off-road races in the world. Jeff Hemphill went to watch the test runs himself. He's confident that "the torque converter has already proven itself, whether in the desert or on North America's highways".

3.4

billion euros of sales in the Industrial division in 2012

10:30 a.m.
São Paulo
Brazil

From the region – for the global network

Consistently networking local knowledge all over the globe

6,000

employees work at Schaeffler's R&D facilities

21

Schaeffler Technology Centers worldwide

»Thanks to the support I get from my coworkers in the UK, Germany, and Korea, I am in a position to provide my customers with the information they need almost in real time. This is a huge advantage for my customers and for me.«

Antonio Marcondes, Senior Vice President Sales and R&D Industrial for the South America region

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The Schaeffler Global Technology Network makes it happen: The combination of local expertise and the know-how from experts all over the world means that Schaeffler's Industrial division can always offer its customers tailor-made solutions. The customer's local contact serves as the interface with the Global Technology Network – no matter where the customer is located or which type of support they need.

Speaking on behalf of his entire team, Antonio Marcondes de Almeida Filho, Senior Vice President Sales and R&D Industrial for the South America region based at Schaeffler Brazil states, "We're very pleased about this award". He says that with good reason, since Schaeffler Brazil has received a Certificate of Merit from its customer Moto Honda for its excellent performance as a supplier for the fourth time in a row. "This award is an additional incentive for us to continue improving product quality and service for our customer," emphasizes Marcondes, as he's known to coworkers and friends.

Schaeffler Brazil works very closely with Schaeffler development engineers in Germany and Japan during the product development process for the motorcycle manufacturer, because Moto Honda expects top product and manufacturing quality as well as comprehensive service expertise from its supplier Schaeffler Brazil at all times. Quite challenging demands, no doubt about it. However, Schaeffler Brazil is very well prepared for them thanks to the link between its local specialist knowledge and the global expertise of the Schaeffler Global Technology Network. Marcondes appreciates the value of this global network, "These global synergies earned us this award and helped us further increase our sales to Honda."

Global companies such as Honda must consistently fully realize all of its potential in order to remain successful under ever increasing pressure from competitors. Schaeffler supports its customers in these efforts by providing individual solutions. Schaeffler bundles its technical expertise in a wide variety of disciplines and its profound knowledge in over 60 industrial sectors in the Schaeffler Global Technology Network, which enables the company to always produce optimum results. This enables every Schaeffler contact at every location around the world to provide just the right solution to every customer. Local experts put these packages together. If necessary, they can access the Schaeffler Global Technology Network at any time, since it bundles Schaeffler's global specialist knowledge and makes it available locally via certified Schaeffler Technology Centers.

These local competence centers can be described as control rooms that link our global network of experts with the sales engineer acting as contact for the customer. In these centers, specially-trained employees provide Schaeffler's entire range of products and services in close proximity to customers. Thus, our customers know that behind every Schaeffler solution, there are experts shar-

1 Antonio Marcondes de Almeida Filho, Senior Vice President Sales and R&D Industrial for the South America region.

2 Moto Honda, one of Schaeffler's customers in Brazil, is very impressed with the supplier performance of the global company.

3 International networking is required before a main bearing for a new wind turbine can be put into operation.

4 The Schaeffler Global Technology Network facilitates the linking and bundling of know-how across the globe as the practical example from Korea shows.

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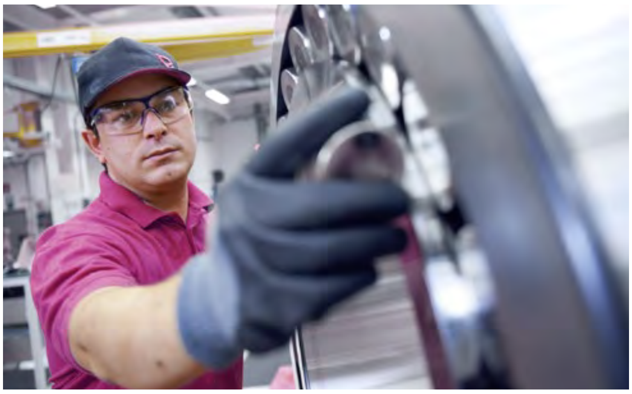

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5 The new bearing solution can be tested extensively using our innovative large-size bearing rig Astraios.

6 Experience and a very steady hand are required to achieve optimum quality when assembling the spherical roller bearing.

7 Top quality and precision are essential for reliable rolling bearings. All Schaeffler products are subjected to stringent measurement checks aimed at achieving "zero defect" quality.

ing information across technical disciplines and national boundaries, passing on their knowledge, and adding to their expertise.

Let's get a more detailed impression of how the experts collaborate in our global network by taking a look at the example of a Schaeffler customer in Korea. The company in Korea has developed an innovative wind turbine for which Schaeffler is asked to develop a main bearing. The customer discusses the specifications with his contact at Schaeffler Korea, Yang Bo. Since additional expertise is needed for these special requirements to supplement the specialist knowledge available locally, Yang Bo and his coworker Chan Lee, an engineer at the local Schaeffler Technology Center, contact the appropriate application engineer in Germany via a video conference. She develops the required large-size bearing using Schaeffler's proprietary simulation and calculation software. The bearing can then be tested under realistic conditions on Astraios, the new large-size bearing test rig for wind power bearings located in Schweinfurt, Germany. All processes from design right up to manufacturing comply with the Schaeffler Wind Power Standard (WPOS). With this new global standard for products and processes, Schaeffler provides outstanding quality and reliability and has established the same top quality standards that it is already applying successfully in the automotive, aviation, and aerospace sectors.

To ensure that the customer's future maintenance requirements are as efficient as possible, the application engineer consults one of her coworkers in the UK. He is an expert in condition monitoring for wind power applications and develops a customized monitoring solution for the new product. Thanks to this global collaboration, Yang Bo, Schaeffler's "face to the customer", is able to offer his client in Korea a perfectly-matched main bearing and monitoring package that has been tested under realistic conditions.

Using its expertise available around the globe, Schaeffler provides perfectly designed rolling bearings. In addition, the Schaeffler Global Technology Network helps reduce customers' operating cost and risk factors. An example from Peru: A leading mining company turns to Schaeffler for the complex mounting process of four new rolling bearings. Since mistakes made during the mounting process can lead to costly downtimes of the tube mill later on, Schaeffler's engineers in Peru work closely with the Schaeffler competence center for grinding mills in Melbourne, Australia, to determine the best approach. Thanks to this international cooperation, the risk of the mill failing is reduced to a minimum.

Back in Brazil, Marcondes doesn't have much time to rest on his laurels from Moto Honda. He's already thinking about the next "Innovation Days", an event lasting several days which Schaeffler Brazil regularly holds for its customers. Guests are offered a mixture of presentations, discussions, and exhibitions with Schaeffler experts from across the globe. The event showcases innovative products, improved manufacturing methods, energy efficiency, mechatronics, and new service solutions. Marcondes proudly says, "These events are a great opportunity to show our customers the full range of our expertise." Expertise that Schaeffler customers can access anywhere, any time, thanks to the Global Technology Network.

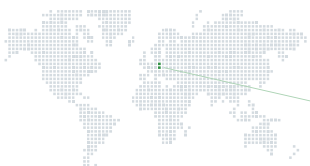
Schaeffler
Global Technology
Network

Benefits of the Global Technology Network for customers at a glance

- Access to Schaeffler's comprehensive range of products and services with bundled, globally-networked expertise
- Everything from one source: The customer stays in touch with his usual contact person
- Innovative concepts for machines and systems, with a focus on total cost
- Application-specific service packages for specific customer requirements
- High levels of machine and system availability with optimized maintenance costs
- Protects and expands our competitive position

11

integrated degree programs in Germany



2:30 p.m.
Herzogenaurach
Germany

Leading by example

Consistently leading the way worldwide

20

different vocations in Germany

70

corporate trainees in Germany

»At Schaeffler, we are very aware of our pioneering role. To maintain our high standards in the future, we place special emphasis on training and advancing our employees because they are our most valuable resource.«

Petra Reiner, Senior Vice President Competence Center Personnel Development, Recruiting & International HR Transfers

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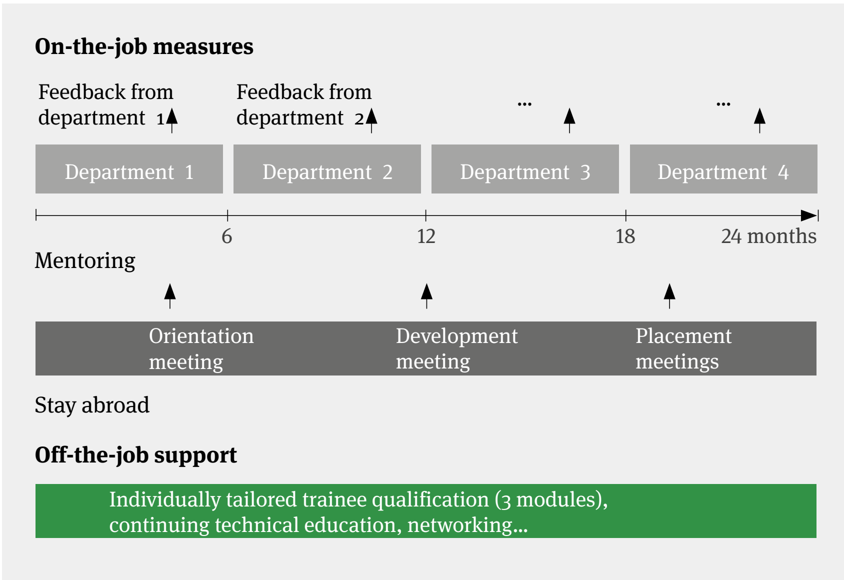
1 Young engineer Jozef Pastor learns all he needs to know about forming technology directly from his German coworkers.

2 Jozef Pastor is now fully integrated and able to independently assist his coworkers with larger projects.

3 Trainees in Schweinfurt gain experience in using the latest technology during their apprenticeship as mechatronics technicians.

4 The apprenticeship provides participants with the opportunity to apply their newly gained knowledge in practice.

During the corporate trainee program, which runs for up to 2 years, participants pass through various training stations in all departments. The stations can be individually tailored and may also include stays abroad:



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Training and continuing education is a top priority at Schaeffler. Whether it is through integrated degree programs, stays abroad, or trainee programs – every employee has an opportunity for professional self-fulfillment at the Schaeffler Academy.

Jozef Pastor has been able to fulfill a long-held dream. He dreamed of learning German and getting a job with a German company in Slovakia even when he was still in school. After completing his studies at the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava, he heard about Schaeffler from a friend who was already working for the company. Little did the young engineer know at the time that he would soon be able to put his German language skills to use everyday: After Josef Pastor had worked for only six months at the 4,300-employee-Schaeffler plant in Skalica, he was offered a stay abroad in Germany. It did not take him long to make up his mind, "I immediately decided to accept," he says.

The twenty-six-year-old came to Herzogenaurach in April of last year with the objective of gaining extensive fundamental knowledge in forming technology. "I am primarily here to obtain advanced training and make some valuable contacts. I am acquiring the expertise that is lacking in Skalica and will be able to pass it on to my coworkers there when I return," he explains.

"This means that not only I am getting the benefit myself, but the entire team profits." Jozef has already passed through different departments in the area of forming technology as part of his training program, "I have worked in prototype manufacturing, quality assurance, and design. Now I can independently assist my German coworkers with their projects," he explains.

He was never lonely during the past few months. "I have started playing baseball and I'm living with my younger brother who is also currently working at Schaeffler in Herzogenaurach."

Marina Pak feels well integrated in Germany, too. She is currently working in Herzogenaurach as part of a corporate trainee program. Marina, who comes from Kyrgyzstan, joined the program in May 2011 after she obtained a master's degree in mechanical engineering from the University of Cologne. "Graduate trainees like us are hired as normal employees by Schaeffler but gain extensive insight into a wide variety of departments over a period of more

5

than two years," she explains. To her, this is the biggest advantage of the corporate trainee program. "How can a graduate possibly know what exactly he wants or does not want to do? Theory usually has little to do with reality. The trainee program will help me decide what direction to take in the future," explains the twenty-six-year-old.

The time Marina Pak spent in Korea has also helped her make career decisions. "The trainee program offers a six-month stay abroad. I was already interested in Korea at that time and my mentor found a suitable project for me there quite by coincidence. However, if there had been a more interesting project in China for example, I would have also gone there. I think the location is really secondary if the project is a good fit," recalls the flexible young engineer. Marina's objective was to familiarize herself with Schaeffler Korea's structures and processes "so that I can use the knowledge I gained there to help my German coworkers," she explains. She was not even discouraged by the enormous language barrier. "It was a great adventure but learning foreign languages is one of my hobbies," she says.

Marina Pak would definitely recommend the trainee program to all graduates and young Schaeffler employees. "Even after only one month, you already come away with useful technical knowledge – I think that's great," she says. The program has certainly fulfilled its purpose for her, because she now knows what she would like to do in the future, "I would like to stay in application engineering," she says. She has not yet decided whether this will be at Schaeffler in Germany, Kyrgyzstan or Korea. "I like the fact that people in Korea laugh a lot," she says.

In addition to stays abroad for graduate trainees and young engineers, Schaeffler is continuously offering innovative new training programs. For example, Schaeffler has opened the first vocational school to offer an integrated training program modeled on the German dual system in the large Romanian city of Brasov. Schaeffler took the lead in the project, supported by the city of Brasov, the Ministry of Education and other German companies based there. The school provides young people with hands-on vocational training to European standards and the qualifications they receive are recognized in both Romania and Germany. Last but not least, graduates also have the opportunity of being employed by one of the companies involved in the vocational school once they have completed the program.

6

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5 Marina Pak has a positive outlook for the future: Thanks to the corporate trainee program she now knows that she would like stay in application engineering.

6 The opening of the vocational school in Brasov was a reason to celebrate: This project was not only supported by its leading initiator Schaeffler, but also by the city and the Ministry of Education.

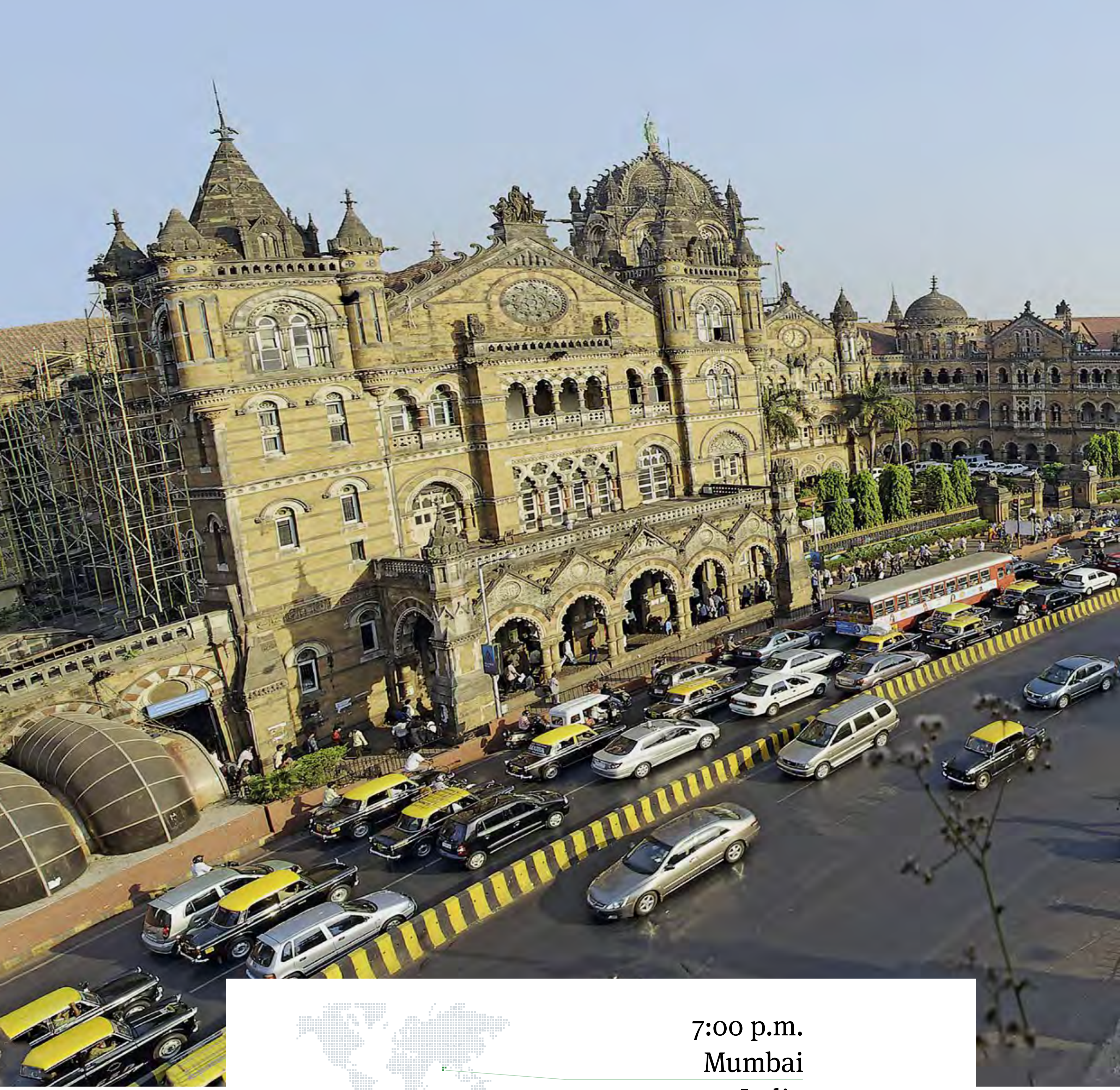
7 For the first time, young people in Brasov, Romania have the opportunity to join an integrated training program meeting German standards. The apprentices are impressed by its hands-on nature.

Benefits of the Schaeffler Academy at a glance

- To bundle all learning activities in the joint of virtual Schaeffler Academy using worldwide standards and respecting local needs
- Company-wide transparency concerning learning offers and synergies
- Long-term, cross-functional and cross-national sustainable development, as well as securing the skills of all employee
- Condition for the goal-oriented and strategic alignment of all learning activities regarding the company’s goals and strategies
- Contribution to a modern employer branding of the Schaeffler Group
- Increase employee satisfaction and employer contribution to employee retention and attraction

Schaeffler Academy

The Schaeffler Academy combines all HR development activities at Schaeffler worldwide. It supports strategic corporate targets, promotes a culture of life-learning and enables our employees to achieve their personal and professional goals.



7:00 p.m.
Mumbai
India

Process orientation

Consistently standardizing the best concepts and globally implementing them

16
locations in India

3,137
employees in India

50
years Schaeffler in India

At our new plant, we benefit from the fact that Schaeffler applies its proven group process standards to each of its locations worldwide. The same process quality and the same production, environmental, and occupational safety standards at every location – also here in India. That inspires us.«

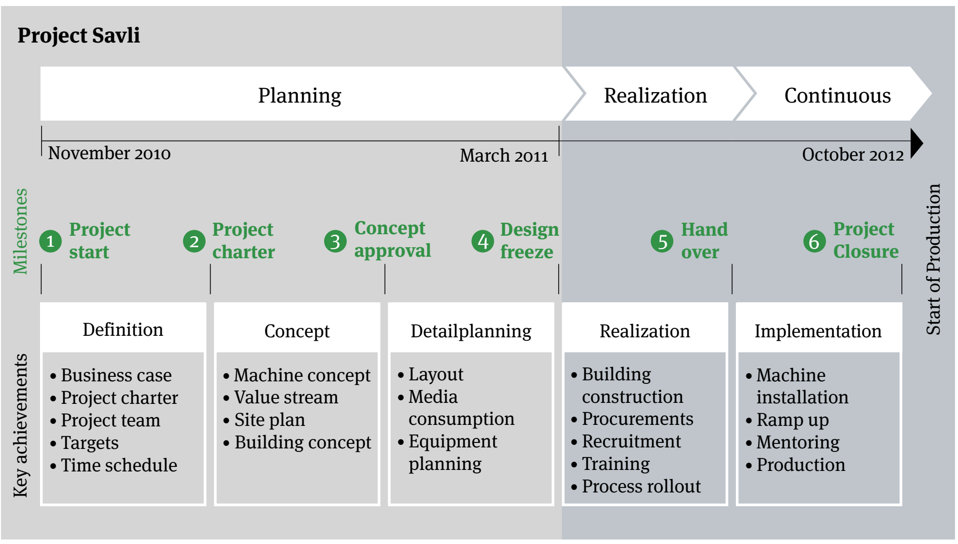
Stephan Ziegler, Manager Corporate Location Planning

For Schaeffler, process orientation means compliance with proven standards, no matter what business processes are being implemented and no matter when or where in the world. All processes must meet Schaeffler's high quality requirements. This applies to development, manufacturing, sales, and service just as it applies to the setup of new manufacturing locations.

One example of this is Schaeffler's newly built plant in India, which is a true greenfield project. To be able to serve the rapidly growing local market easily, quickly, and in close proximity to the customer, the company decided to establish a new manufacturing plant for ball bearings and large size bearings literally from scratch and located it in Savli, the industrial district of western India's emerging city of Vadodara.

Schaeffler's standards were consistently adhered to, from the planning phase right through to the start of production. An international team of market specialists, business unit representatives, production and quality managers, technologists, as well as logistics experts and construction and plant engineers was responsible for creating the specifications and realizing it. The specifications were based both on local circumstances and on Schaeffler's designated lead plants around the world – in this case on the plant in Caldas da Rainha, Portugal. The quality of the plant's manufacturing processes and products was the deciding factor here, so the machinery and degree of automation were defined in such a way as to ensure the same high standard of product quality. “Most of the machines we use in Savli are proven developments from Schaeffler's Special Machine Design and Construction department,” explains Stephan Ziegler, Manager Corporate Location Planning at Schaeffler. “They were manufactured by our local partners in Asia.” The degree of automation in the manufacturing facility at Savli is only slightly lower than that in Caldas da Rainha. Ziegler acknowledges that this may come as a surprise given the extremely low cost of labor in India. “However,” he adds, “issues like product diversity and inventories of finished and semi-finished parts are much more relevant to prod-

Teams comprising specialists from India, Portugal, and from the company's headquarters in Germany were formed for every step of the process. This allowed for fast and direct communication and made it possible for the team to benefit directly from the experience and expertise of each member.



March 2011
saw the start of construction of Schaeffler's new plant in Savli, India.

uct quality and especially to our ability to deliver than low labor costs, particularly in a mass production facility like the one we have in Savli."

During the construction phase, the employees previously selected to later operate the machines were given intensive training – some at the lead plant in Caldas da Rainha, Portugal. "Schaeffler followed this approach because that plant has been successfully implementing best practice solutions for manufacturing ball bearings and ball bearing components for some time," explains Stephan Ziegler. The individual production units were set up, put into operation, and approved by both local employees and specialists from the project team and the lead plant.

The experience of one employee from Savli shows that Ziegler is right. The 33-year-old, who managed to obtain a position as a machine operator, shows off the impressive machine that he is now proud to call his new workstation. "This was a great stroke of luck for me," he says enthusiastically, "and being sent to Caldas da Rainha for training was a particular highlight. The wealth of experience that is on hand there means that the training is of exceptionally high quality."

The fact that Caldas da Rainha is in Portugal made the whole thing even more appealing, as the machine operator, who grew up in Daman, part of Portugal's former colony in India, has Portuguese ancestors. He naturally took the opportunity to trace his roots during his stay in Portugal. "Unfortunately, I never learned Portuguese, despite my background," he says regretfully. He is quick to add, however, that this was no problem at all thanks to the friendly and helpful coworkers he met in Caldas da Rainha. "We were able to communicate very well in English." The Portuguese staff member assigned to him expresses the same sentiment, "Working with our Indian coworkers was a wonderful experience for me. Our colleagues from Savli were very motivated and it wasn't long before they were able to operate the machines by themselves."

In April 2012, barely a year and a half after the project began, the green light was given for the start of production in Savli. "To keep particularly the initial phase as short as possible, the production team in Savli is getting assistance from specialists from the product areas and from the lead plant during the first few months," explains Stephan Ziegler. These specialists also included the colleague from Caldas da Rainha, who helped set up and operate the new machines during the first few weeks. Ziegler adds, "In our experience so far, this type of start-up support ensures that the manufacturing facility very quickly reaches the point where it can meet all requirements it faces." This is already true of Savli, which has been producing high-quality, state-of-the-art low-friction deep groove ball bearings and large-size bearings since mid-2012, not only for the Indian market but for all of Asia.

Teams comprising specialists from India, Portugal, and from the company's headquarters in Germany were formed for every step of process. This allowed for fast and direct communication and made it possible for the team to benefit directly from the experience and expertise of each member.

It was constructed with the help of local companies to a Schaeffler standard that was adapted to circumstances in India.

India's culture and climatic conditions always played a role during construction ...

... as did coconuts, coconut milk, and incense sticks – all essential ingredients for the rituals performed to ask for the gods' blessing.

Schaeffler CEO Dr Juergen M. Geissinger traveled to Savli to attend the opening ceremony for the new plant in person.

Georg F. W. Schaeffler admires the model of the newly constructed plant together with plant manager Chinmay Mishra.

The children of Schaeffler's Indian employees welcome Georg F. W. Schaeffler to Savli.

Since October 2012 the new plant in Savli has been manufacturing state-of-the-art deep groove ball bearings and large-size bearings.

12

Asian countries where Schaeffler is located

12,664

employees in the region Asia/Pacific

9:30 p.m.
Shanghai
China

Global expansion

Consistently growing in global markets

10

planned plant
extensions until 2014

» *Schaeffler now combines global coverage with local expertise at 180 locations in over 50 countries. As a global company, we need to continue to expand in the future.«*

Jiang Yong, plant manager in Taicang

Global expansion sums up Schaeffler's growth strategy. This is how we capture new markets, secure our lead over the competition and still stay close to the customer at all times. That also applies to the Chinese market. A best practice example from Taicang shows how all this is put into practice.

Mr Jiang, you're the plant manager in Taicang. Could you give us a brief description of the Taicang campus and how it has been expanded?

JIANG YONG: It all started in 1997 – that's when the first plant was built in Taicang. Another two plants were constructed in 2006. And then last year, Schaeffler decided to extend its production capacities in Taicang, Suzhou, and Yinchuan in order to increase localization and shorten lead times. One of the benefits of that decision is that it allows us to offer even better service to our customers in the Asia/Pacific region. We laid the foundation stone for another plant on April 28, 2011. Construction is now complete and the plant has already started operating its first production line. By the way, the plant covers an area of 38,700 square meters – that's more than five soccer pitches! That might make it easier to imagine just how big this plant is.

Building this plant has been another important step in implementing our growth strategy. This market is the most dynamic in the world and also offers the greatest potential. To keep it that way, we already have plans to expand the floor space of the manufacturing facility by adding another building next year. The increase in sales of LuK brand products in China alone will make this addition pay off.

How long did it take to set up the new plant in Taicang? What were the milestones of the project?

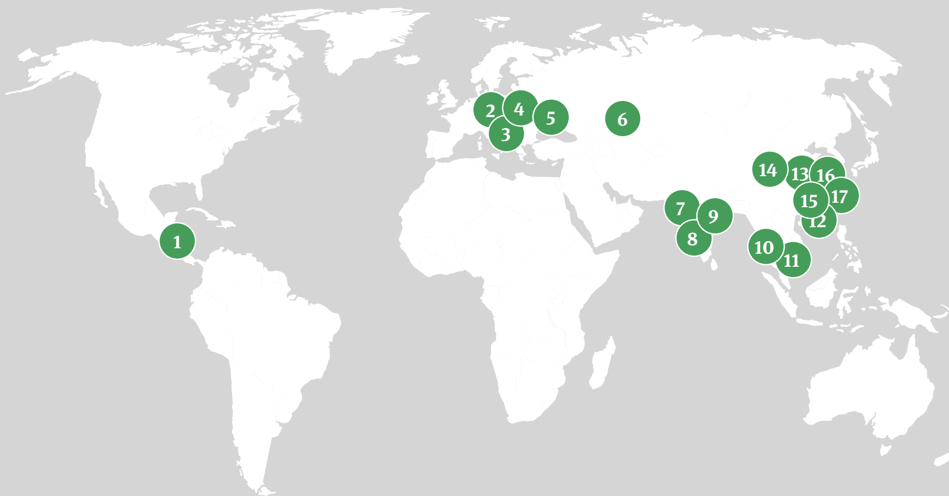
JIANG YONG: Planning started in September 2010 and was completed in February 2011. Construction started right after that and we finished building in January of last year. At this point, Schaeffler had started to assemble manufacturing facilities and machines, which is expected to continue until July 2013. However, we're very proud of the fact that production of the first product group started up as early as February 2012.

You mentioned Schaeffler's expansion strategy for Asia. What role does the expansion at Taicang play in this strategy?

JIANG YONG: China has become a very important strategic market for Schaeffler. In 2012, Schaeffler China's sales made up 10 % of the Schaeffler Group's worldwide sales. This makes China the single most important market outside of Germany. We still see great potential and good opportunities for sales in China, despite the current economic uncertainty. It is estimated that China's economic growth will remain stable at around 6 to 8 % during the next decade. This means China is and will be one of the most important markets for us as global manufacturers. Our new plants fit in perfectly with this strategy: Schaeffler started systematically increasing its investments in the country early on to meet demand both in China and in neighboring countries, and Taicang is one of these key investments.

1 Irapuato, Mexico
2 Kysuce, Slovakia
3 Skalica, Slovakia
4 Szombathely, Hungary
5 Brasov, Romania
6 Ulyanovsk, Russia
7 Savli, India
8 Pune, India
9 Hosur, India
10 Rayong, Thailand
11 Biên Hòa, Vietnam
12 Jangan, Korea
13 Nanjing, China
14 Yinchuan, China
15 Taicang 5, China
16 Taicang 6, China
17 Suzhou, China

Planned greenfield sites and plant extensions for 2012-2014



1 Jiang Yong in our manufacturing facility in Taicang.

2 The plant manager also lends a hand now and then, since precision has the highest priority.

3 Plant manager Jiang talks to an employee. A total of 4,580 people work in Taicang, most of them Chinese.

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While building this new plant, did you work closely with Schaeffler employees from other plants in China or even employees from other countries?

JIANG YONG: Setting up a plant is always a very systematic and interdisciplinary project. This task requires close collaboration with headquarters in Herzogenaurach, regional headquarters in Shanghai, and with other companies in China. Schaeffler China is a truly global company anyway thanks to staff from over 20 countries. I myself work closely with coworkers from China, Japan, Korea, Germany and other European countries. I'm used to communicating and working with people from many different backgrounds. It's part of my day-to-day work and I really appreciate this intercultural exchange.

Which products are being manufactured at the new plant? How many people are employed there? Where do they come from?

JIANG YONG: The new plant in Taicang manufactures our full range of needle roller bearings for industrial and automotive applications as well as precision components for transmission and chassis applications. We employ around 4,580 people at Taicang, most of them Chinese. In addition, Schaeffler China has 110 employees who are not from China originally but come from countries all over the globe.

Do the plants in Taicang work with local component suppliers?

JIANG YONG: We always work very closely with local component suppliers. We introduced a whole series of new products last year in Taicang in conjunction with these suppliers. Our cooperation here is very successful and satisfactory. At the same time, we always make sure we comply with Schaeffler's global standards, particularly when it comes to quality and environmental protection. This also means working in keeping with our "zero defect" principle, which is the basis of all we do.

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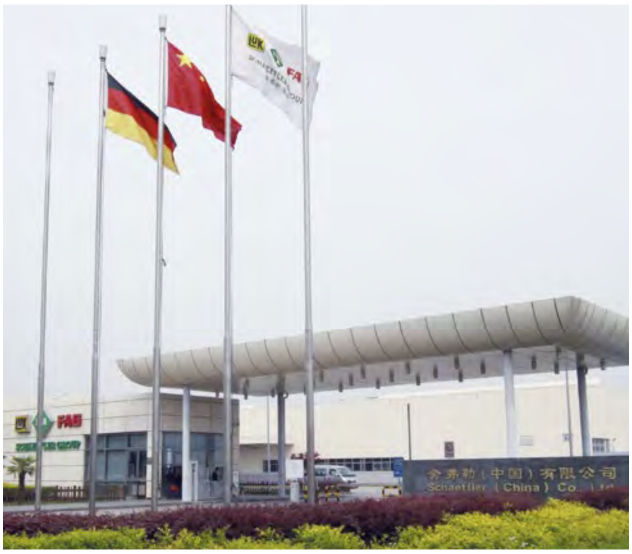

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What percentage of its production for the demand in China does Schaeffler manufacture in Taicang?

JIANG YONG: In the Automotive division, we manufacture over 70 % of local demand here in Taicang. The proportion is around 30 % of local demand for the Industrial division. These percentages are in line with Schaeffler's strategy of always ensuring the greatest-possible customer proximity. We are also continuously striving to further improve our service level for our customers.

Which objectives do you have personally? What are you hoping to achieve with your team?

JIANG YONG: I want to develop a competitive team and secure production in the long term. In addition, we strive to offer our customers the high product quality they're used to, but at the same time are seeking to increase our own long-term productivity. And last but not least, we want to work even more cost-effectively than ever before.

Finally, let's discuss the market environment in China and Asia as well as the challenges of the future.

JIANG YONG: We are benefitting from our excellent position in the Asian market, especially in these times of economic uncertainty and increasing competition. We owe our competitiveness to our cutting-edge innovations, our proven quality, and our service-oriented approach, among other things. We have solid potential for growth even in the current environment, which is why we also remain optimistic about our future sales opportunities.

If we keep in mind our principle "in the region – for the region", I think we'll be able to maintain our lead over the competition in the future, too. In addition to new plants in the Chinese market, we have also been actively investing in countries such as Thailand and India. I'm convinced that we will continue to extend the reach of our solution-oriented product and service mix in this way to ensure the highest-possible level of customer satisfaction.

6

4 Our newest manufacturing facility in Taicang.

5 The plant is one of Schaeffler's most modern manufacturing locations in all of Asia.

6 Many of the products for the Chinese market are manufactured in Taicang. In the Automotive division, they represent more than 70 %, and around 30 % in the Industrial division.

Schaeffler bonds

Consistently towards the capital markets

Bonds issued by the Schaeffler Group No. 003

ISIN	Currency	Face value in millions	Coupon	Maturity	Issued at (in %)	Price in % 1) 12/31/2012
XS0741938624	EUR	800	7.75 %	02/15/2017	98.981	111.87
US806261AC75	USD	600	7.75 %	02/15/2017	98.981	111.63
XS0801261156	EUR	326	6.75 %	07/01/2017	98.981	109.16
XS0741939788	EUR	400	8.75 %	02/15/2019	100.000	115.59
US806261AA10	USD	500	8.50 %	02/15/2019	100.000	112.63

1) Source: Bloomberg.

On January 27, 2012, Schaeffler AG implemented the first component of its new refinancing package by starting a comprehensive bond program. In its debut on the capital markets, Schaeffler placed bonds with a total volume of EUR 2.0 bn with institutional investors. In light of tremendous demand, the offer was increased from initially EUR 1 bn to EUR 2 bn. The two Euro-tranches, which total EUR 1.2 bn, have maturities of five and seven years and bear interest at 7.75 % and 8.75 %. The two Dollar-tranches, which total USD 1.1 bn, also have maturities of five and seven years and carry interest rates of 7.75 % and 8.50 %.

In July, the Schaeffler Group placed another corporate bond issue totaling EUR 326 m with private and institutional investors, expanding into a new market segment. In addition, employees in Germany had the opportunity to subscribe for the bond during a separate subscription period. Despite the volatile market situation, the bond was oversubscribed several times. The offer was increased from initially EUR 200 m to EUR 326 m due to high demand. The bonds have a maturity of five years and bear interest at 6.75 %.

The Schaeffler bonds, issued by Schaeffler Finance B.V. and guaranteed by Schaeffler AG and selected subsidiaries, were admitted to the open market or regulated market of the Luxembourg Stock Exchange.

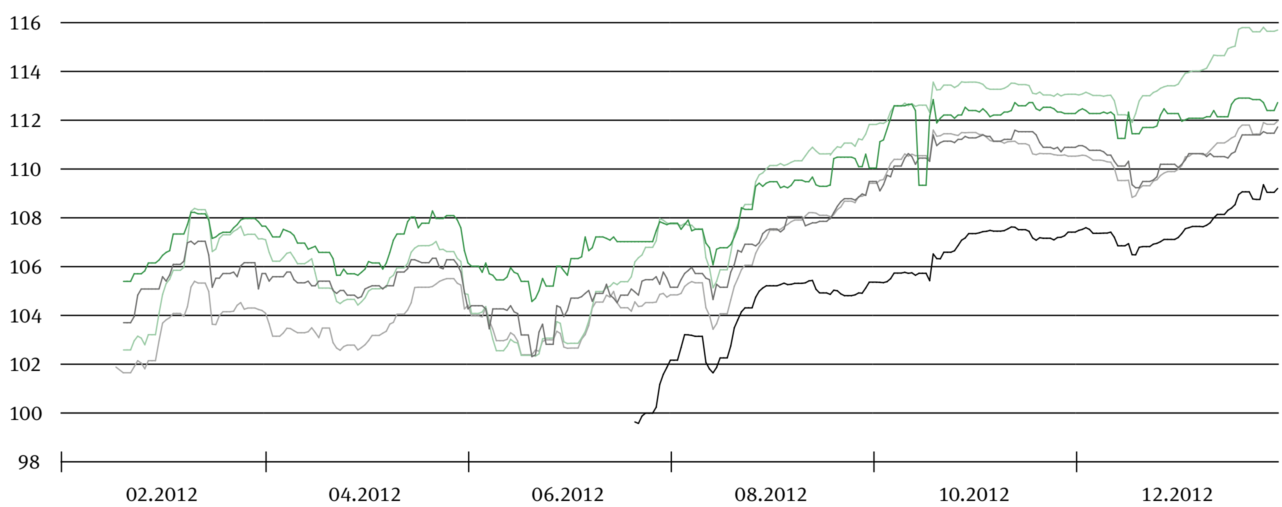
Performance of Schaeffler Group bonds

2012 was characterized by economic uncertainty. Persisting risks left the international money and capital markets volatile. Despite this difficult environment, Schaeffler's bonds performed very well. The EUR bond (ISIN: XS0741939788) bearing interest at 8.75 % and maturing in 2019 showed the best performance since its issue date, rising to a price of 115.59 % as at December 31, 2012.

Performance since issue date

in %

Source: Bloomberg



7.75 % EUR bond 2017
8.75 % EUR bond 2019
7.75 % USD bond 2017
8.50 % USD bond 2019
6.75 % EUR bond 2017

Rating

Schaeffler AG has been rated externally by the two rating agencies Moody's and Standard & Poor's (S&P) since January 2012. Moody's currently rates Schaeffler AG at "B1" with a positive outlook. S&P's current rating for Schaeffler AG is "B+" with a stable outlook.

The following summary shows Schaeffler AG's current ratings:

No. 004

	Company		Bonds
Rating agency	Rating	Outlook	Rating
Moody's	B1	positive	Ba3
Standard & Poor's	B+	stable	B+

Awards for successful refinancing arrangement

The Schaeffler Group received several awards from well-known financial magazines and institutions for its successful refinancing arrangement in early 2012. The finance magazine "EuroWeek" considered Schaeffler the "Most Impressive High Yield Issuer in European Currencies and U.S. Dollars 2012" and ranked the transaction number one in the categories "Deal of the Year" and "Most Impressive Auto and Transport Borrower" within the "Syndicated Loan Awards 2012". The financing magazine "International Financing Review" (IFR) awarded both the "EMEA Leveraged Loan of the Year Award 2012" and the "EMEA High-Yield Bond of the Year Award 2012" to Schaeffler. The bond issue was also voted "The Treasurer's Deal of the Year – Bonds" and "The Treasurer's Overall Deal of the Year" by the "Association of Corporate Treasurers" and the professional magazine "The Treasurer". Finally, the ninth award received by Schaeffler was the "Best Global Corporate Deal 2012", presented by the financial magazine "Euromoney". These awards honored the successful completion of a complex international capital markets transaction which not only appealed to a wide range of investors but also scored with impeccable timing. In particular, the IFR Awards are among the most prestigious prizes the international financial press presents for capital market transactions.

Group management report

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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 worldwide economy declined noticeably during the course of 2012. Governments and central banks reacted to the global financial and economic crisis by implementing a series of fiscal and monetary policy measures which initially stabilized the worldwide economy. However, lingering uncertainties around the outcome of the sovereign debt crisis in the Euro region and in the U.S. as well as the slowing economy continued to act as damper on global expansion. Overall, the global economy grew by 3.2 % (International Monetary Fund, January 2013).

The economic trend in the Euro region was still dominated by the European sovereign debt crisis. There were still concerns that the monetary union might break up. These apprehensions increased noticeably when Greece had difficulties forming an effective government. However, key economic policy decisions, such as the European Central Bank's willingness to intervene in the secondary markets for Euro region sovereign bonds, had a calming effect on the financial markets. Total gross domestic product for the Euro region fell by 0.4 %. The corresponding trends for the various member countries differed widely. While the countries affected most by the sovereign debt crisis reported declines of up to 6.2 % (Greece), other Euro region countries saw their economies expand. The German gross domestic product grew by 0.9 %, primarily due to foreign trade. Investment activity in Germany, particularly capital expenditures on plant and machinery, was restrained.

Growth in the U.S. economy was a robust 2.3 % compared to other industrialized countries. This expansion was mainly driven by private consumption, while public spending and foreign trade provided only little impetus.

Expansion in the emerging Asian countries has slowed down noticeably in 2012. China's growth rate of 7.8 % fell clearly short of the prior year. This development was due to more restrained foreign demand as well as the government's efforts to ensure a "soft landing" for the Chinese economy. India, too, reported lower growth than in the prior year, expanding at a rate of 4.5 %. The slowdown was caused by both weak domestic and restrained foreign demand. At the same time, the Indian economy also had to contend with crop failures and deficiencies in its infrastructure.

The South American economy grew by 3.0 %. The Brazilian economy, the largest in South America, was still marked by low investment activity due to comparatively high interest rate levels and continuing infrastructure problems, and achieved a growth rate of 1.0 %.

1.1 Automotive division – development of global automobile production

Global production of passenger cars and light commercial vehicles increased 6.1 % to approximately 81.5 million passenger cars and light commercial vehicles in 2012 (source: IHS Automotive based on preliminary figures dated February 2013). Here, too, regional trends varied: Production in the market region Europe excluding Germany fell by 8.4 %. Paralleling this trend, production in Western Europe decreased 7.7 % to approximately 13.0 million vehicles in reaction to the slump in demand for new vehicles. Spain and France reported particularly extensive declines in production (-18.0 % and -14.5 %). Production of passenger cars and light commercial vehicles in Germany shrank by 2.7 %. In contrast, the North American automotive sector looks back on a good year with production growing 17.6 % to 15.5 million units. In South America, on the other hand, production decreased by 0.3 %. Automobile production in the Asia/Pacific region rose 10.3 % to 41.5 million vehicles. The reasons for this increase include the low prior year figure, which had been adversely affected by the earthquake and nuclear disaster in Japan. Excluding production in Japan, automobile production in the Asia/Pacific region increased 7.8 % and 4.5 % worldwide. Automobile production in China grew by 6.1 %. India experienced a growth rate of 4.3 %, while production in South Korea declined by 3.3 %.

No. 005

Automobile production volumes (in units)	2012	2011	Change in %
Germany	5,735,604	5,892,389	-2.7
Europe w/o Germany	14,858,645	16,212,902	-8.4
North America	15,476,736	13,161,888	17.6
South America	3,966,639	3,979,502	-0.3
Asia/Pacific	41,462,558	37,591,770	10.3
World	**81,500,182**	**76,838,451**	**6.1**

Source: IHS Automotive, based on preliminary figures as of February 2013.

1.2 Industrial division – development of global engineering and plant construction

The markets relevant for the Industrial division were affected by a general decline in demand for investment goods in 2012. Despite that general trend, certain sectors in which the customers of Schaeffler Group Industrial operate primarily (mainly producing metal products and machinery) have grown approximately 2-3 % worldwide in 2012, based on preliminary estimates published by market research institute Oxford Economics. Emerging countries and industrialized nations differed widely. While the emerging countries reported a plus of approximately 6 %, industrial production in the industrialized nations increased only approximately 1 %. Production in the customer sectors of Schaeffler Group Industrial in the Euro region fell by approximately 1 %. Italy (-6 %) and Spain (-4 %) in particular reported significant declines. Germany, which represents 40 % of total production of the largest industrial product manufacturers in the Euro region, experienced growth of approximately 1 %. Industrial production in the U.S. grew by approximately 7 %. Although growth in China was weaker in 2012 than in the prior year, production rose by approximately 11 %.

2. Earnings

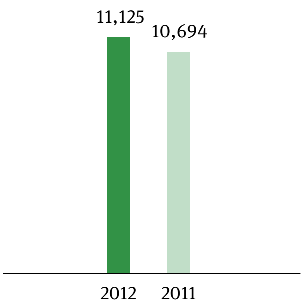
2.1 Schaeffler Group earnings

No. 006

in € millions	2012	2011	Change in %
Revenue	11,125	10,694	4.0
Cost of sales	-7,836	-7,463	5.0
Gross profit	3,289	3,231	1.8
Functional expenses 1)	-1,817	-1,628	11.6
Earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT)	1,413	1,689	-16.3
• in % of revenue	12.7	15.8	-
Financial result 2)	-676	-733	-7.8
Share of net income of equity-accounted investees 2)	554	324	71.0
Income taxes	-407	-378	7.7
Net income 3)	872	889	-1.9

1) Selling, administration and research and development.
2) Share of net income of equity-accounted investees was included in financial result in the 2011 consolidated financial statements. Prior year amounts have been adjusted accordingly.
3) Attributable to shareholders of the parent company.

Revenue (Schaeffler Group)
in € millions



Despite recessionary trends in Europe and the slowdown in growth in the emerging countries, the Schaeffler Group was able to grow its revenue by 4.0 %, aided by a favorable impact of foreign currencies. At 12.7 %, Schaeffler maintained its EBIT margin (ratio of earnings before financial result, share of net income of equity-accounted investees, and income taxes to revenue) at a high level.

Revenue rose by EUR 431 m to EUR 11,125 m (prior year: EUR 10,694 m) in 2012. The North American market region was very dynamic: Revenue increased 18.2 % to EUR 1,665 m (prior year: EUR 1,409 m). The Asian market also reported an increase in revenue by 9.7 % to EUR 2,573 m from the already high prior year level (prior year: EUR 2,346 m), despite the recent slight slowdown in momentum. In Europe, the weak economic environment, the banks' restrictive lending practices, as well as the resulting declining consumption patterns of consumers had a significant adverse effect on revenue. During 2012, revenue increased by only 0.3 % to EUR 6,327 m compared to the prior year period (prior year: EUR 6,311 m).

The Automotive division continued to report high growth rates in 2012 despite the challenging market environment in Europe. Revenue increased 7.1 % to EUR 7,663 m (prior year: EUR 7,157 m), growing faster than global automobile production. Not only very encouraging growth of top-selling product groups such as cam shaft phasing units, torque converters, continuously variable transmission systems, chain drives, and axial needle roller bearings, but increasingly also our innovative product offerings and the resulting growth in production volumes – primarily in the developed European markets – were significant revenue drivers.

The Industrial division’s strong growth rates in the aerospace sector and in heavy industries partially offset the significantly weaker or declining growth trends seen in other sectors. The wind power, production machinery, and railway sectors declined. At EUR 3,401 m, Industrial division revenue remained approximately 1.8 % below the prior year level (prior year: EUR 3,463 m).

Gross profit rose by EUR 58 m from the prior year to EUR 3,289 m (prior year: EUR 3,231 m). Not only the increased revenue but mainly new processes and technological improvements to our manufacturing facilities and production methods made a positive impact on the Group’s earnings. Raw materials costs for all of 2012 were about flat with the prior year. Due to preproduction costs necessary to sustainably improve our value creation through new products, localization activities and the expansion of capacity, gross margin (29.6 %) fell slightly short of the prior year level (30.2 %).

Research and development expenses grew by 19.8 % to EUR 593 m (prior year: EUR 495 m) in 2012. In addition to numerous developments to improve existing products, we focused primarily on the various activities around eMobility, where we linked research and development activities across our two divisions Automotive and Industrial.

Driven by the increased volume of business, selling expenses increased by 4.7 % to EUR 759 m (prior year: EUR 725 m) in 2012, primarily due to higher variable freight and logistics expenses. Administrative expenses increased by 14.0 % to EUR 465 m (prior year: EUR 408 m), mainly caused by an increase in corporate function staff (see Note 3.4).

Earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT) fell by EUR 276 m from the prior year to EUR 1,413 m (prior year: EUR 1,689 m) in 2012. At 12.7 %, the EBIT margin remained high in 2012.

The Schaeffler Group’s financial result for the year amounts to EUR -676 m (prior year: EUR -733 m). Financial result comprises financial income of EUR 53 m (prior year: EUR 40 m) and financial expenses of EUR 729 m (prior year: EUR 733 m).

No. 007

in € millions	2012 Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-523	0	-523
Fair value changes and compensation payments on derivatives	-6	8	2
Foreign exchange gains and losses	-10	3	-7
Amortization of cash flow hedge accounting reserve [2]	-72	0	-72
Interest income and expense on pensions and partial retirement obligations	-83	30	-53
Other	-35	12	-23
Total	**-729**	**53**	**-676**

in € millions	2011 Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-494	0	-494
Fair value changes and compensation payments on derivatives	-101	0	-101
Foreign exchange gains and losses	0	0	0
Amortization of cash flow hedge accounting reserve [2]	-75	0	-75
Interest income and expense on pensions and partial retirement obligations	-81	26	-55
Other	-22	14	-8
Total	**-773**	**40**	**-733**

[1] Incl. transaction costs.
[2] Hedge accounting terminated in connection with the refinancing arrangement in 2009.

Interest expense on financial debt of EUR 523 m for 2012 (prior year: EUR 494 m) includes interest paid and accrued on the Group's financing arrangements of EUR 453 m (prior year: EUR 402 m) and expenses of EUR 47 m (prior year: EUR 78 m) relating to transaction costs. In addition, the amount also includes interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH.

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

Net foreign exchange losses of EUR 7 m on financial assets and liabilities are primarily due to movements of the U.S. Dollar against the Euro (see Note 1.3).

Additional expenses of EUR 72 m (prior year: EUR 75 m) arose from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009 on interest rate hedging instruments.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 53 m (prior year: EUR 55 m). See Note 4.11 for additional details on pensions.

Other items giving rise to net expenses of EUR 23 m (prior year: EUR 8 m) include primarily interest income of EUR 11 m (prior year: EUR 13 m) on loans and receivables, impairment losses on loans of EUR 13 m (prior year: EUR nil), and other financial expenses of EUR 21 m (prior year: EUR 21 m).

The 2012 share of net income of equity-accounted investees of EUR 554 m (prior year: EUR 324 m) relates almost entirely to the investment in Schaeffler Beteiligungs GmbH & Co. KG which holds a 36.14 % interest in Continental AG.

Income taxes for 2012 amounted to EUR 407 m (prior year: EUR 378 m), consisting of current tax expense of EUR 384 m (prior year: EUR 386 m) and deferred taxes of EUR 23 m (prior year: deferred tax benefit of EUR 8 m).

Net income after non-controlling interests was EUR 872 m following net income of EUR 889 m in the prior year.

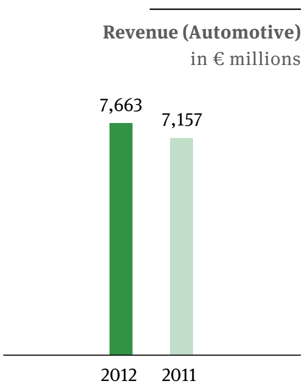
2.2 Automotive division

No. 008

in € millions	2012	2011	Change in %
Revenue	7,663	7,157	7.1
Cost of sales	-5,556	-5,207	6.7
Gross profit	2,107	1,950	8.1
EBIT	998	1,074	-7.1
• in % of revenue	13.0	15.0	-

Prior year information presented based on 2012 segment structure.

Automotive division revenue increased 7.1 % from the prior year to EUR 7,663 m (prior year: EUR 7,157 m) during 2012. The increase results primarily from new customer projects and production start-ups, and also from the favorable impact of currency translation. The tense economic situation in the automotive markets, particularly in Europe, has reduced the growth rate compared to prior year, despite the positive impact made by Asia and North America. The fourth quarter of 2012 showed a slightly higher growth rate compared to the first three quarters.



Revenue growth for 2012 was primarily driven by the Asian (+21.9 %) and North American (+21.2 %) regions. While a slight increase in revenue was also still generated in Europe (+1.7 %), revenue in South America declined (-11.8 %). Compared to the development of production volumes for passenger vehicles of up to 6 tons (Source: IHS Global Insight), the various regions saw their revenue grow faster than the market, South America being the only exception. Schaeffler was able to increase its revenue considerably against the adverse market trend, particularly in Europe.

Among the top-selling product groups, dry double clutches, continuously variable transmission systems, and camshaft phasing units showed above-average growth. Innovative new products, such as ball screw drives used in modern electromechanical power steering systems and chassis solutions, also experienced high growth rates.

Higher production volumes related to revenue growth generally had a favorable effect on gross profit. While personnel expenses increased slightly, raw materials costs for all of 2012 were flat with the prior year. Cost of sales for 2012 increased by 6.7 % to EUR 5,556 m (prior year: EUR 5,207 m). Since cost of sales grew more slowly than revenue, gross margin for 2012 increased slightly by 0.3 percentage points to 27.5 % (prior year: 27.2 %). Driven by the increase in revenue, gross profit rose by EUR 157 m to EUR 2,107 m (prior year: EUR 1,950 m) compared to the prior year.

In order to secure future growth opportunities for the Automotive division, research and development expenses were raised from EUR 361 m to EUR 429 m (18.8 %) in 2012. The increase resulted primarily from higher personnel expenses as well as product initiatives in the field of eMobility. These include for instance the Schaeffler eAxle, an electric axle drive for hybrid and electric vehicles with integrated electric torque vectoring, the wheel hub drive eWheelDrive for future urban vehicle concepts as well as solutions in the field of stop/start technology.

In total, Automotive division EBIT declined by EUR 76 m to EUR 998 m (prior year: EUR 1,074 m) in 2012 compared to the prior year. The EBIT margin decreased to 13.0 % (prior year: 15.0 %) during 2012 compared to 2011.

2.3 Industrial division

No. 009

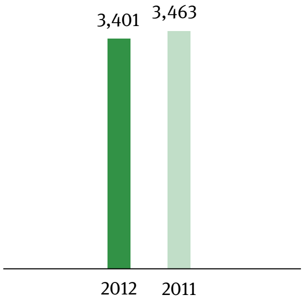
in € millions	2012	2011	Change in %
Revenue	3.401	3.463	-1,8
Cost of sales	-2.219	-2.182	1,7
Gross profit	1.182	1.281	-7,7
EBIT	415	615	-32,5
• in % of revenue	12,2	17,8	-

Prior year information presented based on 2012 segment structure.

At EUR 3,401 m, Industrial division revenue was below the prior year level (prior year: EUR 3,463 m) in 2012. The decline in demand across nearly all industrial sectors, which had started in the second quarter of 2012, accelerated during the remainder of the year. Currency translation favorably impacted revenue.

From a regional perspective, North America (+12.6 %) and Central- and Eastern Europe, the Middle East and Africa (EMEA; +12.7 %) exceeded their prior year revenue levels, but were unable to offset the declining revenue in the remaining regions. Asia/Pacific (-6.6 %), in particular, fell behind prior year levels, primarily due to the weakness in the wind power and railway sectors.

Revenue (Industrial)
in € millions



The heavy industries and aerospace sectors experienced considerable growth in 2012, while the worldwide economic slowdown in many other sectors led to revenue decreasing compared to the prior year.

The wind power sector experienced significantly lower revenue, primarily due to the delay in grid expansion in key markets and wind turbine operators facing increasing difficulties in obtaining financing as a result of high levels of national debt in many countries. In addition, the adverse impact of excess capacity and price competition was felt across the entire wind power sector.

In production machinery, as well, the trend in machine tools, while still positive, was unable to fully offset declining revenues in printing machinery, textile machinery and electronics manufacturing. Power transmission saw slight declines in revenue in many sectors, especially in agricultural machinery due to the elimination of public investments in South America and in the construction machinery market in Europe and Asia.

At +0.9 %, revenue in the Industrial aftermarket business was slightly above the prior year level. In many European countries, the high level of indebtedness, both in the public sector and in private households, held back revenue growth. In the Asia/Pacific region, both our distribution partners and their customers had to align their inventory levels with the declining economic trend. The direct MRO business (maintenance, repair, and operation), which is less sensitive to economic cycles, was able to offset decreased trading revenues, particularly in the sub-sectors of machinery for the steel and mining industries.

Cost of sales for 2012 increased by 1.7 % to EUR 2,219 m (prior year: EUR 2,182 m). Large bearing production, in particular, was unable to fully adjust its production capacities to the lower sales volumes in the wind power sector. Raw materials costs for all of 2012 were flat with the prior year. Since cost of sales grew slightly faster than revenue, gross margin declined slightly by 2.2 percentage points to 34.8 % (prior year: 37.0 %).

Research and development expenses increased from EUR 134 m to EUR 164 m (22.4 %) in 2012. The Industrial division focused on research and development of products for new business fields, concentrating primarily on renewable energy and mechatronic products such as electric drives for bicycles and scooters.

In total, Industrial division EBIT declined by EUR 200 m or 32.5 % to EUR 415 m in 2012 compared to prior year (prior year: EUR 615 m). The EBIT margin decreased to 12.2 % (prior year: 17.8 %) in 2012.

3. Financial position and assets

3.1 Cash flow

As in the prior year, the Schaeffler Group generated positive free cash flow which amounted to EUR 381 m (prior year: EUR 319 m) for the year 2012.

No. 010

in € millions	2012	2011	Change in %
Cash flows from operating activities	1,213	1,084	11.9
Cash used in investing activities	-832	-765	8.8
Free cash flow	**381**	**319**	**19.4**
Cash used in financing activities	-341	-646	-47.2
Financial debt	7,261	7,485	-3.0
Cash and cash equivalents	433	397	9.1
Net financial debt	**6,828**	**7,088**	**-3.7**

Cash flows generated from operating activities in 2012 were EUR 1,213 m, EUR 129 m or 11.9 % ahead of the prior year (prior year: EUR 1,084 m). Fewer funds required for inventories and the lower increase in trade receivables more than offset the decrease in EBIT to EUR 1,413 m (prior year: EUR 1,689 m) from the prior year. Lower interest payments of EUR 593 m (prior year: EUR 686 m) compared to the prior year and the dividend of EUR 80 m (prior year: nil) paid by Continental AG to Schaeffler AG via Schaeffler Beteiligungsholding GmbH & Co. KG also had a favorable effect.

In 2012, cash totaling EUR 832 m was used in investing activities (prior year: EUR 765 m). Cash paid for the acquisition of intangible assets and property, plant and equipment amounted to EUR 860 m in 2012, EUR 87 m more than the EUR 773 m spent in the prior year.

Free cash flow for 2012 was EUR 381 m, including a dividend of EUR 80 m from Continental AG, increasing EUR 62 m compared to the prior year (prior year: EUR 319 m). Additions to intangible assets and property, plant and equipment were financed entirely out cash flows from operating activities.

Cash of EUR 341 m (prior year: EUR 646 m) was used in financing activities. The financing transactions completed in the first quarter of 2012 to refinance the company's senior loans – replacing existing loans with new loan agreements, issuing bonds, and placing loans with institutional investors – were largely non-cash in nature.

The issue of the EUR 300 m retail bonds, including a separate tranche for employees, resulted in a total cash inflow of EUR 323 m, all of which was used to repay financial debt. Dividends received from Continental AG via Schaeffler Beteiligungsholding GmbH & Co. KG were used to make additional repayments of EUR 80 m. Other changes in cash used in financing activities relate primarily to the net total of cash outflows for withholding tax on a dividend of EUR 79 m (prior year: EUR 400 m) and payments of EUR 227 m (prior year: EUR 186 m) to Schaeffler Verwaltungs GmbH, the 100 % shareholder of Schaeffler AG.

Net financial debt (see Note 4.16 for a breakdown of net financial debt) fell by EUR 260 m to EUR 6,828 m (prior year: EUR 7,088 m) as at December 31, 2012. The decrease resulted mainly from repayments of shareholder loans which reduced these loans by EUR 97 m to EUR 323 m (prior year: EUR 420 m), and the repayment of bank debt as at the reporting date.

The debt to EBITDA ratio, defined as the ratio of net financial debt (excluding shareholder loans) to earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA) was 3.2 at December 31, 2012 (prior year: 3.0). EBITDA decreased by 9.5 % to EUR 2,031 m (prior year: EUR 2,243 m).

3.2 Capital structure

The Schaeffler Group's capital structure was significantly improved by various refinancing transactions and an increase in shareholders' equity.

No. 011

in € millions	12/31/2012	12/31/2011	Change in %
Shareholders' equity	**2,107**	**1,714**	**22.9**
Provisions for pensions and similar obligations	1,553	1,217	27.6
Provisions	76	79	-3.8
Financial debt	7,140	7,168	-0.4
Income tax payables	267	172	55.2
Other liabilities	240	261	-8.0
Deferred tax liabilities	119	124	-4.0
Total non-current liabilities	**9,395**	**9,021**	**4.1**
Provisions	223	208	7.2
Financial debt	121	317	-61.8
Trade payables	794	873	-9.0
Income tax payables	232	184	26.1
Other liabilities	674	672	0.3
Total current liabilities	**2,044**	**2,254**	**-9.3**
Total shareholders' equity and liabilities	**13,546**	**12,989**	**4.3**

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) rose by EUR 393 m to EUR 2,107 m in 2012 (prior year: EUR 1,714 m). The equity ratio was 15.6 % (prior year: 13.2 %) at December 31, 2012.

The increase in shareholders' equity is due to net income of EUR 884 m, which has more than offset the decrease in shareholders' equity resulting from the dividend of EUR 300 m declared in 2012 and from other reductions in equity totaling EUR -321 m. The dividend declared resulted in a cash outflow of EUR 79 m in withholding taxes as at its due date in December 2012. The shareholder, Schaeffler Verwaltungs GmbH, waived its right to payment of EUR 131 m of the dividend, thus contributing this amount to shareholders' equity. The remaining dividend payable of EUR 90 m has increased the shareholder loan and is presented under non-current financial debt (see Note 4.9 and 4.10).

Other comprehensive loss of EUR -336 m resulted mainly from pension obligations and similar obligations (EUR -420 m) and the translation of net assets of foreign group companies (EUR -43 m), partially offset by a favorable change in the value of hedging instruments (EUR 129 m). Shareholders' equity also includes EUR 15 m (prior year: EUR -2 m) in other items related to equity-accounted investees recognized directly in shareholders' equity.

Non-current liabilities and provisions increased by EUR 374 m from the prior year to EUR 9,395 m (prior year: EUR 9,021 m), mainly as a result of the increase in provisions for pensions and similar obligations following changes in discount rates due to the worldwide decline in interest rates. A discount rate of 3.5 % was applied in the Euro region as at the 2012 reporting date, compared to 5.0 % as at the end of the prior year. The discount rate for the group's plans in the U.S. and the United Kingdom were reduced from 4.5 % to 3.8 % and from 5.0 % to 4.5 %, respectively.

In contrast, non-current financial debt remained nearly unchanged, decreasing EUR 28 m to EUR 7,140 m (prior year: EUR 7,168 m).

As a result of the refinancing transactions (see management report section 3.5), non-current financial debt under the Syndicated Senior Term Loan and Revolving Credit Facilities Agreement (SFA) has decreased by EUR 2,419 m to EUR 4,530 m (prior year: EUR 6,949 m). The debt was refinanced primarily using long-term bonds issued by Schaeffler Finance B.V. (at the December 31, 2012 reporting date: EUR 2,329 m; see Note 4.10).

The decrease in other non-current liabilities by EUR 21 m is mainly the result of fair value changes on interest rate hedging instruments.

Current liabilities fell by EUR 210 m to EUR 2,044 m (prior year: EUR 2,254 m), primarily as a result of EUR 227 m in repayments of financial liabilities due to Schaeffler Verwaltungs GmbH, the shareholder of Schaeffler AG.

3.3 Asset structure

The financial position as at December 31, 2012 is marked by an increase in total assets of EUR 557 m or 4.3 % to EUR 13,546 m (prior year: EUR 12,989 m) compared to the prior year. The increase is primarily due to non-current assets rising by EUR 520 m to EUR 9,654 m (prior year: EUR 9,134 m).

No. 012

in € millions	12/31/2012	12/31/2011	Change in %
Intangible assets	554	553	0.2
Property, plant and equipment	3,515	3,328	5.6
Investments in equity-accounted investees	5,040	4,772	5.6
Other investments	14	14	0.0
Other assets	150	95	57.9
Income tax receivables	17	22	-22.7
Deferred tax assets	364	350	4.0
Total non-current assets	**9,654**	**9,134**	**5.7**
Inventories	1,495	1,562	-4.3
Trade receivables	1,626	1,607	1.2
Other assets	231	200	15.5
Income tax receivables	107	89	20.2
Cash and cash equivalents	433	397	9.1
Total current assets	**3,892**	**3,855**	**1.0**
Total assets	**13,546**	**12,989**	**4.3**

At EUR 554 m (prior year: EUR 553 m), intangible assets remained nearly unchanged from the prior year. Additions and transfers of EUR 37 m, primarily software purchases, almost equaled amortization of EUR 36 m.

Property, plant and equipment increased by EUR 187 m to EUR 3,515 m (prior year: EUR 3,328 m) compared to the prior year. Additions of EUR 792 m resulting from the continuing high level of investment spending were partially offset by depreciation of EUR 582 m.

The carrying amount of investments in equity-accounted investees increased by EUR 268 m to EUR 5,040 m (prior year: EUR 4,772 m) as a result of the impact of measuring the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach, which is accounted for as a joint venture in the consolidated financial statements, at equity (see Note 2.2). Schaeffler Beteiligungsholding holds a 36.14 % interest in Continental AG, Hanover. The articles of incorporation stipulate that all income and losses as well as all assets and liabilities of Schaeffler Beteiligungsholding GmbH & Co. KG are attributable to Schaeffler AG.

Other non-current assets include options to prepay bank debt and bonds. These options were obtained in connection with the refinancing transactions completed in 2012. Changes in the fair value of these financial derivatives have increased the balance by EUR 55 m to EUR 150 m (prior year: EUR 95 m).

Inventories were reduced by 4.3 % to EUR 1,495 m (prior year: EUR 1,562 m) as at the reporting date.

Inventory levels reduced

Schaeffler Group was able to limit the increase in trade receivables of EUR 19 m to EUR 1,626 m (prior year: EUR 1,607 m) as at December 31, 2012 to 1.2 %, less than the growth in revenue.

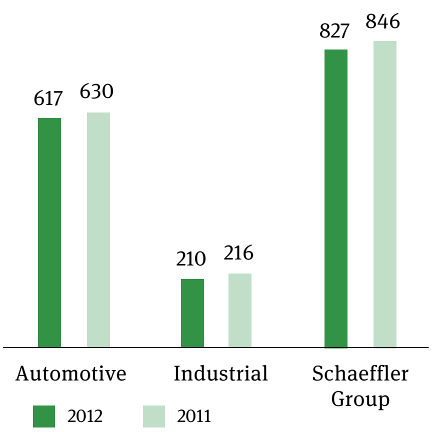
Other current assets rose by EUR 31 m to EUR 231 m (prior year: EUR 200 m), primarily due to changes in the fair value of financial instruments.

Cash and cash equivalents increased to EUR 433 m (prior year: EUR 397 m). Positive cash flows from operating activities of EUR 1,213 m more than offset cash used in investing activities (EUR 832 m) and financing activities (EUR 341 m).

3.4 Additions to intangible assets and property, plant and equipment

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

Additions
in € millions



At EUR 827 m, additions to intangible assets and property, plant and equipment fell slightly short of the prior year amount of EUR 846 m. These figures represent total additions to property, plant and equipment and to intangible assets, and are adjusted for non-cash transactions and currency effects for purposes of the statement of cash flows. Additions to intangible assets and property, plant and equipment as a percentage of consolidated revenue of 7.4 % were below the prior year level (7.9 %), but still higher than the corresponding depreciation and amortization percentage.

The relative decrease in additions to intangible assets and property, plant and equipment was approximately equal in both divisions, with the Automotive division spending EUR 617 m (prior year: EUR 630 m) and Industrial making additions to intangible assets and property, plant and equipment of EUR 210 m (prior year: EUR 216 m).

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

New plants opened include Savli (India) and Rayong (Thailand)

Schaeffler Group intends to continue financing the additions to intangible assets and property, plant and equipment planned for 2013 and 2014 out of cash flows from operating activities.

3.5 Schaeffler Group financing

Schaeffler AG has taken extensive measures to refinance its existing financial liabilities in 2012. With these transactions, Schaeffler Group diversified its financing resources, extended the maturity profile of its debt, strengthened the existing consortium of banks, and reduced its borrowing cost.

The details of the refinancing transactions are as follows:

First quarter 2012

In January 2012, Schaeffler AG had entered into an EUR 8 bn loan agreement with eight banks, replacing the previous loan agreements dating back to 2009. It also considerably reduced the extent of collateral.

In connection with this agreement, the Schaeffler Group placed its first four bond issues – two each in Euro and in U.S. Dollars – with a total volume of approximately EUR 2.0 bn and maturities of five and seven years. In addition, the Schaeffler Group placed a total of approximately EUR 1.4 bn in loans with institutional investors, increasing the volume from the original EUR 1.0 bn due to very high demand. At the same time, another tranche of the loan was reduced by EUR 400 m.

The Schaeffler Group's rating was published for the first time in connection with the refinancing arrangement and the placement of the bonds. The two rating agencies Standard & Poor's (S&P) and Moody's initially assigned a company rating of "B" (S&P) and "B2" (Moody's) in January 2012, while the bonds were rated "B" (S&P) and "B1" (Moody's).

Second quarter 2012

In June 2012, the banking consortium was expanded by three additional banks to a total of eleven banks. The addition of these banks completed the syndication process.

On June 29, 2012, Schaeffler AG announced a placement of five-year retail bonds with a principal of EUR 300 m. In addition, Schaeffler AG gave its employees in Germany the opportunity to purchase a separate tranche of the retail bonds on a preferential basis. This tranche had a volume of EUR 26 m.

Third quarter 2012

A partial repayment and refinancing in late September 2012 reduced the outstanding financial debt at Schaeffler Verwaltungs GmbH by approximately EUR 1.6 bn. The refinancing transaction also changed the structure of the financing instruments and improved the terms and conditions of the financing agreement. The partial repayment was accomplished by a disposal of approximately 20.8 million shares in Continental AG (10.39 %) on the part of the banks B. Metzler seel. Sohn & Co. KGaA and M.M. Warburg & Co. KGaA. The contractual relationship between these banks and Schaeffler Verwaltungs GmbH ended upon the completion of this transaction.

Rating upgraded

Both rating agencies upgraded the credit ratings for Schaeffler AG published in connection with the refinancing in January 2012 during the year. Standard & Poor's (S&P) raised its Schaeffler Group ratings from "B" to "B+" on August 9, 2012. The outlook for the Schaeffler Group was set to "stable" (previously "positive"). Moody's also assigned a higher rating of "B1" to Schaeffler AG on September 28, 2012 and upgraded the outlook to "positive" (previously "B2" and "stable").

Fourth quarter 2012

Schaeffler AG announced the signing of a new loan agreement on December 14, 2012. The new agreement replaces the loan agreement dated January 27, 2012 and represents a technical amendment of that previous agreement. The changes to the agreement included an amendment of the interest cover ratio and Schaeffler Group receiving an option regarding to which loan tranches to apply any future repayments. The new loan agreement also permits Schaeffler AG to internally reorganize its group structure. Schaeffler AG exercised this option as at December 31, 2012 by transferring its financial debt together with shares in its significant operating subsidiaries to INA Beteiligungsgesellschaft mbH, a wholly-owned subsidiary of Schaeffler AG. The total amount and maturities of the financing arrangement as well as collateral and guarantees provided in connection with the financing remain unchanged.

At December 31, 2012, the Syndicated Senior Term Loan and Revolving Credit Facilities Agreement (SFA) consisted of the following tranches:

No. 013

Tranche	Currency	Face value in millions	Carrying amount in € millions	Coupon	Maturity
Senior Term Loan A	EUR	2,446	2,410	Euribor + 4.00 %	01/27/2015
Senior Term Loan B1	EUR	504	501	Euribor + 4.75 %	01/27/2017
Senior Term Loan B2	EUR	525	510	Euribor + 5.00 % 2)	01/27/2017
Senior Term Loan B2	USD	1,500	1,120	Libor + 4.75 % 3)	01/27/2017
Revolving Credit Facility 1)	EUR	1,000	-10	Euribor + 4.00 %	01/27/2015

1) EUR 57 m were drawn down as at December 31, 2012, primarily in the form of letters of credit.
2) Euribor floor of 1.50 %.
3) Libor floor of 1.25 %.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at December 31, 2012:

No. 014

ISIN	Currency	Face value in millions	Carrying amount in € millions	Coupon	Maturity
XS0741938624	EUR	800	785	7,75 %	02/15/2017
US806261AC75	USD	600	446	7,75 %	02/15/2017
XS0801261156	EUR	326	322	6,75 %	07/01/2017
XS0741939788	EUR	400	398	8,75 %	02/15/2019
US806261AA10	USD	500	378	8,50 %	02/15/2019

3.6 Schaeffler Group liquidity

At December 31, 2012, cash and cash equivalents amounted to EUR 433 m (prior year: EUR 397 m) and consisted primarily of bank balances. EUR 154 m of this amount was located in countries with foreign exchange restrictions. In addition, the Schaeffler Group has a revolving line of credit of EUR 1.0 bn, of which EUR 57 m were utilized at December 31, 2012, primarily in the form of letters of credit.

4. Research and development

In 2012, Schaeffler has further strengthened its research and development function and thus its foundation for future innovations. At the end of 2012, approximately 6,000 R&D staff were employed at approximately 40 development locations worldwide, including 16 R&D centers. The more than 1,800 inventions reported internally represented another increase over the prior year. We are expecting to be again in a top position in Germany in 2012 in the official patent statistics of the German Patent and Trademark Office ("Deutsches Patent- und Markenamt" – DPMA).

Research and development expenses grew by 19.8 % to EUR 593 m (prior year: EUR 495 m) or 5.3 % of revenue (prior year: 4.6 %) compared to prior year. The Automotive division spent EUR 429 m (prior year: EUR 361 m) or 5.6 % of revenue (prior year: 5.0 %) and the Industrial division incurred research and development expenses of EUR 164 m (prior year: EUR 134 m) or 4.8 % of revenue (prior year: 3.9 %).

In 2012, Schaeffler further expanded its global presence, one of the success factors of its research and development activities. One example is the opening of a new engineering center at the Brasov location in Romania which provides cross-divisional development services and continues the strategy to build up local expertise started in 2004. The Industrial division established the Global Technology Network in 2012: 21 Schaeffler Technology Centers around the world have bolstered local expertise related to rolling bearings. Linking these centers to the Schaeffler network of experts ensures our ability to provide our customers with first-rate solutions.

Networking and sharing knowledge, both internally and externally, are also among the cornerstones of research and development at Schaeffler. At the Innovation Days held in 2012, new developments were presented to Industrial division customers. The Innovation Days also serve as a platform for sharing experience and information, identifying trends, and jointly discussing product ideas. This type of networking is also very important internally. Events like the Forum of Inspiration (already in its fifth year in 2012), the knowledge forums, and various internal symposia were among the numerous platforms facilitating integration and new ideas during the year.

Two relatively young institutions aimed at future trends, the Surface Technology Competence Center and the eMobility Systems division, have continued to develop well in 2012. For instance, Schaeffler received the Materialica Design + Technology Award 2012 for its new Triondur CX+ coating system. Schaeffler established a long-term cooperation with the Karlsruhe Institute of Technology (KIT) to jointly develop solutions for future mobility under the "Company on Campus" concept. Being present on campus makes it possible to look at research issues in the context of industrialization at an early stage and also facilitates an extensive exchange of information with young professionals.

"Company on Campus" with Karlsruhe Institute of Technology (KIT)

4.1 Automotive division

PACE award for UniAir, Steel Innovation Award for centrifugal pendulum-type absorber

2012 again saw awards given to Schaeffler Group innovations that help reduce fuel consumption and CO_2 emissions. Schaeffler received its third PACE award, this time for its fully variable valve control system UniAir. The award confirmed the considerable influence UniAir has on the market. In addition, Automotive News recognized Schaeffler's cooperation with its partners Fiat and Chrysler in developing this system by granting it its Innovation Partnership Award. Schaeffler also once again received the Steel Innovation Award which was received for the centrifugal pendulum-type absorber in 2012. This award demonstrates the significance of innovative attention to detail combined with extensive expertise in production.

In the continual effort to improve the combustion engine, the thermal management module helps tap additional potential. The module precisely controls engine temperature, thus ensuring operation in the most appropriate temperature range as soon as possible. In particular, it significantly shortens the cold running phase, which reduces CO_2 emissions by a total of up to 4 %.

In transmissions, lightweight solutions are increasingly gaining significance. Following this trend, Schaeffler has developed selector hubs in transmissions that reduce weight by up to 25 % compared to conventional solutions while being able to transmit higher torque. Another innovation are hybrid design gearshift forks which are already in volume production: They weigh less and are more compact than previous designs. Their body is made of aluminum, while the striker jaw is a high-precision sheet metal blanked component that is precisely aligned during assembly. This makes costly recasting and complex reworking unnecessary. In combination with newly developed shift masses, these lightweight construction measures help reduce weight by up to 1.2 kilograms.

Schaeffler's system for detecting the neutral gear position represents an enabling technology for the increasing electrification of drive trains based on internal combustion engines. The innovative Schaeffler sensor detent is characterized by a high degree of component functional integration. Using a new sensor component, neutral gear position is detected without contact and without wear. Hybrid vehicles represent the next step towards electrification. The eDifferential is a well-suited solution for rear axles of hybrid vehicles that supplements the combustion engine driving the front axle. Adding the ability to drive using only electric power and an electric four-wheel drive that can be selected manually, significantly expands the vehicle's functionality. At the same time, the ability to control the drive torque separately for each wheel provided by the eDifferential also facilitates an innovative means of controlling driving dynamics.

4.2 Industrial division

In 2012, the world's largest and most powerful large-size bearing test rig "Astraios", put into operation in late 2011, was selected from more than 2,000 candidates as "Selected Landmark 2012" in the "365 Landmarks in the Land of Ideas" competition. In addition, the test rig was honored as national winner in the category "Environment" and thus as one of Germany's shining examples of innovative power and sustainability.

With new X-life quality bearings, Schaeffler is further expanding its technological position. These bearings feature an increased load rating, longer operating life, less maintenance, and higher reliability. Products newly presented in 2012 include radial insert ball bearings and housing units for applications in various industrial sectors as well as axlebox bearing units for railway technology.

In railway technology, the focus is increasingly shifting to total cost considerations, in addition to reliability and robustness, both in freight and passenger transport. In response to this trend, Schaeffler has developed components with significantly lower maintenance requirements due to e.g. design changes, surface coating, or new means of relubrication. To accommodate increased development requirements, Schaeffler expanded its accredited test laboratories in Germany and China. Mechatronic units also represent an important technological trend. One example of such solutions are axlebox bearings with integrated functionality that provide more reliability and performance in rail traffic. For instance, a wheelset generator can supply energy for collecting data for control and monitoring purposes using a sensor that is integrated into the bearing. The bogie frame monitoring system currently under development monitors the temperature, acceleration, and speed of axlebox bearings and wheels.

Mechatronic axle boxes for more safety and performance in rail traffic

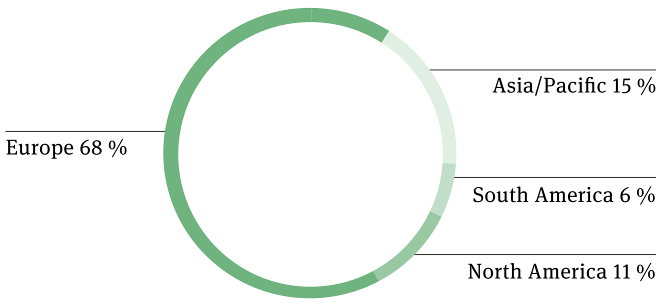
The relevance of the field of renewable energy remains unchanged. In the field of wind power, reliability requirements for both offshore and onshore wind turbines have increased significantly. The ever-growing performance in the multi-megawatt-range produces stronger forces and torques leading to increased strain on components. Their reliability is key to operating efficiency. To accommodate this trend, Schaeffler has developed and introduced the Wind Power Standard (WPOS) for wind power bearings. In solar energy, the focus is on high efficiency. One option for improving yields in solar thermal and photovoltaic systems are tracking systems, for which Schaeffler provides rolling and plain bearings as well as linear guidance systems. Combined materials, coatings, and seals ensure reliable operation of these components even under the increased demands made by extreme operating conditions.

5. Procurement

As in previous years, raw material prices were again heavily affected by the volatility of prices of commodities used to produce steel in 2012. The largely moderate trend in the price of scrap metal, which declined slightly, particularly during the second half of the year, stabilized or slightly reduced prices for steel bar and wire. Changes in the price of iron ore and coking coal drove down the steel mills' cost to manufacture flat steel products. Raw materials costs for all of 2012 were flat with the prior year. The final quarter saw prices decline slightly compared to the prior year quarter.

Purchases amounted to approximately EUR 6.4 bn in 2012. Europe continues to be the key procurement market. As a result of the high degree of localization for the materials required as well as the use of Asian markets for shipments to other regions, Asia was second only to Germany in terms of importance to the Schaeffler Group as a procurement market in 2012.

Purchasing volume 2012 by region
in percent



There were no insolvencies among Schaeffler's suppliers that significantly affected operations in 2012. Close communication with the suppliers concerned were among the measures that helped prevent disruptions to supply.

Compared to the prior year, the first signs of a slowdown in momentum in the procurement markets became perceptible during the second half of 2012. Reduced worldwide demand for all production materials combined with sufficient supplier capacity to meet requirements even at short notice enabled us to ensure supply for our plants without any significant issues.

16 top suppliers recognized at Supplier Day 2012 in Herzogenaurach

The biannual Schaeffler Supplier Day took place in October 2012 in Herzogenaurach. 46 production materials suppliers who had distinguished themselves with outstanding performance in recent years were invited. Based on the criteria quality, reliability, competitive cost structures, service, innovation, and global presence, the 16 best suppliers were selected from this group and presented with an award.

Procurement strategies were redefined for all relevant commodity groups in general purchasing and in production materials, organizational units cooperating seamlessly in the process. Close cooperation and agreement of corporate purchasing, which ensures requirements are bundled; business unit purchasing, which is heavily involved in the early phase of product creation; and the various regional purchasing functions ensures that the technical and business aspects of the purchasing function are dovetailed optimally around the world. This approach is the foundation for the future development and alignment of the worldwide supplier base and includes, in particular, developing suppliers in new markets such as Russia and India.

In order to preemptively detect risks, purchasing uses instruments that facilitate a detailed investigation of suppliers. Both during the initial evaluation of suppliers as part of an analysis of potential and during the sourcing process, suppliers are subjected to a risk screening.

In securing future growth, the Schaeffler Group is facing demographic challenges that may aggravate the shortage of skilled staff. Several personnel policy programs were set up to deal with these challenges on a timely basis. A key element is the constant continuing technical education of staff at the purchasing academy. Participants around the world are trained in the skills relevant to procurement throughout the purchasing organization to guarantee standardized processes. In addition to new systems and tools for procurement operations, particular emphasis is placed on sharing knowledge with the key interface partners of the purchasing process.

Since early 2009, Schaeffler AG and Continental AG have maintained a purchasing cooperation aimed at realizing joint growth and further optimizing materials costs worldwide. A global purchasing strategy agreed on by both entities and uniform quality standards have helped to again achieve the jointly set targets regarding quality, cost, and ability to deliver in 2012.

6. Production

As at December 31, 2012, approximately 70 production locations represented the Schaeffler Group around the world.

Stepping up and expanding our MOVE program ("Mehr Ohne VErschwendung" – More Without Waste) has enabled us to further significantly reduce production inventories at the plants in 2012. In addition, Schaeffler has stepped up the integration of new processes and the technical optimization of its manufacturing facilities and production processes. The production system is continually being improved and ensures our focus on operating excellence.

Schaeffler has thus been able to maintain the high quality of its products, despite the large number of various projects started or ramped up and the constantly growing volume of production. In 2012, this was confirmed once more by various awards (e.g. Nissan's "Global Quality Award") presented to Schaeffler for its operating excellence, quality, and innovative strength.

In order to be able to meet the increasing demand for our products, particularly in the growth markets, we have added capacity, primarily in Asia. We continued to press ahead with our customer-oriented localization strategy in order to meet the regional needs of our customers (such as in inventory management or supply reliability) and reduce external influences such as foreign exchange fluctuations and duties to a minimum.

A new plant was built in Savli in India, one of the markets of tomorrow. The most modern low-friction deep groove ball bearings and large-size bearings will be manufactured there in the future. In addition, a new production line was set up at the production location Hosur to manufacture state-of-the-art hydraulic clutch and release systems.

In China, as well, we consistently pursued our customer-oriented growth strategy. The opening of a new production building continued the expansion of the plant in Yinchuan, China, in 2012. This location has a production area of approximately 30,000 sqm and produces mainly deep groove ball bearings. Similarly, production capacity at Schaeffler Friction Products, Suzhou, China, was further expanded in order to be able to react to the continually increasing demand as market leader for clutch linings in China.

The new assembly plant for clutches and clutch discs in Rayong, Thailand, came on stream in 2012. In addition, in Ansan, Korea, we have laid the groundwork for the acquisition of a new property and the resulting investment in additional production plants. These activities laid the foundation of our continued expansion path in Asia, particularly in the Automotive division.

In order to further bolster Schaeffler's market position in North America and to be able to meet customer demand in one of the most important markets worldwide, capacity was increased considerably in this region in 2012. The plant in Irapuato, Mexico, which started production in 2008, was able to significantly expand its production volume. We have also taken other localization measures which sustainably increase the proportion of value created locally and safeguard our long-term profitability targets in this region.

Schaeffler consistently continued to expand its production capacities at the Eastern European plants in 2012. In addition, an agreement regarding the construction of a Schaeffler plant in Ulyanovsk, Russia, was signed in December 2012. With this project, Schaeffler intends to participate more extensively in the growth of this booming region and further expand its business in Russia. Construction is scheduled to begin in 2013, and production is slated to start in 2014. The production plant will primarily manufacture products for the automotive sector, but also components for the railway industry.

The German production locations continued to focus on the integration of new product start-ups and technologically optimizing production capacities in order to maintain the Schaeffler Group’s high level of efficiency and flexibility.

7. Employees

The Schaeffler Group employed an average of 75,893 employees (prior year: 71,896) in 2012. The number of employees at December 31, 2012 was 76,099, 2.8 % above the prior year level of 74,031.

No. 015

Number of employees [1]	12/31/2012	12/31/2011	Change in %
Germany	29,778	29,443	1.1
Europe w/o Germany	22,069	22,004	0.3
Asia/Pacific	12,664	11,181	13.3
North America	7,246	6,781	6.9
South America	4,342	4,622	-6.1
Schaeffler Group	**76,099**	**74,031**	**2.8**

[1] Figures as at December 31.

Number of employees increased by 2.8 % worldwide

The headcount rose by a total of 2,068 across all significant regions and functional areas in 2012. The largest increases in headcount in absolute terms took place in the Asian and North American entities.

Employee qualification and continuing education: The objective of the Schaeffler Group's human resources development and continuing education activities is to support employees and to provide them with the qualifications they need to meet their complex challenges at all times. 4,192 continuing education events took place in Germany in 2012 (prior year: 3,626), an increase in the number of events over the prior year of 566. The number of participants in continuing education events increased by 2,747 to 37,946 (prior year: 35,199) compared to the prior year. The reason for the increase is the increased need for qualifications with respect to subjects such as project management and MOVE.

The worldwide labor turnover rate within the Schaeffler Group was 2.6 % in 2012 (prior year: 2.7 %). Worldwide absenteeism due to illness experienced by the Schaeffler Group has remained unchanged at 3.2 % in 2012, although it varies widely across regions.

8. Sustainability and corporate social responsibility

8.1 Corporate responsibility

Successful sustainable management requires extensive analysis of the economic, social, and ecological performance of a company. Thus, sustainability cannot be a stand-alone issue. Rather, sustainable management has to be integrated into day-to-day operations. This integration and our openness in dealing with these questions help identify new solutions that effectively contribute to the sustainability of our company.

The commitment to sustainable management is anchored in our corporate management principles. One of the fundamental statements they contain is: “Exemplary actions on the basis of clear ethical corporate values determine our success”. Putting this objective into action means recognizing risks, analyzing and assessing issues, and then making an appropriate decision.

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”. These principles are minimum standards which the Schaeffler Group frequently exceeds. They do not place restrictions on country-specific versions that conform to specific cultural practices, but instead often strengthen these.

Based on the fundamental assertions in our code of conduct, we issued a group-wide environmental protection and occupational safety policy many years ago. It is evaluated regularly and its fundamental principles are updated to meet current requirements. This worldwide policy is the basis for our future actions in the field of environmental protection and occupational safety. There are additional regulations in the various countries setting out country-specific rules over and above this corporate policy. In many cases, we significantly exceed the applicable national legal requirements by implementing these regulations.

The Schaeffler Group started establishing its environmental protection and occupational safety management system at its headquarters in Herzogenaurach more than 15 years ago. This system was implemented consistently at all production locations around the world over the years and successfully put into practice. As of the end of 2012, nearly all Group locations have been validated regarding environmental protection in accordance with EMAS and comply with ISO 14001. In addition, the occupational safety function is certified in accordance with OHSAS 18001.

The EMAS certifications granted by independent assessors outside Europe play an extremely important role in international comparison. These successfully completed audits attest to the fact that nearly all Schaeffler Group locations comply with the highest level of uniform global environmental protection and occupational safety standards. The close cooperation between the group's strategic and operating units guarantees this success. The environmental protection and occupational safety experts at each location are connected to each other within their region via a regional coordinator. Regular monitoring of results, constant exchange of information and interdisciplinary cooperation contribute to safeguarding the high standards in each region. In turn, the regional coordinators are closely linked to the strategic technical departments at the Competence Center Environmental Protection and Occupational Safety (CC EHS), whose specialists are responsible for global strategy and provide technical management to the entire organization within the EHS management system. This matrix organization of strategic and operational responsibility is primarily responsible for the nearly identical worldwide environmental protection and occupational safety standards.

The shareholders, executive board, and employees in every business unit, country and location support these efforts out of conviction. They all agree that sustainably designed business processes are key to the company's success.

8.2 Environmental protection

Protecting the environment is a significant part of sustainable management. Sustainably reducing fuel consumption and CO_2 emissions is the dominant issue in the automotive sector. Developers' tasks related to this issue range from further developing and improving the combustion engine through optimizing the classic drive train to developing new technologies for eMobility.

The constantly increasing worldwide demand for energy not only calls for new, intelligent solutions for further reducing losses in bearing technology but also for new developments in the field of high-performance direct drives. In this sector, as well, reducing the consumption of resources in general and specifically reducing CO_2 emissions is the challenge of today and tomorrow.

The cross-divisional organization of the environmental protection function guarantees a constant exchange of knowledge about environmental protection issues. Solutions found in the Automotive division are tested for applicability in the Industrial division and vice versa. This approach guarantees the use of optimum technology and processes in all divisions.

The concept of "Integrated Product Policy" (IPP) builds on this thought by supporting environmentally friendly products. For this purpose, material and energy flows are recorded at the operation, process, and product level. The Schaeffler Group uses these material flow analyses to integrate active environmental management practices into key areas of the company such as logistics, production and controlling. Existing processes and technologies are subjected to detailed analysis and further opportunities for process improvement are identified and realized.

Active environmental protection in all areas of the business

We use an almost identical approach to improve environmental performance at all locations. Schaeffler has taken on responsibility for the environment for over 20 years. Active environmental protection is integrated in all areas of the business.

The Schaeffler Group applies these standards worldwide at the same high level. We do not distinguish between plants in Germany, Europe, the U.S., Asia, or other production locations. Instead, we always focus on continually improving environmental performance. We minimize the use of resources, reduce waste streams, improve new technologies, and actively protect wildlife and habitats.

The results of the internal and external reviews are turned into targets which are achieved through systematic programs. One example worth mentioning here is our energy report: It was initially written in 1981 and has been continually updated and improved ever since.

Environmental statements provide complete and continuous information about the programs and all other relevant issues. Our commitment to protecting the environment is recognized by our customers and also by politicians. For instance, we have repeatedly received the Ford Motor-Company World Award for “Environmental Leadership Worldwide“. We view the Bavarian Environmental Medal, the European EMAS Award 2005 and the EcoGlobe Award 2011 presented to us as both recognition of our efforts and motivation to consistently follow along our chosen path.

8.3 Occupational safety

The constraints under which companies are operating today are significantly affected by megatrends and society’s expectations as well as by economic and ecological factors and the continually growing challenges posed by social factors. Demographic change, the ever increasing speed of change in the working environment and in tasks to be completed on a day-to-day basis, the growing proliferation of technology, and the increasing complexity of processes require extensive efforts in the field of occupational safety.

The Schaeffler Group is convinced that all work-related accidents and occupational diseases are avoidable. A motivated workforce helps make this conviction a reality and attain the common target of “zero” work-related accidents. In this regard, the Group does not differentiate between employees and suppliers. That is why, when designing work stations and work flows, we take into account the most recent research findings in the field of occupational safety and place particular emphasis on ergonomic workplace design.

Our goal is to create a safe and healthy working environment which exceeds current occupational health and safety standards. We want to prevent workplace-related injuries and occupational diseases by taking appropriate measures.

Occupational safety has been embedded in the Schaeffler Group’s corporate management principles since long before it was officially certified under OHSAS 18001 by external experts. Risk analyses carried out using the same assumptions throughout the world play a key role in steadily reducing the number of accidents at work. Related insights gained at the various locations are communicated throughout the company via the network of the Competence Center Environmental Protection and Occupational safety (CC EHS), thus directly helping to make occupational safety more effective at all locations. The Schaeffler Group's ambitious target of having not only its environmental protection function but also its occupational safety services at nearly all locations certified was attained back in 2010.

8.4 Social responsibility

To the Schaeffler Group's executive board and employees, commitment to cultural and social activities and issues is a fundamental obligation and part of the company culture. 2012 again saw Schaeffler supporting numerous projects.

FAG Foundation grants Innovation Award 2011

The Schaeffler Group's FAG Foundation granted the Innovation Award 2011 for outstanding dissertations, undergraduate theses, and school projects on February 28, 2012. At a ceremony in Schweinfurt, shareholders Maria-Elisabeth Schaeffler and her son Georg F. W. Schaeffler as well as Chief Executive Officer Dr Juergen M. Geissinger awarded the prizes to six young scientists. Established in 1983, the FAG Foundation promotes science, research and teaching in the field of scientific engineering and also supports school achievements. This year's record number of entries with more than 30 top-class applications confirmed again that the Innovation Award ranks among Germany's leading technology foundation awards.

Schaeffler instrumental in establishing vocational school modeled on the German dual system in Brasov, Romania

Schaeffler has managed to open the first vocational school to offer an integrated training program modeled on the German system in the major Romanian city of Brasov. Schaeffler took the lead in this project, supported by the city of Brasov, the ministry of education, and other German companies located in Brasov. The school provides young people with the opportunity to obtain hands-on vocational training to European standards. In addition, the qualification they receive is recognized in both Romania and Germany. Last but not least, graduates also have the opportunity of being employed by one of the companies involved in the school once they have completed their training.

"Schaeffler Group Hope School" in China

On May 12, 2008, a severe earthquake shook Wenchuan in the Chinese province of Sichuan, about 1,550 kilometers southwest of Beijing. The earthquake damaged more than five million buildings in Sichuan and the neighboring provinces, and 5.8 million people lost their homes. Only two days after the devastating event, the Schaeffler Group began collecting donations in China and started the project "Schaeffler Group Hope School" to help the region's children return to school as soon as possible. Construction of the building was completed in October 2009 and the school was opened. The Schaeffler Group and its employees contributed approximately one third of the cost. Schaeffler China supports the school to this day. Schaeffler employees volunteer to teach the children at the "Schaeffler Group Hope School".

Ten years "Formare Schaeffler School" in Brazil

The Schaeffler plant in Sorocaba, Brazil, has been investing in the "Formare Schaeffler School", a technical school for seventeen- and eighteen-year-olds that was founded in 2002, to help young people start their working lives. This requires determination, dedication, and, most of all, discipline. 66 Schaeffler employees volunteer their time to teach the young students at the plant. The program covers 16 subjects and takes one year to complete. 230 youngsters have been trained over the last 10 years, and 86 % were employed on a permanent basis.

9. Overall assessment of the 2012 business year

A marked slowdown in growth during the second half of the year characterized the markets and sectors relevant for Schaeffler in 2012. Developments in the European sovereign debt crisis were the key source of uncertainty for the global economy. Growth in the emerging countries, which suffered from both domestic economic challenges and decreased foreign demand, was not sufficient to fully offset the slowdown in the European industrialized economies. Overall, the global economy grew by approximately 3.2 % following approximately 3.8 % in the prior year.

Being a globally integrated technology company, the Schaeffler Group held its ground in this environment and – particularly the Automotive division – continued to grow faster than the market.

Despite a slowdown in growth, revenue increased 4.0 % to EUR 11,125 m compared to the prior year.

The Automotive division benefited from the recovery of the North American market and from the ongoing strong growth trend in Asia/Pacific, while the markets in Western Europe and in South America declined. However, the product innovations that have entered mass production in recent years are the key growth drivers. The Automotive division increased its revenue 7.1 % compared to the prior year.

The Industrial division suffered considerable market-related declines in revenue in several sectors where demand slowed down during the course of the year. Particularly the railway and production machinery sectors were unable to achieve prior year revenue levels. Wind power reported further declines in revenue due to the persistently challenging situation in the market. However, the aerospace and heavy industries sectors as well as the Aftermarket business all experienced a favorable trend. Overall, Industrial division revenue fell 1.8 % compared to the prior year.

Gross profit of EUR 3,289 m (prior year: EUR 3,231 m) reflects the increase in personnel expenses due to additional staff as well as preproduction costs for future growth.

Research and development expenses grew by 19.8 % to EUR 593 m, representing 5.3 % of revenue. In addition to developments to improve existing products, the focus was primarily on investments in the promising field of eMobility.

Following the above-average prior year level of EUR 1,689 m, EBIT declined as expected, amounting to EUR 1,413 m. At 12.7 % (prior year: 15.8 %), Schaeffler's EBIT margin remained at a high level.

Cash flows from operating activities increased considerably by 11.9 % to EUR 1,213 m (prior year: EUR 1,084 m). Cash paid for the acquisition of intangible assets and property, plant and equipment of EUR 35 m and EUR 825 m, respectively, was ahead of the prior year amounts of

EUR 15 m and EUR 758 m, respectively. Total additions to intangible assets and property, plant and equipment of EUR 860 m (prior year: EUR 773 m) resulted in a capex ratio (ratio of cash paid for the acquisition of intangible assets and property, plant and equipment to revenue) of 7.7 % (prior year: 7.2 %).

Including the dividend of EUR 80 m received from Continental AG via Schaeffler Beteiligungsho lding GmbH & Co. KG, free cash flow improved by 19.4 % to EUR 381 m (prior year: EUR 319 m).

Schaeffler AG reached an agreement with eight banks in January 2012 to comprehensively refinance its financial debt. Following that, the Schaeffler Group issued approximately EUR 2.0 bn in bonds and placed approximately EUR 1.4 bn in loans with institutional investors, partially replacing the new bank loans. Three additional banks joined the new loan agreement mid-year 2012. In addition, the Schaeffler Group issued retail bonds totaling EUR 326 m.

Both rating agencies upgraded the credit ratings for Schaeffler AG published in connection with the refinancing in January 2012 during the year. Standard & Poor's (S&P) raised its Schaeffler Group ratings from "B" to "B+" on August 9, 2012. The outlook for the Schaeffler Group was set to "stable" (previously "positive"). Moody's also assigned a higher rating of "B1" to Schaeffler AG on September 28, 2012, and upgraded the outlook to "positive" (previously "B2" and "stable").

The loan agreement dated January 27, 2012 was replaced by a new loan agreement on December 14, 2012. Specifically, the changes made to the agreement included an amendment to the interest cover ratio. In addition, the new loan agreement also permits Schaeffler to choose which loan tranches to apply any future repayments to. The new loan agreement gave Schaeffler AG an option to internally reorganize its group structure. Schaeffler AG exercised this option as at December 31, 2012 by transferring its financial debt together with shares in its significant operating subsidiaries to INA Beteiligungsgesellschaft mbH, a wholly-owned subsidiary of Schaeffler AG.

These measures considerably improved the Group's financing and capital structure and provided access to additional financing sources.

10. Report on subsequent events

In 2011 and 2012 several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsid-iaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. The EU antitrust authorities are conducting further close examinations; the Schaeffler Group expects further steps in the proceedings in 2013. There is a risk that the antitrust authorities will impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

On February 21, 2013, Schaeffler AG announced plans to seek a repricing of a Euro and U.S. Dollar loan tranche equivalent to EUR 1.6 bn by repaying it and obtaining a new loan tranche. The transaction is expected to close in mid-March 2013. The maturity, collateral, financial covenants, and other terms contained in the loan agreement will remain unchanged.

No other material events occurred after December 31, 2012 that we expect to have a significant impact on the results of operations, financial position, and net assets of Schaeffler Group.

11. Report on opportunities and risks

The Schaeffler Group intentionally takes manageable business risks in order to implement its corporate strategy and realize the related opportunities. In addition, the Schaeffler Group is exposed to a large number of potential risks that can adversely affect its business. Management divides the risks into strategic, operating, financial and legal risks.

Schaeffler defines risks as possible future developments or events that can lead to adverse deviations from budgeted results, while opportunities are future developments or events that lead to favorable deviations from budgeted results.

The Schaeffler Group identifies and manages risk using its group-wide risk management system. Business opportunities are determined at regularly held strategy conferences.

11.1 Risk management system

The corporate risk management system establishes uniform group standards for and the approach followed by the Schaeffler Group's risk management system, thus ensuring a uniform approach is followed. The system consists of a multi-phase process spanning various levels and organizational units. In a first phase, risks are identified and analyzed at the subsidiary level. Based on this analysis, risks are analyzed at the level of the appropriate global divisional and area management. They assess the risks identified within the subsidiaries taking into account their global impact. This approach ensures that all responsibilities within the Schaeffler Group are reflected in the risk management system.

Risks are identified semiannually at all significant Schaeffler Group subsidiaries. Operating management is responsible for identifying risks. Companies included are selected using a defined selection process based on revenue and earnings measures as well as specific risk factors (e.g. single source within the Group or for the customer). To ensure a uniform approach to risk identification, each subsidiary is provided with the same catalogue of risk categories which it has to review in its entirety.

Risk analysis includes both the evaluation of risks and the design of appropriate risk prevention measures by operating management. Risk evaluation is based on an estimate of the probability of occurrence and the related monetary impact on net income. Identified risks are classified as low, moderate or significant based on their potential adverse impact on earnings, financial position, and assets. The probability that the risk will materialize is assessed as low, medium or high. In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures, the difference being existing measures in place that mitigate the risk.

Risks are relevant for reporting to the executive board if their potential gross damage exceeds a certain limit.

Corporate risk management provides risk reports to the executive board and the supervisory board semiannually.

Management is charged with taking measures to avoid or reduce net risks or provide safeguards against them. Risks with a less than moderate impact on the Schaeffler Group are managed by operating management. Risks with a moderate or significant amount of damage, however, are managed centrally by the executive board of the Schaeffler Group. Within its area of responsibility, management decides what measures are required and ensures that they are implemented and continually updated. The current status is regularly reported to the executive board and the supervisory board.

Details of the risk management system are set out in the risk management guideline, which is available on the Schaeffler Group's intranet and, therefore, accessible to all employees. In addition to the description of the process, 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.

The executive board of the Schaeffler Group has asked internal audit to perform regular audits in order to satisfy itself that the risk management system is effective. A two-step process was developed for this purpose, which assesses first the conceptual basis and then the operational implementation. In the first step, internal audit reviews the design, adequacy and appropriateness of the guideline as the foundation of Schaeffler AG's risk management systems. The operational implementation in the Schaeffler Group's subsidiaries is audited in the practical phase of the audit. Comments provided by internal audit are taken into account in the process to continually improve the risk management system.

The global introduction of the risk management system within the Schaeffler Group, which began in 2010, was completed at the end of 2012 when the system was fully implemented.

11.2 Internal control system

The Schaeffler Group has a standardized process in place to monitor the effectiveness of the internal control system which is itself an integral part of the company's 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 AG management is responsible for establishing and continually improving appropriate controls over financial reporting.

The following significant features of the system of internal controls over financial reporting have been implemented within the Schaeffler Group:

- accounting manual setting out uniform accounting policies,
- closing instructions issued quarterly provide Schaeffler AG subsidiaries with information on issues regarding the financial statement preparation process and relevant closing deadlines,
- continual expansion of the standardized services of our shared services organization,
- extensive system-based reasonableness checks integrated in the financial reporting process,
- consultations with operating units on accounting matters,
- controls using reviews (by a second member of staff) carried out regularly at all reporting levels, and
- review of consolidated quarterly and annual reports at Group level.

Both the standardized conceptual requirements and deadlines and the review at relevant corporate levels are intended to reduce the risk that the separate and consolidated financial statements of the Schaeffler Group are prepared and issued incorrectly or too late. Schaeffler obtains support from external service providers in dealing with certain complex issues requiring extensive specialized knowledge (such as the valuation of pension obligations).

The proper functioning of the internal control system was confirmed at the level of selected individual companies in 2012 with the help of a control self-assessment process. This process includes:

- documenting control activities meeting minimum requirements required by corporate,
- testing the design of documented controls performed by the person responsible for controls locally,
- testing the effectiveness using additional samples selected in accordance with requirements set by corporate to ensure effectiveness of the control,
- retaining evidence of samples selected,
- identifying, analyzing, and assessing control weaknesses at company and group level,
- documenting and monitoring measures taken to eliminate control weaknesses, and
- continually improving existing internal Corporate Governance regulations.

The internal audit function, which is another component of the internal control system, assists with both complying with existing guidelines and implementing measures aimed at continual improvement and minimizing risk.

The steps taken to monitor the effectiveness of the internal control and risk management system relating to the financial reporting process and its continuous improvement are designed to provide reasonable assurance that the system prevents misstatements in financial reporting.

11.3 Risk management

Strategic risks

We consider strategic risks to be specifically risks arising from market changes, country risk, and from strategic equity investments such as our investment in Continental AG.

Market changes: 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 evaluated incorrectly.

Extensive market analyses are carried out in order 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.

Worldwide presence: One of the factors driving decisions about our geographic presence is 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, aiming to, amongst other matters, establish or expand production capacities timely at the relevant locations. We are currently represented by approximately 70 production locations in all important markets around the world.

Country risks: Changes affecting the social, political, legal, or economic stability in certain markets may restrict our current operations or our planned expansion. Local laws can affect consumer behavior, which may adversely impact demand for the Schaeffler Group's products. In some countries, the local political situation poses a risk.

Strategic equity investments: The Schaeffler Group takes on strategic equity investments in order to implement its corporate strategy. The strategic investment in Continental AG through Schaeffler Beteiligungsholding GmbH & Co. KG creates a joint basis for future-oriented projects based on the ideally matched product ranges of the two companies. Depending on the performance of Continental AG's business, the value of the indirect strategic investment in Continental AG may decline.

Operating risks

Operating risks include the following:

Sales risk: Global economic conditions are a key driver of demand for our products. Particularly the demand for Automotive and Automotive Aftermarket products is to a substantial extent dependent on the overall economic trend. This also applies to the engineering sector and industrial growth markets such as the wind power market. In addition, demand is subject to cyclical fluctuations. Automotive demand is not only affected by global economic conditions, but also by other factors such as changes in consumption patterns, fuel prices, interest rate levels, and others. Demand for Industrial products is influenced by a wide range of factors due to the large variety of sectors in which the Schaeffler Group operates. Renewable energy depends heavily on government subsidies, sales of production machines on new developments and the need for replacement investments. Aerospace benefits from various new technological developments. Individual drivers can be identified for each sector.

As the Schaeffler Group's production is very asset-intensive, decreases in demand not only lead to losses in revenue and margins, but also to high overhead charges. This could have a significant impact on Schaeffler's earnings, financial position, and assets. The distribution of revenue across both divisions and the large degree of diversification within the divisions helps reduce the probability of a decrease in earnings for the Schaeffler Group as a whole.

Substitution risk: The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. As a result, Schaeffler is exposed to the risk of being displaced by existing or new competitors and of its products being replaced by product innovations or by new technological features. Maintaining the company's technological leadership and developing new and improved products requires significant investment in intangible assets and property, plant and equipment. Such investments may be restricted not only by deteriorating earnings, but also by financial covenants contained in the loan agreements, such as the capex covenant (see Note 4.10), which would jeopardize technological development and improvements.

Competition is also driven by factors such as price adjustments and ability to deliver. The Schaeffler Group's key customers include, in particular, well-known OEMs and suppliers, who expect continual price reductions both during the bidding process and throughout the term of supply agreements. To prevent constant price adjustments from impairing margins, the Schaeffler Group is forced to continually improve its production process and reduce expenditures. Besides the price, a deciding factor in the Industrial and Aftermarket business is also the ability to deliver, which is constantly being enhanced by systematic improvements in production and delivery logistics.

Our key customers represent a substantial proportion of the Schaeffler Group's revenue. Despite this, the Schaeffler Group's dependence on individual OEMs or suppliers is limited, since Schaeffler provides a large variety of products to various regions and applications. Thus, individual Schaeffler products may be substituted, but the probability that the customer will completely terminate the relationship is low and such a termination would require a lengthy process.

Each of the risks described above can lead to a loss of market share, moderately affecting Schaeffler's earnings, financial position, and assets. Close product development cooperation with our key customers and strict product quality control measures reduce the likelihood of substitution and, at the same time, help maintain price levels.

Development risks: Developing and bringing to market 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 uniform group-wide system to manage its research and development processes. This system allows decision makers to monitor the relevant projects efficiently and counteract adverse developments on a timely basis. Particularly in the Automotive division we can further reduce the risks discussed above by closely cooperating with our key customers in the areas of customer-specific development and continuous improvement.

Procurement risks: These 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, which are primarily made from steel products. Economic considerations may result in the Schaeffler Group limiting purchases, particularly of components and certain raw materials, to a single supplier. Inherent in such single sourcing is the risk that alternative sources may not be available at short notice if a supplier cannot deliver. This can have a significant impact on earnings, financial position, and assets. These risks are mitigated by systematically selecting and evaluating suppliers to keep the probability of a supplier not being able to deliver low.

The Schaeffler Group also mitigates the volatility of raw material prices by entering into tranche transactions 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. Increases in material prices can adversely affect Schaeffler's earnings, financial position, and assets.

Warranty and liability risks: The Schaeffler Group uses a certified quality management system, supported by additional quality improvement processes. However, there is a risk that poor quality products end up getting delivered, causing product liability risk. The use of defective products can lead to damage, unplanned repairs, or recalls on the part of the customer which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can result in increased warranty claims by our customers. Current customer claims in the wind power, railway, and aerospace sectors can result in the payment of damages. The Schaeffler Group responds to such risks by adopting strict quality control measures and continually improving its production processes in order to minimize the probability of warranty claims occurring. Individual risks becoming reality could significantly impact Schaeffler's earnings, financial position and assets. All product liability risks are insured. The extent of actual reimbursements that can be claimed from insurers can only be assessed on a case-by-case basis.

Product piracy risks: 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 using global patents and industrial property rights but also by actively combating counterfeit products, which damage our image and our revenue. Nevertheless, we anticipate counterfeit products to have a moderate impact on Schaeffler's earnings, financial position and assets. Based on the large number of plagiarized products seized we have to assume that the risk is significant.

The following risks are significant to the evaluation of the Schaeffler Group's exposure; should they materialize, their adverse impact on the company's earnings, financial position, and assets will only be low.

Counterparty risk: Among Schaeffler's major customers are various OEMs. These business relationships result in concentration, including a concentration of risk with respect to the collectibility of trade receivables. This risk is managed by constantly monitoring customers' creditworthiness and payment history. Additional measures include consistent collection procedures and the use of commercial credit insurance.

Personnel risks: The continuing success and further growth of the Schaeffler Group depend, above all, upon recruiting and retaining appropriate personnel for the long term. 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 public profile and attractiveness of the Schaeffler Group. Measures taken to develop and train personnel are designed to improve staff qualification and employees' motivation and commitment to the Schaeffler Group.

Force majeure risks: Natural disasters, accidents, or catastrophic fires can 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. Such force majeure risks are mitigated by the ability to produce Schaeffler Group products at various locations which provides production alternatives, at short notice if necessary. We also have appropriate insurance coverage.

IT risks: Our operations are based on complex IT systems, network infrastructure, as well as internal and external communication media. The related 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 have a corresponding impact on our operations.

Legal risks

The Schaeffler Group's operations give rise to legal risks, for instance those resulting from non-compliance with regulations relevant to the company's operations.

Legal claims: There are various legal claims against the Schaeffler Group that have been asserted or that could be asserted in the future. These are mainly legal claims arising in connection with our business which may lead to the payment of damages as a result of legal claims. We expect the impact of these cases on Schaeffler's earnings, financial position and assets to be low.

Compliance risks: Compliance with the law as well as internal and external guidelines is a fundamental component of the Schaeffler Group's way of doing business. Schaeffler has established a compliance organization with the aim of ensuring compliance within the company and implementing a standardized compliance management system. The compliance program includes measures aimed at preventing and detecting incidents of non-compliance early on, as well as measures for reacting to incidents of non-compliance. The focus of corporate compliance activities includes antitrust law and anti-corruption efforts. The Schaeffler Group began implementing its compliance management system in 2012.

Antitrust proceedings: Several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. The EU antitrust authorities are conducting further close examinations; the Schaeffler Group expects further steps in the proceedings in 2013. There is a risk that the antitrust authorities will impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

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

Financial risks

Financial risks include liquidity risk, counterparty risk, as well as interest rate and foreign exchange risk. The Schaeffler Group also has risks related to pension obligations.

(1) Liquidity risk

(2) Counterparty risk

(3) Market risk (interest rate, currency, and other price risk)

(4) Influence of INA-Holding Schaeffler GmbH & Co. KG (IHO Group)

(1) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its payment obligations as they become due is referred to as liquidity risk. The Schaeffler Group differentiates between short-, medium-, and long-term liquidity risk.

Medium- and long-term liquidity risk can arise if the financing requirements determined during strategic planning are not sufficient or if the financing needs determined cannot be met by existing equity or debt financing arrangements. The Schaeffler Group's medium and long-term financing requirements were met throughout the year by existing financing instruments and the refinancing arrangements completed in 2011 and 2012.

The existing loan and bond agreements contain certain constraints including a requirement to meet certain financial covenants (see Note 4.10). 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. Compliance with financial covenants is continually monitored and managed and reported to the lending banks. The Schaeffler Group has complied with the financial covenants throughout both 2012 and the prior year, and also expects to comply with them in 2013, 2014, and beyond.

Any non-compliance with the covenants contained in the loan agreement as well as any liquidity requirements exceeding those that can be covered by the existing lines of credit can significantly affect the Schaeffler Group's earnings, financial position, and assets. The probability of these situations actually occurring is considered low.

Within the Schaeffler Group, equity, intercompany loans, and existing lines of credit are used to secure the medium- and long-term financing of the operations and financial obligations of the companies.

Besides medium- and long-term liquidity risk, additional short-term liquidity risk can arise, particularly if, contrary to assumptions made in budgeting liquidity, receivables are not collected on a timely basis.

The Schaeffler Group has a revolving credit facility of EUR 1,000 m and other bilateral lines of credit held by subsidiaries to ensure the availability of sufficient short-term liquidity. In addition, to ensure that the short-term liquidity requirements of the subsidiaries are met, the Group uses cash pooling instruments as well as short-term borrowings and deposits.

To avoid unforeseen short- or medium-term liquidity needs to the extent possible, short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period ranging from 4 weeks through 13 weeks to 12 and 18 months. Short-term fluctuations in cash flow are monitored daily and can be offset using lines of credit.

(2) Counterparty risk

The risk of a business partner defaulting is called counterparty risk. In addition to counterparty risk from operations, the Schaeffler Group is exposed to financial counterparty risk from financial transactions such as investing funds or entering into hedging instruments. Financial transactions are only entered into with financial institutions of adequate creditworthiness. Individual exposures are continually managed and monitored based on factors including any changes in credit risk of the various business partners.

(3) Market risk

The risk of changes in interest and foreign exchange rates impacting earnings and the value of financial instruments held is subsumed under the term market risk.

Interest rate risk: The floating rate loan tranches denominated in U.S. Dollar and Euro give rise to interest rate risk relating to fluctuations in the Euribor and in the USD-Libor. This interest rate risk is hedged by entering into interest rate swaps and caps as well as cross-currency swaps. Interest rate risk and developments in the interest rate markets are continually monitored and reported to the Schaeffler Group's executive board. A change in interest rates could have a moderate impact on the Schaeffler Group's earnings, financial position, and assets, particularly following maturity of interest rate hedging instruments. The interest rate markets are continually monitored and analyzed. Interest rate hedging instruments are used to mitigate risk in consultation with the executive board.

Risks arising from pension obligations: The Schaeffler Group has a large amount of pension obligations, primarily in Germany, the U.S., and the United Kingdom. The obligations in the Anglo-Saxon countries are financed using pension funds. The amount of the pension obligation is determined based on actuarial valuations which in turn are based on assumptions about possible future events such as a discount factor, salary and pension increases, and statistical life expectancies. Plan assets may be invested in various types of investments such as shares, fixed-rate securities, or real estate that are subject to fluctuations in value. A change in the above-mentioned parameters could significantly impact the Schaeffler Group's earnings, financial position, and assets.

Currency risk: The Schaeffler Group is exposed to a wide range of foreign exchange risks due to its international reach. Potential foreign exchange rate fluctuations have an effect on sales as well as on procurement costs. The largest such currency risks from operations result from fluctuations in the U.S. Dollar and Romanian Leu exchange rates.

Currency risk from financing activities arises from the impact of changes in the U.S. Dollar on the USD bonds issued in 2012 and a loan tranche refinanced in U.S. Dollar.

Currency risk from operations and from financing activities is continually monitored and reported to the Schaeffler Group's chief financial officer.

Translating the financial statements of foreign group entities into the group reporting currency Euro gives rise to translation risk. This risk is defined as foreign exchange losses recognized in the balance sheet which can arise upon consolidation from translating assets, liabilities, income, and expenses. The most significant risk exposure in this regard relates to the U.S. Dollar. This exposure is reduced using a financing arrangement in U.S. Dollar under a net investment hedge.

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

Rating: Rating agencies Standard & Poor's and Moody's (S&P's) have been providing a company rating of Schaeffler AG and a bond rating since January 2012 (see section 3.5). A rating downgrade can lead to an increase in borrowing cost or make it more difficult to obtain liquidity. Over the course of the year 2012, the company rating improved from "B" to "B+" with a stable outlook (S&P's) and from "B2" to "B1" with a positive outlook (Moody's). The bond rating was upgraded from "B" to "B+" (S&P's) and from "B1" to "Ba3" (Moody's).

(4) Influence of INA-Holding Schaeffler GmbH & Co. KG (IHO Group)

On September 25, 2012, Schaeffler Verwaltungs GmbH announced that it had refinanced and partially prepaid its financial debt. In total, financial debt was reduced by approximately EUR 1.6 bn to approximately EUR 3.5 bn. In addition, the structure of the loan was amended and financing conditions improved. In addition, the IHO Group implemented a partial refinancing arrangement in October 2012. This has further increased the group's financial flexibility. However, Schaeffler Verwaltungs GmbH still has loans payable of approximately EUR 3.5 bn and a contractual agreement that part of the interest on these loans is deferred rather than being paid.

Please refer to Note 4.15 for an additional discussion of and quantitative information about risk management related to financial instruments.

11.4 Opportunity management

The responsibility for identifying and utilizing opportunities based on the strategy process initiated by the executive board lies with operating management. Opportunities are identified and reported separately from the risk management and risk reporting process. They are discussed with the executive board during regularly held strategy conferences and, based on these discussions, strategies are derived to determine the future direction of the Schaeffler Group.

The Schaeffler Group's most significant opportunities are in the strategic trends identified and in changes to the legal environment that may lead to increased demand for Schaeffler products.

Strategic and operating opportunities

The Schaeffler Group with its range of products and services and its global presence is in a good position to participate in the expected megatrends of the future.

The Schaeffler Group's strategic and operating opportunities specifically result from the following factors:

Global presence: Shifting activities to local markets enables Schaeffler to tap possible opportunities for reducing costs and improve proximity to the customer. In addition, further potential is identified and realized worldwide. This also bolsters the company's competitive position vis-à-vis competitors from low-wage countries.

Potential in emerging countries: The increasing affluence in the emerging countries results in the development of a growing middle class there. The newly emerging group of buyers can lead to increasing demand for automobiles and industrial goods. The Schaeffler Group is a supplier to all well-known OEMs and suppliers, providing a general opportunity to participate in increased demand.

Global trends: Increasing demands on OEMs to reduce fuel consumption and emissions as well as increased safety requirements provide Schaeffler with an opportunity to increase its revenue per vehicle. A related issue is the increasing complexity of systems, which provides the opportunity to add new functionalities to its product range.

OEM trends: In the last few years, OEMs have increasingly created global platforms aimed at standardizing components and vehicle systems in order to save costs by increasing efficiency. Consequently, OEMs are looking for suppliers who can supply standardized components worldwide. In return, they reduce the number of suppliers and concentrate on a few global suppliers. Suppliers such as the Schaeffler Group benefit from this trend due to their global presence and their ability to supply products to the same technological and quality standards worldwide.

Development of vehicle population: The absolute vehicle population drives growth in the Automotive Aftermarket. Growth depends on various factors, such as demand (determined by kilometers driven, composition of vehicle population), services offered, as well as products offered. Besides the vehicle population, increasing content per vehicle provides additional opportunities.

Demand for energy: The population is growing around the world, with growth concentrating in cities and the surrounding areas. As a result, energy and water consumption is expected to rise in these central locations. The increasing demand for energy as well as the beginning transition to renewable energy both lead to an inevitable demand for energy from renewable resources. These include particularly wind, sun, and water – fields in which the Schaeffler Group is operating today. Further expanding the existing expertise in these business sectors is another opportunity to grow in the future.

Globalization: The increasing globalization is inherently linked to an increase in the volume of air traffic. As a result, growth in the aerospace sector is forecast to be steady. This increases the importance of issues such as reducing CO_2 reducing weight, and optimizing fuel consumption. The Schaeffler Group is already actively participating in these development areas.

Legal opportunities

The Schaeffler Group's legal opportunities specifically result from the following factors:

Emission standards: Constantly tightening exhaust emission standards (Euronorm, CAFE standard) are putting increased pressure on OEMs to use energy efficient solutions in their vehicle drives, consisting of combustion engine and transmission. The Schaeffler Group as their development partner can support the search for solutions with its innovative strength, creating innovations that manufacturers can turn into a competitive edge.

Average fleet consumption: Besides emission standards, government pressure on OEMs is also increasing with respect to the fuel consumption of the vehicles they produce: Via their model mix, their fleet consumption has to reach a certain limit. This also helps drive the developments needed to reduce emissions, benefitting primarily technology-oriented suppliers like Schaeffler, since the requirements established by the market and the law make a strong development partnership between the OEM and its suppliers a necessity.

Financial opportunities

The Schaeffler Group's financial opportunities specifically result from the following factors:

Rating: An improvement in the ratings provided by Standard & Poor's and Moody's can result in more favorable financing conditions. An upgrade can open up new opportunities for obtaining liquidity.

Financial markets: Favorable trends in interest and foreign exchange rates can positively impact the Schaeffler Group's financial result. The financial markets are constantly monitored in order to be able to react quickly to favorable movements.

12. Report on expected developments

The Schaeffler Group expects sustained growth in the coming years, despite the economic uncertainties described above. This growth will be driven primarily by the strong regional presence in the growth markets and regions and is based on our technological leadership, the excellent quality of our products, the wide range of premium products offered, and our innovative strength.

12.1 Expected economic environment

Leading economic research institutes are expecting that tensions related to the sovereign debt crisis in the Euro region will slowly subside and the speed of global economic expansion will pick up moderately.

Based on the forecast by the International Monetary Fund, we believe that the global economy will grow by 3.5 % in 2013 and by approximately 3-4 % in 2014.

No. 016

Economic growth trend (in % compared with prior year, in real terms)	**2012**	**2013**	**2014**
Germany	0.9	0.6	1.4
Euro region	-0.4	-0.2	1.0
U.S.A.	2.3	2.0	3.0
Japan	2.0	1.2	0.7
China	7.8	8.2	8.5
World	**3.2**	**3.5**	**4.1**

Source: IMF, WEO Update January 2013.

Based on forecasts by market analyst IHS Automotive (based on preliminary figures dated February 2013) and on our own estimates, we are anticipating the worldwide production of passenger vehicles and light commercial vehicles to increase by approximately 2 % in 2013. We are not expecting the European automotive markets to recover quickly. For this region, we are anticipating automobile production to decline by approximately 2 % compared to the prior year. As a result of the expected reduction in production volumes in certain countries such as South Korea and Japan, we are forecasting the production of passenger cars and light commercial vehicles in the entire region Asia/Pacific to grow by a total of only around 3 %. China and India remain the drivers of growth in that region: We are expecting production there to expand by around 7 % and around 8 %, respectively. In North America, we are anticipating automobile production to increase moderately by approximately 3 %. Growth in South America is expected to be around 4 %.

Based on the forecast issued by the market research company Oxford Economics, we expect the global engineering industry to grow by around 3-4 % in 2013. Significant momentum will continue to be provided by the emerging countries, where we are expecting growth of approximately 8 %. We believe the engineering sector in the industrialized countries will grow by around 2 %.

12.2 Schaeffler Group outlook

Revenue growth of approximately 4 % expected for 2013

In light of these expectations, we anticipate Schaeffler Group revenue to grow by approximately 4 % in 2013. Based on the consistent focus of our business on the global growth markets and the excellent position in our business sectors, we also expect to achieve a mid-single digit growth rate in 2014.

Based on a significantly weaker economic development of the markets, the Automotive division anticipates solid revenue growth in 2013. This forecast is based in particular on the start-up or ramp-up of a wide variety of 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 again forecasting growth in Industrial division revenue in 2013. We consider the main drivers of this growth to be the increase in demand for our products in the Asian markets together with good prospects in the key sectors of power transmission, production machinery, aerospace, and heavy industries as well as in our aftermarket business. The trend in the wind power sector is expected to move in the opposite direction because of persistently weak demand.

Our organic growth is based on our investments in intangible assets and property, plant and equipment. The regional focus here is on the growth region Asia/Pacific. The Schaeffler Group anticipates investing 5 % to 7 % of revenue in intangible assets and property, plant and equipment in 2013 and 6 % to 8 % of revenue from 2014 on, mainly for new products and capacity expansion. Based on the investments already made in 2012, investments in intangible assets and property, plant and equipment will likely fall closer to the lower end of this range in 2013.

Due to the forecasted growth in revenue, we anticipate that our EBIT will improve slightly. We continue to expect an EBIT margin of approximately 13 % in 2013 and 2014, as well.

We will maintain our development activities at the level of the prior years. We plan to invest approximately 5 % of our consolidated revenue in researching and developing new products and processes in 2013 and 2014.

Net income for 2013 will continue to be held back by interest expense incurred to finance the Continental AG shares held via Schaeffler Beteiligungsholding GmbH & Co. KG. As Schaeffler Beteiligungsholding GmbH & Co. KG is accounted for at equity in the Schaeffler Group's consolidated financial statements, the Group's share of net income of equity-accounted investees is affected by the economic performance of Continental AG.

We are expecting positive free cash flow in the three-digit million range in 2013 and 2014.

We see opportunities in a stronger recovery of the world economy provided investors and consumers regain confidence in the stability of the European monetary union sooner than expected and consumer demand in China increases markedly. Such a scenario would provide potential for a more favorable development of the Schaeffler Group's business in 2013 and 2014.

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

Herzogenaurach, March 11, 2013

The Executive Board

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1. Consolidated income statement

No. 017

in € millions	Note	2012	2011	Change in %
Revenue	3.1	11,125	10,694	4.0
Cost of sales		-7,836	-7,463	5.0
Gross profit		**3,289**	**3,231**	**1.8**
Research and development expenses		-593	-495	19.8
Selling expenses		-759	-725	4.7
Administrative expenses		-465	-408	14.0
Other income	3.2	35	111	-68.5
Other expenses	3.3	-94	-25	> 100
Earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT)		**1,413**	**1,689**	**-16.3**
Financial income	3.5	53	40	32.5
Financial expenses	3.5	-729	-773	-5.7
Financial result	**3.5**	**-676**	**-733**	**-7.8**
Share of net income of equity-accounted investees	**2.2, 3.6**	**554**	**324**	**71.0**
Earnings before income taxes		**1,291**	**1,280**	**0.9**
Income taxes	3.7	-407	-378	7.7
Net income		**884**	**902**	**-2.0**
Attributable to shareholders of the parent company		872	889	-1.9
Attributable to non-controlling interests		12	13	-7.7

2. Consolidated statement of comprehensive income

No. 018

in € millions	2012 before taxes	2012 taxes	2012 after taxes	2011 before taxes	2011 taxes	2011 after taxes
Net income	**1,291**	**-407**	**884**	**1,280**	**-378**	**902**
Foreign currency translation differences for foreign operations	-39	0	-39	-24	0	-24
Net gain on hedge of net investment in foreign operation	2	0	2	0	0	0
Effective portion of changes in fair value of cash flow hedges	180	-51	129	-33	10	-23
Net change in fair value of available-for-sale financial assets	1	0	1	0	0	0
Defined benefit plan actuarial gains (losses)	-329	93	-236	-114	34	-80
Share of other comprehensive income (loss) of equity-accounted investees	-266	73	-193	-40	4	-36
Total other comprehensive income (loss)	**-451**	**115**	**-336**	**-211**	**48**	**-163**
Total comprehensive income (loss) for the period	**840**	**-292**	**548**	**1,069**	**-330**	**739**
Total comprehensive income (loss) attributable to shareholders of the parent company	832	-292	540	1,063	-330	733
Total comprehensive income (loss) attributable to non-controlling interests	8	0	8	6	0	6
Total comprehensive income (loss) for the period	**840**	**-292**	**548**	**1,069**	**-330**	**739**

See Notes 2.2, 4.11 and 4.15 for further details.

3. Consolidated statement of financial position

No. 019

in € millions	Note	12/31/2012	12/31/2011	Change in %
ASSETS				
Intangible assets	4.1	554	553	0.2
Property, plant and equipment	4.2	3,515	3,328	5.6
Investments in equity-accounted investees	4.3	5,040	4,772	5.6
Other investments		14	14	0.0
Other assets	4.7	150	95	57.9
Income tax receivables	4.7	17	22	-22.7
Deferred tax assets	4.4	364	350	4.0
Total non-current assets		**9,654**	**9,134**	**5.7**
Inventories	4.5	1,495	1,562	-4.3
Trade receivables	4.6	1,626	1,607	1.2
Other assets	4.7	231	200	15.5
Income tax receivables	4.7	107	89	20.2
Cash and cash equivalents	4.8	433	397	9.1
Total current assets		**3,892**	**3,855**	**1.0**
Total assets		**13,546**	**12,989**	**4.3**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves		2,042	1,324	54.2
Accumulated other comprehensive income (loss)		-495	-163	> 100
Equity attributable to shareholders of the parent company		**2,047**	**1,661**	**23.2**
Non-controlling interests		60	53	13.2
Total shareholders' equity	**4.9**	**2,107**	**1,714**	**22.9**
Provisions for pensions and similar obligations	4.11	1,553	1,217	27.6
Provisions	4.12	76	79	-3.8
Financial debt	4.10	7,140	7,168	-0.4
Income tax payables	4.14	267	172	55.2
Other liabilities	4.14	240	261	-8.0
Deferred tax liabilities	4.4	119	124	-4.0
Total non-current liabilities		**9,395**	**9,021**	**4.1**
Provisions	4.12	223	208	7.2
Financial debt	4.10	121	317	-61.8
Trade payables	4.13	794	873	-9.0
Income tax payables	4.14	232	184	26.1
Other liabilities	4.14	674	672	0.3
Total current liabilities		**2,044**	**2,254**	**-9.3**
Total shareholders' equity and liabilities		**13,546**	**12,989**	**4.3**

4. Consolidated statement of cash flows

No. 020

in € millions	2012	2011	Change in %
Operating activities			
EBIT	1,413	1,689	-16.3
Interest paid	-593	-686	-13.6
Interest received	9	13	-30.8
Income taxes paid	-226	-238	-5.0
Dividends received	81	0	-
Depreciation, amortization and impairments	618	554	11.6
(Gains) losses on disposal of assets	-1	0	-
Other non-cash items	-21	2	-
Changes in:			
• Inventories	55	-80	-
• Trade receivables	-27	-153	-82.4
• Trade payables	-52	83	-
• Provisions for pensions and similar obligations	-45	-61	-26.2
• Other assets, liabilities and provisions	2	-39	-
Cash flows from operating activities [1)]	**1,213**	**1,084**	**11.9**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	29	11	> 100
Capital expenditures on intangible assets	-35	-15	> 100
Capital expenditures on property, plant and equipment	-825	-758	8.8
Investments in other financial investments	-3	-10	-70.0
Other investing activities	2	7	-71.4
Cash used in investing activities	**-832**	**-765**	**8.8**
Financing activities			
Dividends paid to non-controlling interests	-1	-1	0.0
Receipts from loans	395	13	> 100
Repayments of loans	-449	-42	> 100
Acquisitions in stages	-13	0	-
Dividends paid to Schaeffler Verwaltungs GmbH	-79	-400	-80.3
Other financing activities [2)]	-194	-216	-10.2
Cash used in financing activities	**-341**	**-646**	**-47.2**
Net increase (decrease) in cash and cash equivalents	**40**	**-327**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	-4	-9	-55.6
Cash and cash equivalents as at beginning of period	397	733	-45.8
Cash and cash equivalents as at end of period	**433**	**397**	**9.1**

1) Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2012 amount to EUR 1,806 m (prior year: EUR 1,770 m).
2) Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 227 m (prior year: EUR 186 m).

See Note 5.3 to the consolidated financial statements.

5. Consolidated statement of changes in shareholders’ equity

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 at January 1, 2011	**500**	**2,801**	**179**	**-120**	**1**	**-67**	**3,294**	**47**	**3,341**
Net income		889					889	13	902
Other comprehensive income (loss)			-61	-11	-1	-83	-156	-7	-163
Total comprehensive income (loss) for the period	**0**	**889**	**-61**	**-11**	**-1**	**-83**	**733**	**6**	**739**
Transactions with shareholders									
Dividends		-2,364					-2,364		-2,364
Total amount of transactions with shareholders		**-2,364**					**-2,364**		**-2,364**
Other items from equity-accounted investees recognized directly in shareholders' equity		-2					-2		-2
Balance as at December 31, 2011	**500**	**1,324**	**118**	**-131**	**0**	**-150**	**1,661**	**53**	**1,714**
Balance as at January 1, 2012	**500**	**1,324**	**118**	**-131**	**0**	**-150**	**1,661**	**53**	**1,714**
Net income		872					872	12	884
Other comprehensive income (loss)			-43	129	2	-420	-332	-4	-336
Total comprehensive income (loss) for the period	**0**	**872**	**-43**	**129**	**2**	**-420**	**540**	**8**	**548**
Transactions with shareholders									
Dividends		-300					-300	-1	-301
Capital contribution		131					131		131
Total amount of transactions with shareholders		**-169**					**-169**	**-1**	**-170**
Other items from equity-accounted investees recognized directly in shareholders' equity		15					15		15
Balance as at December 31, 2012	**500**	**2,042**	**75**	**-2**	**2**	**-570**	**2,047**	**60**	**2,107**

[1] Including the effect of equity-accounted investees.

See Note 4.9 to the consolidated financial statements.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 022

	Automotive		Industrial		Other		Total	
	01/01 – 12/31		01/01 – 12/31		01/01 – 12/31		01/01 – 12/31	
in € millions	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue	7,663	7,157	3,401	3,463	61 [1]	74 [1]	11,125	10,694
Cost of sales	-5,556	-5,207	-2,219	-2,182	-61 [2]	-74 [2]	-7,836	-7,463
Gross profit	2,107	1,950	1,182	1,281	0	0	3,289	3,231
EBIT	998	1,074	415	615	0	0	1,413	1,689
• in % of revenue	13.0	15.0	12.2	17.8	-	-	12.7	15.8
Depreciation, amortization and impairments	-431	-396	-187	-158	0	0	-618	-554
Inventories [3]	852	867	643	695	0	0	1,495	1,562
Trade receivables [3]	1,131	1,089	495	518	0	0	1,626	1,607
Property, plant and equipment [3]	2,428	2,271	1,087	1,057	0	0	3,515	3,328
Additions to intangible assets and property, plant and equipment [3]	617	630	210	216	0	0	827	846

[1] Other revenues not attributable to a segment.
[2] Other costs not attributable to a segment.
[3] Amounts as of December 31.

See Note 5.4 to the consolidated financial statements.

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1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1-3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 13202). The consolidated financial statements of Schaeffler AG as at December 31, 2012 comprise Schaeffler AG and its subsidiaries, investments in associated companies and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). Schaeffler is a supplier to the automotive and manufacturing sectors with operations worldwide.

1.2 Basis of preparation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2012 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code). The term IFRS includes all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

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

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

To achieve a more appropriate presentation, share of net income of equity-accounted investees, which in previous years was included in financial result, is shown in the consolidated income statement in a separate line, below financial result and above earnings before income taxes this year. Consequently, the item "EBIT" in the consolidated income statement was renamed "Earnings before financial result, share of net income of equity-accounted investees, and income taxes". Prior year information was adjusted accordingly.

Schaeffler classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period. Inventories are current assets even if they are not expected to be realized within twelve months after the end of the reporting period. Similarly, liabilities are classified as current if Schaeffler is contractually required to settle them within twelve months after the end of the reporting period.

The financial statements of all entities included in these consolidated financial statements have been prepared as of the same date as these consolidated financial statements.

Measurement bases

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

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

These assets and liabilities were measured at fair value.

Estimation uncertainty and management judgment

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

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

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

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

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

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

In 2012, there was no significant impact from changes in assumptions made in the past or from the resolution of previously existing uncertainties related to the above items.

1.3 Summary of significant accounting policies

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

Consolidation principles

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

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

Investments in associated companies are accounted for using the equity method. Under this method, the investment is initially recognized at cost. If the accounting policies of these entities differ from those of Schaeffler AG, they are adjusted to comply with Schaeffler AG’s accounting policies. If acquisition cost exceeds Schaeffler’s share of the fair value of the net assets of the associated company, the difference is recognized as goodwill. Goodwill arising on the acquisition of an associated company is included in the carrying amount of the investment in the associated company and is tested for impairment as part of the total investment when there is an objective indication of impairment. After initial recognition, the carrying amount of the investment is increased or decreased by the investor’s share of the investee’s net income or loss and other items recognized directly in equity by the investee from the date that significant influence commences until the date significant influence ceases. If Schaeffler’s share of losses of an associated company reaches or exceeds the amount of the investment, the carrying amount of that investment is reduced to zero and no further losses are recognized except to the extent that Schaeffler has incurred a legal or constructive obligation to make payments or has made payments on behalf of the associated company. The accounting policies set out above also apply to joint ventures.

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

Foreign currency translation

Foreign currency transactions

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

In prior years, all exchange gains and losses on foreign currency transactions were recognized as other income or other expenses. In the consolidated financial statements for the year ended December 31, 2012, the income effect of currency translation is split between EBIT and financial result and each component is netted based on the underlying economic circumstances. Exchange gains and losses on operating receivables and payables and on derivatives entered into to hedge the related foreign exchange risk are presented within earnings before financial result, share of net income of equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives entered into to hedge the related foreign exchange risk are reflected in financial result. This separate presentation is intended to help provide more detailed disclosures. The impact is only a change in presentation within the income statement and affects neither the balance sheet nor net income. Prior year figures for other expenses and income were each adjusted by EUR 219 m for comparability.

Translation of foreign currency financial statements

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

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

No. 023

Currencies		Closing rate		Average rate	
1 € in		12/31/2012	12/31/2011	2012	2011
U.S.A.	USD	1.32	1.29	1.29	1.39
Japan	JPY	113.61	100.20	102.62	110.86
Hungary	HUF	292.30	314.58	289.32	279.44
Romania	RON	4.44	4.32	4.46	4.24

Revenue recognition and cost of sales

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

Revenue from the sale of goods is recognized when, based on the agreement with the customer,

- the significant risks and rewards of ownership of the goods have been transferred to the buyer,
- it is sufficiently probable that the economic benefits associated with the sale will flow to Schaeffler,
- the costs associated with the transaction as well as possible returns can be measured reliably,
- Schaeffler does not retain continuing managerial involvement in relation to the goods, and
- the amount of revenue can be measured reliably.

Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery, provided that the conditions listed above are met.

Cost of sales consists primarily of the cost of producing products, rendering services, or purchase cost of merchandise sold. Production cost comprises all direct costs attributable to the process of manufacturing products and rendering services as well as allocated production-related overheads.

Research and development expenses

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

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

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Provided they can be measured reliably, development costs are only recognized as intangible assets if

- their technical feasibility can be demonstrated,
- Schaeffler has the intention to complete the intangible asset and use or sell it,
- Schaeffler has the ability to use or sell the intangible asset,
- Schaeffler can demonstrate that using or selling the intangible asset will generate future economic benefits,
- adequate technical, financial, and other resources are available to complete the development and to subsequently sell or use it, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

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

Goodwill

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

Goodwill is measured at cost less accumulated impairment losses. It is not amortized, but is instead tested for impairment at least annually and when there is an objective indication. Goodwill is tested for impairment at the level of cash-generating units or groups of cash-generating units. The impairment test is performed by comparing the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated with its recoverable amount. Recoverable amount is determined using the discounted cash flow method and is the higher of fair value less costs to sell and value in use of the cash-generating unit or group of cash-generating units. An impairment loss on goodwill is recognized when the carrying amount of the cash-generating unit or group of cash-generating units exceeds its recoverable amount. Impairments recognized on goodwill cannot be reversed, even if the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated exceeds its carrying amount in future periods.

Expected cash flows are based on a three-year-forecast and future projections which are reviewed regularly by Schaeffler Group management. The medium-term forecast is based on specific assumptions regarding macroeconomic indicators, external sales expectations and internal assessments of demand and projects, as well as sales prices, commodity price trends, and the volume of investments in intangible assets and property, plant and equipment. Projections beyond the detailed forecasting horizon are based on growth rates. The discount rate reflects current market expectations and specific risks.

Other intangible assets

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

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

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

Property, plant and equipment

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

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

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

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

Leases

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

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

Impairment

Financial assets

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

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

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

Non-financial assets

Assets are tested for impairment by comparing their carrying amount with their recoverable amount. If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, the impairment test is not performed at the level of the individual asset but instead at the level of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest unit with largely independent cash flows.

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

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

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

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

The discount rate reflects current market expectations and the risks specific to the asset or cash-generating unit.

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

Financial instruments

In accordance with IAS 32 a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include (1) non-derivative financial instruments and (2) derivative financial instruments. Normal sales and purchases of financial assets are recognized using settlement date accounting. The Schaeffler Group does not apply the fair value option. Please refer to Note 4.15 for an analysis of the Schaeffler Group's financial instruments by class as required by IFRS 7.6.

(1) Non-derivative financial instruments

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

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

Available-for-sale financial assets

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

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

Any prolonged or significant decline in the fair value below cost is considered an impairment and is recognized in profit or loss immediately.

Loans and receivables

Loans and receivables are measured at amortized cost less any impairment losses. Trade and other receivables within this category are carried at face value. Impairment losses on trade and other receivables are recognized in profit or loss unless the receivable is covered by credit insurance. Impairment allowances for uncollectible receivables as well as for general credit risks are recognized on an individual basis. Impairments are initially recognized in an allowance account unless it is clear at the time the impairment loss occurs that the receivable will be either partially or entirely uncollectible. In that case, the impairment loss is recognized against the gross amount of the receivable. Non-interest bearing receivables with a maturity of more than one year are discounted. Loans and receivables sold to third parties are derecognized if and when substantially all risks and rewards associated with the loans and receivables sold have been transferred.

This category also includes cash and cash equivalents. Cash equivalents include cash on hand, checks, and cash at banks. Schaeffler considers all short-term, highly liquid investments with a maturity of up to three months from the date of acquisition to be cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities

With the exception of derivative financial instruments, Schaeffler measures all financial liabilities at amortized cost using the effective interest method. Amortized cost includes any transaction costs attributable to the liability. For financial liabilities designated as the hedging instrument in a hedge of a net investment in a foreign operation (i.e. to hedge the related foreign exchange risk), gains and losses are recognized in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss. Obligations under finance leases are initially measured at an amount equal to the lower of the fair value of the leased asset and the present value of minimum lease payments.

(2) Derivative financial instruments

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

In accordance with IAS 39, derivatives are initially recognized as an asset or liability at fair value, which is normally the market price or the price quoted on an exchange. If these are not available, the recognized amount is determined using recognized valuation methods (e.g. option pricing models). Attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss and classified as financial assets/liabilities held for trading (HfT). The Schaeffler Group does not have any fair value hedges.

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

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

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

Inventories

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

Income taxes

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

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

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

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

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

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

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

Provisions for pensions and similar obligations

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

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

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

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

Provisions

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

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

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

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

1.4 New accounting pronouncements

In 2012, the amendment to IFRS 7 adopted by the EU as European law and summarized below was required to be applied for the first time. This initial application had no effect.

No. 024

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment
IFRS 7	Financial Instruments: Disclosures	07/01/2011	Disclosure requirements related to transfers of financial assets

The International Accounting Standards Board (IASB) has issued the Standards and amendments summarized below. The Schaeffler Group will initially apply the amendments in its 2013 financial year.

No. 025

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
IAS 1	Presentation of Financial Statements	07/01/2012	Presentation of other comprehensive income	Changes to the presentation of the consolidated statement of comprehensive income
IAS 19	Employee Benefits	01/01/2013	Changes resulting from IAS 19 rev. 2011	Minor impact on financial result (Note 4.11); accounting for obligations under partial retirement arrangements; extent of disclosures
IAS 12	Income Taxes	01/01/2013	Deferred taxes on investment property measured at fair value through profit or loss	none
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01/01/2013	Stripping costs in the production phase of a surface mine	none
IFRS 7	Financial Instruments: Disclosures	01/01/2013	Disclosures on financial assets and financial liabilities that are offset	none
IFRS 13	Fair Value Measurement	01/01/2013	Fair value measurement	Expanded disclosures on fair values of financial instruments
IAS 32	Financial Instruments: Presentation	01/01/2014	Offsetting financial assets and liabilities	none
IFRS 10	Consolidated Financial Statements	01/01/2014	Replaces the corresponding requirements of IAS 27	none
IFRS 11	Joint Arrangements	01/01/2014	Replaces IAS 31	none
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	Disclosure of interests in other entities	Expanded disclosures regarding all investments and unconsolidated structured entities
IAS 27	Consolidated and Separate Financial Statements	01/01/2014	Guidance on separate financial statements; elimination of guidance on consolidation (IFRS 10)	none
IAS 28	Investments in Associates	01/01/2014	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12	none

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

The Schaeffler Group has not applied any of the following new Standards or amendments to existing Standards and Interpretations early:

No. 026

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1	First-time Adoption of International Financial Reporting Standards	01/01/2013	Accounting for government loans	none
Annual Improvements 2011		01/01/2013	Various improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34	none to minor
Transition Guidance (Amendments to IFRS 10, 11 and 12)		01/01/2014	Amendments to transition guidance	none
Investment Entities		01/01/2014	Definition of and requirements for investment entities	none
IFRS 9	Financial Instruments	01/01/2015	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments and changes to related disclosures [1]
Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)		01/01/2015	Changes to mandatory effective date and transition guidance	Date of initial application and disclosures

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

2. Principles of consolidation

2.1 Scope of consolidation

In 2012, the Schaeffler Group includes, in addition to Schaeffler AG, 159 (prior year: 154) subsidiaries; 54 (prior year: 50) companies are domiciled in Germany and 105 (prior year: 104) are foreign entities.

The following changes have occurred since December 31, 2011:

The newly founded companies Schaeffler Israel Ltd., Yokneam Illit (Israel), Schaeffler Manufacturing Rus GmbH, Ulyanovsk (Russia), and four additional "Verwaltungsholding" companies, all located in Herzogenaurach (Germany), are consolidated for the first time. FAG Servicos Industriais Ltda., São Paulo (Brazil), which no longer had any operations, was liquidated and eliminated from the consolidation. In total, the number of consolidated companies has increased by five.

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

In the consolidated financial statements as at December 31, 2012, nine (prior year: nine) investments (including three joint ventures; prior year: three) are accounted for at equity.

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

2.2 Investments in equity-accounted investees

Investments in equity-accounted investees consist primarily of the indirectly held shares in Continental AG. As in the prior year, Schaeffler Beteiligungsholding GmbH & Co. KG holds 72,290,458 shares or 36.14 % of the voting interest in Continental AG as at December 31, 2012. Schaeffler Beteiligungsholding GmbH & Co. KG is accounted for as a joint venture in the consolidated financial statements. The articles of incorporation stipulate that all income and losses as well as all assets and liabilities of Schaeffler Beteiligungsholding GmbH & Co. KG are attributable to Schaeffler AG.

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

No. 027

in € millions	2012	2011
Revenue (01/01 – 12/31)	32,736	30,505
Net income [1] (01/01 – 12/31)	1,968	1,325
Assets (as at 12/31)	27,338	26,038
Liabilities (as at 12/31)	18,193	18,495

[1] Including non-controlling interests.

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

As Schaeffler AG has indirect influence (via Schaeffler Beteiligungsholding GmbH & Co. KG) over Continental AG and since Schaeffler Beteiligungsholding GmbH & Co. KG does not have any operations other than holding the investment in Continental AG, Schaeffler has based its equity method accounting for Schaeffler Beteiligungsholding GmbH & Co. KG on the equity method carrying amount of the investment in Continental AG since September 30, 2011.

Share of net income of equity-accounted investees: The share of net income of equity-accounted investees totaling EUR 554 m (prior year: EUR 324 m) is mainly the result of measuring the investment in Continental AG (held indirectly since September 30, 2011) using the equity method. The Schaeffler Group's share of depreciation, amortization and impairments on fair value adjustments and its share of Continental AG's net income, adjusted for goodwill impairments recognized by Continental AG, including non-recurring items realized through the purchase price allocation and net of offsetting deferred tax effects, result in income after tax of EUR 553 m. The effect on Schaeffler AG's net income is as follows:

No. 028

in € millions	2012	2011
Depreciation, amortization and impairments of fair value adjustments	-237	-265
Share of net income of Continental AG	681	477
Goodwill impairment loss recognized by Continental AG	27	0
Effect before income taxes	**471**	**212**
Deferred taxes	66	74
Effect on income before special items [1)]	**537**	**286**
Special items [1)]		
• Reversal of cash flow hedges existing at the time of the PPA	7	20
• Recognition of Continental AG pension obligations at fair value	9	5
Effect on income after special items [1)]	**553**	**311**

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

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

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

The Schaeffler Group's share of other comprehensive loss of Continental AG amounts to EUR 1 m (prior year: income of EUR 14 m).

An adjustment to reflect the use of uniform group wide valuation methods in accounting for pension obligations of EUR 184 m (prior year: EUR 17 m) and changes in cash flow hedges of EUR 7 m (prior year: EUR 20 m) had an offsetting effect on other comprehensive income (loss).

In total, these items almost entirely reduced accumulated other comprehensive income (loss) by EUR 193 m after tax (prior year: EUR 36 m).

In addition, Schaeffler's share of the impact of acquisitions in stages made by Continental AG and, in the prior year, the exercise of share options by certain members of Continental AG management have changed reserves by EUR 15 m (prior year: decrease of EUR 2 m) without affecting net income.

Nature and extent of significant restrictions

Debt covenants restrict Continental AG's ability to pay dividends. Continental AG did not pay any dividends for 2008, 2009 and 2010. On April 30, 2012, Continental AG paid a dividend of EUR 1.50 per share in respect of 2011 (see Note 4.3).

Market capitalization

Based on a share price of EUR 87.59 per share (prior year: EUR 48.10 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (36.14 %, prior year: 36.14 %) was EUR 6,332 m (prior year: EUR 3,477 m) on December 31, 2012.

3. Notes to the consolidated income statement

3.1 Revenue

No. 029

in € millions	2012	2011
Revenue from the sale of goods	10,957	10,499
Other revenue	168	195
Total	**11,125**	**10,694**

Revenue from the sale of goods consists of sales of goods to customers, net of early payment discounts. Other revenue includes primarily EUR 88 m (prior year: EUR 103 m) in revenue from other services (e.g. related to research and development), as well as EUR 71 m (prior year: EUR 76 m) from the sale of tools and special machines.

3.2 Other income

No. 030

in € millions	2012	2011
Exchange gains	0	73
Reversal of provisions	1	6
Reduction of allowances	4	3
Gains on disposal of assets	5	3
Miscellaneous income	25	26
Total	**35**	**111**

Foreign exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate. The netting of foreign exchange gains and losses has resulted in a net exchange loss in 2012 which is presented in other expenses.

3.3 Other expenses

No. 031

in € millions	2012	2011
Exchange losses	44	0
Increase in allowances	9	3
Losses on disposal of assets	4	3
Miscellaneous expenses	37	19
Total	**94**	**25**

The increase in other expenses is primarily due to movements in the U.S. Dollar. Expenses for land transfer taxes on intra-group transfers recognized in miscellaneous expenses have also increased other expenses.

3.4 Personnel expense and headcount

The number of employees at December 31, 2012 was 76,099, 2.8 % above the prior year level of 74,031. In 2012, the Schaeffler Group had an average of 75,893 employees (prior year: 71,896) and 627 temporary staff (prior year: 747).

No. 032

Number of employees by region	2012	2011
Germany	29,825	29,001
Europe w/o Germany	22,214	21,425
North America	7,087	6,474
South America	4,528	4,636
Asia/Pacific	12,239	10,360
Total	**75,893**	**71,896**

No. 033

Number of employees by functional area	2012	2011
Production	59,172	56,457
Research and development	6,098	5,465
Selling	6,047	5,793
General administration	4,576	4,181
Total	**75,893**	**71,896**

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

No. 034

in € millions	2012	2011
Wages and salaries	2,664	2,484
Social security contributions	521	495
Pensions and similar benefit expenses	67	49
Total	**3,252**	**3,028**

The increase in personnel expense in 2012 is mainly due to pay increases arising from local collective agreements, but also to targeted expansion of capacity, primarily in production and in research and development.

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

3.5 Financial result

To achieve a more appropriate presentation, share of net income of equity-accounted investees, which in previous years was included in financial result, is shown in the consolidated income statement in a separate line, below financial result and above earnings before income taxes this year. Consequently, the item “EBIT” in the consolidated income statement was renamed “Earnings before financial result, share of net income of equity-accounted investees, and income taxes”. Prior year information was also adjusted accordingly.

The Schaeffler Group’s financial result for the year amounts to EUR -676 m (prior year: EUR -733 m).

Financial result comprises financial income of EUR 53 m (prior year: EUR 40 m) and financial expenses of EUR 729 m (prior year: EUR 773 m).

No. 035

in € millions	2012 Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-523	0	-523
Fair value changes and compensation payments on derivatives	-6	8	2
Foreign exchange gains and losses	-10	3	-7
Amortization of cash flow hedge accounting reserve [2]	-72	0	-72
Interest income and expense on pensions and partial retirement obligations	-83	30	-53
Other	-35	12	-23
Total	**-729**	**53**	**-676**

in € millions	2011 Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-494	0	-494
Fair value changes and compensation payments on derivatives	-101	0	-101
Foreign exchange gains and losses	0	0	0
Amortization of cash flow hedge accounting reserve [2]	-75	0	-75
Interest income and expense on pensions and partial retirement obligations	-81	26	-55
Other	-22	14	-8
Total	**-773**	**40**	**-733**

[1] Incl. transaction costs.
[2] Hedge accounting terminated in connection with the refinancing arrangement in 2009.

Interest expense on financial debt of EUR 523 m (prior year: EUR 494 m) for 2012 includes interest paid and accrued on the Group's financing arrangements of EUR 453 m (prior year: EUR 402 m) and expenses of EUR 47 m (prior year: EUR 78 m) relating to transaction costs. In addition, the amount also includes interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH.

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

Net foreign exchange losses of EUR 7 m on financial assets and liabilities are primarily due to movements of the U.S. Dollar against the Euro (see Note 1.3).

Additional expenses of EUR 72 m (prior year: EUR 75 m) arose from the amortization of the cash flow hedge accounting reserve accumulated up to November 20, 2009 on interest rate hedging instruments.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 53 m (prior year: EUR 55 m). See Note 4.11 for additional details on pensions.

Other items giving rise to net expenses of EUR 23 m (prior year: EUR 8 m) include primarily interest income of EUR 11 m (prior year: EUR 13 m) on loans and receivables, impairment losses on loans of EUR 13 m (prior year: EUR nil), and other financial expenses of EUR 21 m (prior year: EUR 21 m).

3.6 Share of net income of equity-accounted investees

The 2012 share of net income of equity-accounted investees of EUR 554 m (prior year: EUR 324 m) relates almost entirely to the investment in Schaeffler Beteiligungs GmbH & Co. KG, which holds a 36.14 % interest in Continental AG.

3.7 Income taxes

Income taxes consist of the following:

No. 036

in € millions	2012	2011
Current income taxes	384	386
Deferred income taxes	23	-8
Income taxes	**407**	**378**

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

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

In 2012, current income tax expense related to prior years amounts to EUR 12 m (prior year: EUR 16 m). Schaeffler did not have any deferred tax income related to prior years in 2012 (prior year: EUR 14 m).

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

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

No. 037

in € millions	2012	2011
Net income before tax	1,291	1,280
Expected tax expense	**361**	**358**
Addition/reduction due to deviating local tax bases	10	-1
Foreign/domestic tax rate differences	-5	-4
Non-recognition of deferred tax assets	-1	4
Non-deductible expenses	196	122
Share of net loss of equity-accounted investees	-154	-90
Taxes for previous years	12	2
Other	-12	-13
Reported tax expense	**407**	**378**

The additional income tax on non-deductible expenses is mainly caused by interest expense that is non-deductible because of the interest deduction cap rules in Germany as well as the tax effect of the internal reorganization of the group structure. As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards.

Share of net income of equity-accounted investees relates primarily to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, Herzogenaurach (see Notes 2.2 and 3.6 for further details).

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

No. 038

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as at January 1, 2011	**483**	**997**	**211**	**0**	**1,691**
Additions	0	5	10	0	15
Disposals	0	-1	0	0	-1
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as at December 31, 2011	**483**	**1,002**	**221**	**0**	**1,706**
Balance as at January 1, 2012	**483**	**1,002**	**221**	**0**	**1,706**
Additions	0	22	13	0	35
Disposals	0	-7	0	0	-7
Transfers	0	0	2	0	2
Foreign currency translation	0	0	0	0	0
Balance as at December 31, 2012	**483**	**1,017**	**236**	**0**	**1,736**
Accumulated amortization and impairment losses					
Balance as at January 1, 2011	**0**	**976**	**140**	**0**	**1,116**
Additions	0	10	27	0	37
Disposals	0	-1	0	0	-1
Transfers	0	0	0	0	0
Foreign currency translation	0	1	0	0	1
Balance as at December 31, 2011	**0**	**986**	**167**	**0**	**1,153**
Balance as at January 1, 2012	**0**	**986**	**167**	**0**	**1,153**
Additions	0	14	22	0	36
Disposals	0	-7	0	0	-7
Transfers	0	0	0	0	0
Foreign currency translation	0	0	0	0	0
Balance as at December 31, 2012	**0**	**993**	**189**	**0**	**1,182**
Net carrying amounts					
As at January 1, 2011	**483**	**21**	**71**	**0**	**575**
As at December 31, 2011	**483**	**16**	**54**	**0**	**553**
As at January 1, 2012	**483**	**16**	**54**	**0**	**553**
As at December 31, 2012	**483**	**24**	**47**	**0**	**554**

As at December 31, intangible assets purchased from third parties have a net carrying amount of EUR 24 m (prior year: EUR 16 m). Additions totaled EUR 22 m (prior year: EUR 5 m) in 2012.

Capitalized development costs included in internally generated intangible assets decreased to EUR 21 m (prior year: EUR 32 m) as a result of EUR 11 m (prior year: EUR 13 m) in amortization in 2012.

Internally generated intangible assets include EUR 26 m (prior year: EUR 22 m) in internally generated software, mainly relating to the implementation of SAP. In 2012, additions and transfers of EUR 15 m (prior year: EUR 10 m) are offset by amortization of EUR 11 m (prior year: EUR 14 m).

Amortization of internally generated intangible assets totaling EUR 36 m (prior year: EUR 37 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 12 m (prior year: EUR 14 m), research and development expenses EUR 5 m (prior year: EUR 3 m), selling expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 14 m (prior year: EUR 15 m).

Internally generated intangible assets with a carrying amount of EUR 7 m (prior year: EUR 10 m) are not yet subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 593 m (prior year: EUR 495 m) were recognized in the consolidated income statement in 2012.

At December 31, 2012, no intangible assets were pledged as collateral for bank loans (prior year: carrying amount of EUR 5 m).

Goodwill

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under Note 1.3. The key assumption in our forecast relates to constant growth rates for the Automotive and Industrial segments exceeding our corresponding assumptions for the performance of the market as a whole. We remain confident that, where necessary, we can be sufficiently flexible in our cost structure to be able to maintain our EBITDA margin (ratio of earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation and amortization to revenue) at its current level in the coming years.

For purposes of determining the recoverable amount, cash flows for the detailed forecasting horizon of 2015 and beyond are based on an annual growth rate of 0.5 % (prior year: 0.5 %) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 15.03 % (prior year: 13.87 %) as the weighted average cost of capital for the Automotive segment and 15.25 % (prior year: 13.89 %) for the Industrial segment. This corresponds to a post-tax interest rate of 10.29 % for the Automotive segment (prior year: 9.64 %) and 10.43 % for the Industrial segment (prior year: 9.75 %).

Other valuation assumptions are normally identical across cash-generating units.

As the value in use of the cash-generating units exceeds their carrying amount both for 2012 and the prior year, they are not impaired. Even adjusting an assumption the forecasted cash flows are based upon, e.g. by reducing forecasted EBIT by 15 % or increasing cost of capital by 5 % does not result in an impairment loss.

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

4.2 Property, plant and equipment

No. 039

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 1, 2011	**2,053**	**5,697**	**810**	**215**	**8,775**
Additions	32	313	73	413	831
Disposals	-6	-119	-42	-2	-169
Transfers	9	100	8	-117	0
Foreign currency translation	0	-20	-3	0	-23
Balance as at December 31, 2011	**2,088**	**5,971**	**846**	**509**	**9,414**
Balance as at January 1, 2012	**2,088**	**5,971**	**846**	**509**	**9,414**
Additions	71	428	73	220	792
Disposals	-8	-133	-40	-6	-187
Transfers	54	283	6	-345	-2
Foreign currency translation	-3	-39	-1	-2	-45
Balance as at December 31, 2012	**2,202**	**6,510**	**884**	**376**	**9,972**
Accumulated depreciation and impairment losses					
Balance as at January 1, 2011	**929**	**4,133**	**659**	**13**	**5,734**
Depreciation	66	389	62	0	517
Impairment losses	0	0	0	0	0
Impairment reversals	0	0	0	0	0
Disposals	-1	-115	-41	0	-157
Transfers	0	-4	4	0	0
Foreign currency translation	2	-9	-2	1	-8
Balance as at December 31, 2011	**996**	**4,394**	**682**	**14**	**6,086**
Balance as at January 1, 2012	**996**	**4,394**	**682**	**14**	**6,086**
Depreciation	72	442	68	0	582
Impairment losses	0	0	0	0	0
Impairment reversals	-2	0	0	-14	-16
Disposals	-3	-120	-38	0	-161
Transfers	0	5	-5	0	0
Foreign currency translation	-2	-32	0	0	-34
Balance as at December 31, 2012	**1,061**	**4,689**	**707**	**0**	**6,457**
Net carrying amounts					
As at January 1, 2011	**1,124**	**1,564**	**151**	**202**	**3,041**
As at December 31, 2011	**1,092**	**1,577**	**164**	**495**	**3,328**
As at January 1, 2012	**1,092**	**1,577**	**164**	**495**	**3,328**
As at December 31, 2012	**1,141**	**1,821**	**177**	**376**	**3,515**

At EUR 792 m (prior year: EUR 831 m), the Schaeffler Group made slightly fewer additions to property, plant and equipment in 2012 than in the prior year.

Besides Germany, investment in property, plant and equipment focused on the production facilities in China and India, in Slovakia, Hungary, and in the U.S.

Impairment losses of EUR 16 m recognized in 2008 and 2009 on a then incomplete building at the plant in Yinchuan, China, were reversed in 2012 as the production building has since been put into operation. The reversal is included in cost of sales in the consolidated income statement.

At December 31, 2012, property, plant and equipment with a carrying amount of EUR 9 m (prior year: EUR 1,703 m) were pledged as collateral for bank loans. The significant decrease of EUR 1,694 m from the prior year results from the change in collateral during the first quarter of 2012 (see management report section 3.5).

4.3 Investments in equity-accounted investees

No. 040

in € millions	12/31/2012	12/31/2011
Schaeffler Beteiligungsholding GmbH & Co. KG	5,037	4,770
Other	3	2
Total	**5,040**	**4,772**

The change in the carrying amount of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG is largely the result of measuring the interest in Continental AG held indirectly using the equity method. An increase in the carrying amount of EUR 375 m from measuring the investment at equity during the year was partially offset by a decrease of EUR 108 m related to the recognition of the gross amount of the dividend from Continental AG.

Schaeffler Beteiligungsholding GmbH & Co. KG paid the net amount of the dividend of EUR 80 m to Schaeffler AG. In accordance with the company's loan agreements, this amount was used to repay financial debt (see Note 5.3).

In addition, please refer to the discussion in Note 2.2.

4.4 Deferred tax assets and liabilities

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

No. 041

in € millions	12/31/2012 Deferred tax assets	12/31/2012 Deferred tax liabilities	12/31/2011 Deferred tax assets	12/31/2011 Deferred tax liabilities
Intangible assets	2	-16	2	-18
Property, plant and equipment	70	-139	66	-139
Financial assets	1	-21	1	-26
Inventories	75	-5	70	-5
Trade receivables and other assets	41	-69	66	-78
Provisions for pensions and similar obligations	246	-43	151	-40
Other provisions and other liabilities	175	-96	191	-50
Loss carryforwards	24	0	25	0
Other	4	-4	15	-5
Deferred taxes (gross)	638	-393	587	-361
Netting	**-274**	**274**	**-237**	**237**
Deferred taxes, net	**364**	**-119**	**350**	**-124**

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

In 2012, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 12 m (prior year: EUR 8 m). Recovery of these net deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2012, Schaeffler had gross loss carryforwards of EUR 152 m (prior year: EUR 140 m) for corporation tax and EUR 28 m (prior year: EUR 48 m) for trade tax, including EUR 89 m (prior year: EUR 77 m) for which no deferred taxes have been recognized. In addition, the group had gross carryforwards under the interest deduction cap of EUR 683 m (prior year: EUR 481 m) at the end of the reporting period. Since it is not probable that these carryforwards will be utilized in the foreseeable future, no deferred taxes have been recognized on this amount. As these carryforwards are not considered recoverable, a potential loss of a portion of the interest carryforwards as a result of an internal reorganization of the group structure would not have a material impact. Interest expense of EUR 202 m was not tax deductible in 2012 because of the interest deduction cap. The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred tax liabilities have been recognized on EUR 3,320 m (prior year: EUR 1,734 m) in undistributed profits of certain subsidiaries as distribution of these profits is not intended. Instead, these profits are continually reinvested.

At December 31, 2012, the cumulative amount of deferred taxes recognized in accumulated other comprehensive income is EUR 201 m (prior year: EUR 86 m) and mainly relates to derivatives and pensions and similar obligations.

4.5 Inventories

No. 042

in € millions	12/31/2012	12/31/2011
Raw materials and supplies	304	311
Work in progress	386	401
Finished goods and merchandise	801	845
Advance payments	4	5
Total	**1,495**	**1,562**

Inventories of EUR 7,698 m (prior year: EUR 7,367 m) were recognized as an expense in cost of sales in the consolidated income statement during the reporting period.

In 2012, Schaeffler recognized a valuation allowance of EUR 209 m (prior year: EUR 192 m) on inventories. All identifiable risks were taken into account in determining the valuation allowance to write down inventories to net realizable value.

No inventories (prior year: EUR 1,078 m) were pledged as collateral for bank loans as at December 31, 2012.

4.6 Trade receivables

No. 043

in € millions	12/31/2012	12/31/2011
Trade receivables	1,626	1,607

All trade receivables are current.

At December 31, 2012, trade receivables of EUR 788 m (prior year: EUR 884 m) were pledged as collateral for bank loans.

Movements in impairment allowances on trade receivables can be reconciled as follows:

No. 044

in € millions	2012	2011
Impairment allowances as at January 1	**18**	**22**
Additions	9	3
Allowances used to cover write-offs	-1	-4
Reversals	-3	-3
Impairment allowances as at December 31	**23**	**18**

Trade receivables past due are summarized as follows:

No. 045

in € millions		12/31/2012	12/31/2011
Carrying amount		**1,626**	**1,607**
Not past due		1,513	1,492
Past due	up to 60 days	101	109
	61 - 120 days	6	3
	121 - 180 days	2	1
	181 - 360 days	2	1
	> 360 days	2	1

Trade receivables past due – both gross and net of impairment allowances of EUR 22 m (prior year: EUR 16 m) – changed as follows during the year:

No. 046

in € millions	Past due up to 60 days	61-120 days	121-180 days	181-360 days	> 360 days
December 31, 2012					
Gross	102	9	5	6	13
Impairment allowance	1	3	3	4	11
Net	**101**	**6**	**2**	**2**	**2**
December 31, 2011					
Gross	110	6	2	3	10
Impairment allowance	1	3	1	2	9
Net	**109**	**3**	**1**	**1**	**1**

Impairment allowances of EUR 1 m (prior year: EUR 2 m) were recognized on trade receivables not yet past due.

Please refer to Note 5.5 for related party receivables.

4.7 Other assets and income tax receivables

No. 047

in € millions	**12/31/2012**	**12/31/2011**
Other assets	381	295
Income tax receivables	124	111

At December 31, 2012, income tax receivables amount to EUR 124 m (prior year: EUR 111 m), including non-current balances of EUR 17 m (prior year: EUR 22 m).

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

No. 048

	12/31/2012			12/31/2011		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	46	0	46	43	0	43
Marketable securities	6	0	6	4	0	4
Loans receivable and financial receivables	17	0	17	16	0	16
Tax receivables	2	87	89	1	110	111
Derivative financial assets	67	47	114	2	11	13
Miscellaneous assets	12	97	109	29	79	108
Total	**150**	**231**	**381**	**95**	**200**	**295**

Non-current derivative financial assets consist of the derivatives embedded in the SFA. The current portion of derivative financial assets represents fair values of derivatives the Schaeffler Group uses to economically hedge currency risk.

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

Default risk related to other assets is reflected in impairment allowances. Impairment allowances recognized on other non-current assets amounted to EUR 13 m (prior year: EUR nil) at December 31, 2012.

At December 31, 2012, other assets and income tax receivables of EUR 82 m (prior year: EUR 45 m) were pledged as collateral for bank loans.

The increase in miscellaneous current assets is mainly due to term deposits pledged to protect partial retirement obligations against insolvency, accounts receivable related to the sale of non-current assets and claims for reimbursement of warranty expenses.

4.8 Cash and cash equivalents

At December 31, 2012, cash and cash equivalents amount to EUR 433 m (prior year: EUR 397 m) and consist primarily of bank balances.

At December 31, 2012, cash and cash equivalents of EUR 147 m (prior year: EUR 259 m) were pledged as collateral for bank loans.

4.9 Shareholders‘ equity

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

No. 049

in € millions	12/31/2012	12/31/2011
Share capital	500	500
Reserves	2,042	1,324
Accumulated other comprehensive income (loss)	-495	-163
Equity attributable to shareholders of the parent company	**2,047**	**1,661**
Non-controlling interests	60	53
Total shareholders' equity	**2,107**	**1,714**

Schaeffler AG’s share capital (“Grundkapital”) remains at EUR 500,025,000 at December 31, 2012. It is divided into 500,025,000 registered no-par-value shares, all of which are held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up, Schaeffler AG has no authorized or contingent capital, and there are no resolutions with respect to these types of capital.

Schaeffler AG’s annual general meeting in March 2012 resolved to pay a dividend of EUR 300 m (or EUR 0.60 per share) for the year 2011. EUR 79 m of this dividend was paid to Schaeffler Verwaltungs GmbH in December 2012.

Also in December 2012, Schaeffler Verwaltungs GmbH waived its right to receive EUR 131 m of the dividend, increasing reserves by the same amount. The remaining liability resulting from the declaration of the dividend has increased the loan payable by Schaeffler AG to Schaeffler Verwaltungs GmbH by EUR 90 m to EUR 287 m (see Note 4.10).

A dividend to be paid as at December 15, 2013, of EUR 250 m will be proposed to the annual general meeting for 2012.

Accumulated other comprehensive income and other comprehensive income (loss), net of tax, consist of the following:

No. 050

	Accumulated other comprehensive income (loss) [1]				Subtotal	Non-controlling interests	Total
in € millions	Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses			
2011							
Foreign currency translation differences for foreign operations	-17				-17	-7	-24
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		-23			-23		-23
Defined benefit plan actuarial losses, net of tax				-80	-80		-80
Effects of equity-accounted investees	-44	12	-1	-3	-36		-36
Total other comprehensive income (loss), net of tax	**-61**	**-11**	**-1**	**-83**	**-156**	**-7**	**-163**
2012							
Foreign currency translation differences for foreign operations	-35				-35	-4	-39
Net gain on hedge of net investment in foreign operations	2				2		2
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		37			37		37
Net changes in fair value of cash flow hedging instruments reclassified to profit or loss, net of tax		92			92		92
Net changes in fair value of available-for-sale financial assets, net of tax			1		1		1
Defined benefit plan actuarial losses, net of tax				-236	-236		-236
Effects of equity-accounted investees	-10		1	-184	-193		-193
Total other comprehensive income (loss), net of tax	**-43**	**129**	**2**	**-420**	**-332**	**-4**	**-336**

[1] Including the impact of equity-accounted investees.

The following is a discussion of the various reserves:

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

- **Hedging reserve**
  The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. Other comprehensive income (loss) includes EUR 37 m (prior year: EUR -23 m) in fair value changes of hedging instruments and EUR 92 m (prior year: EUR nil) that were reclassified to profit or loss when realized (gross: EUR 128 m, deferred tax: EUR -36 m; prior year: gross: EUR nil, deferred tax: EUR nil).

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

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

Non-controlling interests represent interests in the equity of consolidated subsidiaries held by third parties. Other comprehensive income (loss) of non-controlling interests relates mainly to currency translation (December 31, 2012: EUR -4 m; prior year: EUR -7 m).

4.10 Current/Non-current financial debt

No. 051

in € millions	12/31/2012 Total	Due in up to 1 year	Due in more than 1 year	12/31/2011 Total	Due in up to 1 year	Due in more than 1 year
Financial debt	**7,261**	121	7,140	**7,485**	317	7,168

At December 31, 2012, the Schaeffler Group had financial debt of EUR 7,261 m (prior year: EUR 7,485 m), consisting of EUR 7,140 m (prior year: EUR 7,168 m) in non-current financial debt and EUR 121 m (prior year: EUR 317 m) in current financial debt, both accounted for at amortized cost.

The refinancing arrangements completed and bonds issued in 2012 significantly affected the Schaeffler Group's financial debt. In 2011, the Group's financing was largely comprised of one bank loan with a principal of EUR 6,950 m, while at December 31, 2012, the company's debt consisted of four loan tranches with a total principal of approximately EUR 4,612 m obtained from banks and institutional investors (Syndicated Senior Term Loan and Revolving Credit Facilities Agreement; SFA) as well as five bond issues totaling approximately EUR 2,360 m.

The Syndicated Senior Term Loan and Revolving Credit Facilities Agreement (SFA) consists of the following tranches:

No. 052

Tranche	Currency	Face value in millions	Carrying amount in € millions	Coupon	Maturity
Senior Term Loan A	EUR	2,446	2,410	Euribor + 4.00 %	01/27/2015
Senior Term Loan B1	EUR	504	501	Euribor + 4.75 %	01/27/2017
Senior Term Loan B2	EUR	525	510	Euribor + 5.00 % [2]	01/27/2017
Senior Term Loan B2	USD	1,500	1,120	Libor + 4.75 % [3]	01/27/2017
Revolving Credit Facility [1]	EUR	1,000	-10	Euribor + 4.00 %	01/27/2015

[1] EUR 57 m were drawn down as at December 31, 2012, primarily in the form of letters of credit.
[2] Euribor floor of 1.50 %.
[3] Libor floor of 1.25 %

Schaeffler Finance B.V., Barneveld, Netherlands, has issued the following bonds:

No. 053

ISIN	Currency	Face value in millions	Carrying amount in € millions	Coupon	Maturity
XS0741938624	EUR	800	785	7.75 %	02/15/2017
US806261AC75	USD	600	446	7.75 %	02/15/2017
XS0801261156	EUR	326	322	6.75 %	07/01/2017
XS0741939788	EUR	400	398	8.75 %	02/15/2019
US806261AA10	USD	500	378	8.50 %	02/15/2019

The differences between face value and carrying amount represent unamortized transaction costs. The carrying value of the revolving credit facility consists entirely of unamortized transaction costs.

Other liabilities (Note 4.14) also include EUR 64 m (prior year: EUR nil) in bond interest accrued up to December 31, 2012.

Financial debt also includes a loan granted by Schaeffler Verwaltungs GmbH to Schaeffler AG with a carrying amount of EUR 287 m (prior year: EUR 417 m) as well as a loan due from INA Beteiligungsverwaltungs GmbH to Schaeffler Verwaltungs GmbH with a carrying amount of EUR 36 m (prior year: EUR 3 m).

Schaeffler also obtained an annuity loan to finance the purchase of an interest rate hedging instrument in 2009. At year end 2012, the loan has a carrying amount of EUR 54 m (prior year: EUR 101 m) and is included in current financial debt.

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

Collateral has been pledged to the banks in connection with the loan agreement. Required details of such collateral are disclosed in the notes for the various assets concerned.

4.11 Provisions for pensions and similar obligations

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

No. 054

in € millions	12/31/2012	12/31/2011
Provisions for pensions (liabilities net of related plan assets)	1,553	1,215
Provisions for obligations similar to pensions	0	2
Provisions for pensions and similar obligations	**1,553**	**1,217**
Pension asset (plan assets net of related liabilities)	46	43
Net defined benefit obligation	**1,507**	**1,174**

Defined benefit obligation and plan assets amount to the following:

No. 055

in € millions	12/31/2012	12/31/2011
Present value of unfunded obligations	1,468	1,145
Present value of funded obligations	619	536
Present value of defined benefit obligations (total)	**2,087**	**1,681**
Fair value of plan assets	580	509
Net pension obligation recognized in the statement of financial position	**1,507**	**1,172**
Other employee benefits similar to pensions	0	2
Net defined benefit obligation	**1,507**	**1,174**

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

The Schaeffler Group's obligations under defined benefit pensions are due to current employees (EUR 942 m, prior year: EUR 681 m), former employees with vested benefits (EUR 221 m, prior year: EUR 197 m) and retirees receiving pension benefits (EUR 924 m, prior year: EUR 803 m).

In addition to the German pension plans, further significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2012, approximately 88 % (prior year: 86 %) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

Plan assets consist of the following:

No. 056

in € millions	12/31/2012	12/31/2011
Equity instruments	195	177
Debt instruments	236	210
Real estate	16	15
Cash	26	2
Other (incl. reimbursement insurance)	107	105
Total	**580**	**509**

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

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

No. 057

in € millions	2012	2011
Present value of defined benefit obligations as at January 1	**1,681**	**1,542**
Benefits paid	-87	-83
Current service cost	33	24
Past service cost	3	0
Interest cost	80	78
Contributions by plan participants	10	9
Transfers in/out	0	1
Actuarial gains and losses recognized in other comprehensive income (loss)	362	100
Foreign currency translation	5	10
Present value of defined benefit obligations as at December 31	**2,087**	**1,681**

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

No. 058

in € millions	2012	2011
Fair value of plan assets as at January 1	**509**	**478**
Benefits paid	-22	-22
Expected return on plan assets	29	26
Contributions by employer/employee	27	33
• Employer contributions	18	24
• Employee contributions	9	9
Transfers in/out	-1	-1
Actuarial gains and losses recognized in other comprehensive income (loss)	33	-15
Foreign currency translation	5	10
Fair value of plan assets as at December 31	**580**	**509**

The actual return on plan assets for 2012 amounts to EUR 62 m (prior year: EUR 11 m). For 2013, the Schaeffler Group expects to make contributions to plan assets of EUR 25 m (prior year: EUR 46 m).

The following amounts were recognized in profit or loss:

No. 059

in € millions	2012	2011
Current service cost	33	24
Past service cost	3	0
Interest cost	80	78
Expected return on plan assets	-29	-26
Net pension cost	**87**	**76**

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

No. 060

in € millions	2012	2011
Cost of sales	20	14
Research and development expenses	5	3
Selling expenses	4	3
Administrative expenses	7	4
Included in EBIT	**36**	**24**
Interest expense	80	78
Expected return on plan assets	-29	-26
Included in financial result	**51**	**52**
Total	**87**	**76**

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

No. 061

in € millions	2012	2011
Expenses related to defined benefit plans	36	24
Contributions to defined contribution plans	12	11
Total	**48**	**35**

The following summarizes the actuarial gains and losses recognized directly in equity via other comprehensive income (loss). The amounts presented include related foreign currency translation gains and losses but not deferred tax effects. The table presents actuarial losses as negative amounts and actuarial gains as positive amounts.

No. 062

in € millions	2012	2011
Accumulated balance as at January 1	**-72**	**43**
Gains/losses on defined benefit obligations	-362	-100
Gains/losses on plan assets	33	-15
Accumulated balance as at December 31	**-401**	**-72**

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

Upon adoption of the amendments in IAS 19 rev. 2011 as at January 1, 2013, net interest expense will be determined based on the net pension obligation recognized in the balance sheet as at the beginning of the reporting period. The discount rate used will be the rate applied in measuring the defined benefit obligation as at December 31, 2012. In the future, expected returns on pension plan assets will no longer be determined separately. Returns on plan assets expected for 2012 were 5.7 % for the Schaeffler Group in total, 4.5 % for Germany, 7.7 % for the U.S., and 5.6 % for the United Kingdom.

In addition, starting in 2013, expected costs of managing plan assets will no longer be included in financial result, but will instead be recognized in other comprehensive income (loss) as part of the remeasurement component.

Overall, the amendments contained in IAS 19 rev. 2011 do not significantly affect the Schaeffler Group's net income.

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

No. 063

	2012	2011
Discount rate as at December 31	3.6 %	4.9 %
Future salary increases	3.3 %	3.3 %
Future pension increases	2.5 %	1.7 %

Actuarial assumptions for the major countries are as follows:

No. 064

Germany:	2012	2011
Discount rate as at December 31	3.5 %	5.0 %
Future salary increases	3.3 %	3.3 %
Future pension increases	0.5 %	1.5 %

No. 065

U.S.A.:	2012	2011
Discount rate as at December 31	3.8 %	4.5 %
Future salary increases	n.a.	n.a.
Future pension increases	2.5 %	2.5 %

No. 066

United Kingdom:	2012	2011
Discount rate as at December 31	4.5 %	5.0 %
Future salary increases	n.a.	n.a.
Future pension increases	3.0 %	3.0 %

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

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

No. 067

in € millions	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Present value of defined benefit obligation	2,087	1,681	1,542	1,474	1,292
Fair value of plan assets	580	509	478	385	329
Net unfunded benefit obligation	**1,507**	**1,172**	**1,064**	**1,089**	**963**
Experience adjustments arising on plan liabilities	-12	7	7	14	10
Experience adjustments arising on plan assets	-20	15	15	20	-74

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

4.12 Provisions

No. 068

in € millions	Employee benefits	Restruc-turing	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 1, 2011	**197**	**7**	**50**	**36**	**18**	**136**	**444**
Additions	34	1	45	6	4	37	127
Utilization	-92	-1	-17	-9	-4	-110	-233
Reversals	-8	-6	-15	-10	-3	-12	-54
Interest expense	4	0	0	0	0	0	4
Foreign currency translation	0	0	0	0	-1	0	-1
Balance as at December 31, 2011	**135**	**1**	**63**	**23**	**14**	**51**	**287**
Balance as at January 1, 2012	**135**	**1**	**63**	**23**	**14**	**51**	**287**
Additions	71	0	68	20	8	37	204
Utilization	-91	0	-21	-4	-4	-35	-155
Reversals	-16	0	-19	-1	-1	-4	-41
Interest expense	6	0	0	0	0	0	6
Foreign currency translation	0	0	0	-1	-1	0	-2
Balance as at December 31, 2012	**105**	**1**	**91**	**37**	**16**	**49**	**299**

Provisions consist of the following current and non-current portions:

No. 069

	12/31/2012			**12/31/2011**		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	59	46	105	66	69	135
Restructuring	0	1	1	0	1	1
Warranties	2	89	91	0	63	63
Other taxes	0	37	37	0	23	23
Liability and litigation risks	0	16	16	0	14	14
Other	15	34	49	13	38	51
Total	**76**	**223**	**299**	**79**	**208**	**287**

Employee benefits and restructuring: Provisions for employee benefits consist primarily of provisions for partial retirement and long-term flextime accounts, net of the related plan assets, of EUR 71 m (prior year: EUR 85 m). Obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are determined using the mortality tables "RICHTTAFELN 2005 G" by Klaus Heubeck. The discount rate is 0.75 % (prior year: 2.75 %) at December 31, 2012, and future salary increases were assumed to be 3.25 % (prior year: 3.25 %). The provision for employee benefits also includes provisions for long-time service awards and other personnel and payroll-related provisions, particularly for early retirement, death, and temporary assistance benefits, obligations arising from the adjustment funds, and provisions based on the collective bargaining agreement with the metalworking and electrical engineering industry in Germany (German Entgeltrahmenabkommen, ERA).

At December 31, 2012, restructuring provisions of EUR 1 m (prior year: EUR 1 m) have been recognized primarily for expenses expected in connection with human resources measures.

Warranties: Warranty provisions are recognized on a case-by-case basis for each sales transaction or, in cases involving a large population of warranty items, using the expected value method. At December 31, 2012, warranty provisions include a provision of EUR 43 m (prior year: EUR 6 m) related to a specific warranty claim in the Industrial segment. An expected reimbursement of approximately EUR 10 m (prior year: approximately EUR 13 m) for warranty expenses incurred has been recognized in other assets.

Other taxes: Tax provisions have been recognized for taxes other than income taxes for current and prior years. These provisions consist primarily of land transfer tax related to an internal reorganization of the group structure.

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

Other: At the reporting date, other provisions include provisions for environmental risks, document retention and other items to be provided for, such as provisions for inventors' bonuses and contributions.

4.13 Trade payables

At December 31, 2012, the Schaeffler Group has trade payables of EUR 794 m (prior year: EUR 873 m), all of which are current. At December 31, 2012, the amount includes EUR 40 m (prior year: EUR 50 m) in notes payable. The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15.

4.14 Other liabilities and income tax payables

No. 070

in € millions	12/31/2012	12/31/2011
Other liabilities	914	933
Income tax payables	499	356

At December 31, 2012, income tax payables amount to EUR 499 m (prior year: EUR 356 m), including non-current balances of EUR 267 m (prior year: EUR 172 m).

Other liabilities consist of the following:

No. 071

	12/31/2012			12/31/2011		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	297	297	0	322	322
Social security contributions payable	4	36	40	5	39	44
Advance payments received	0	26	26	0	25	25
Other tax payables	0	83	83	0	81	81
Derivative financial liabilities	224	16	240	245	71	316
Miscellaneous liabilities	12	216	228	11	134	145
Total	**240**	**674**	**914**	**261**	**672**	**933**

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

Social security contributions payable consist mainly of unpaid contributions to social security schemes.

Derivative financial liabilities include mainly forward exchange contracts, interest rate hedging instruments, and cross-currency swaps used to economically hedge the Schaeffler Group's currency and interest rate risk. The decrease is primarily due to the favorable change in the values of interest rate and currency hedging instruments as at the reporting date.

Miscellaneous liabilities include mainly accrued selling costs (customer bonuses, rebates, early-payment discounts) and interest as at December 31, 2012.

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

4.15 Financial instruments

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

No. 072

		12/31/2012		12/31/2011	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,626	1,626	1,607	1,607
Other investments [1]	AfS	14	-	14	-
Other assets					
• Marketable securities	AfS	6	6	4	4
• Other loans receivable [2]	LaR	103	103	103	103
• Derivatives designated as hedging instruments	n.a.	30	30	0	0
• Derivatives not designated as hedging instruments	HfT	84	84	13	13
Cash and cash equivalents	LaR	433	433	397	397
Financial liabilities, by class					
Financial debt	FLAC	7,261	7,727	7,485	7,568
Trade payables	FLAC	794	794	873	873
Other liabilities					
• Derivatives designated as hedging instruments	n.a.	213	213	69	69
• Derivatives not designated as hedging instruments	HfT	27	27	247	247
• Other liabilities [2]	FLAC	170	170	195	195
Summary by category					
Available-for-sale financial assets (AfS)		20	-	18	-
Financial assets held for trading (HfT)		84	-	13	-
Loans and receivables (LaR)		2,162	-	2,107	-
Financial liabilities at amortized cost (FLAC)		8,225	-	8,553	-
Financial liabilities held for trading (HfT)		27	-	247	-

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

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in incorporated companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2012, and no (partial) disposals are planned for the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of money market fund units.

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

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

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities. This includes Schaeffler's marketable securities, whose fair value is derived from the exchange-quoted price at the end of the reporting period.
- Level 2: Determined using a valuation method for which all significant inputs are based on observable market data. In addition to the existing forward exchange contracts, currency options and interest rate hedging instruments, i.e. interest rate swaps and caps and cross-currency swaps, this level also includes embedded derivatives accounted for separately from their host instrument. All of these financial instruments are measured using recognized valuation models based on input variables observable in the market.
- Level 3: Determined using a valuation method for which significant inputs are not based on observable market data. The Schaeffler Group does not have any financial instruments in this level.

No. 073

in € millions	Level 1	Level 2	Total
December 31, 2012			
Marketable securities	6		6
Derivatives designated as hedging instruments		30	30
Derivatives not designated as hedging instruments		84	84
Total financial assets	**6**	**114**	**120**
Derivatives designated as hedging instruments		213	213
Derivatives not designated as hedging instruments		27	27
Total financial liabilities	**0**	**240**	**240**
December 31, 2011			
Marketable securities	4		4
Derivatives designated as hedging instruments			0
Derivatives not designated as hedging instruments		13	13
Total financial assets	**4**	**13**	**17**
Derivatives designated as hedging instruments		69	69
Derivatives not designated as hedging instruments		247	247
Total financial liabilities	**0**	**316**	**316**

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

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

No. 074

	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impair-ment loss	Foreign currency translation	**2012**	**2011**
Available-for-sale financial assets	1				1	1
Financial assets and liabilities held for trading	-3	116			113	103
Loans and receivables	12		-18	5	-1	25
Financial liabilities at amortized cost	-523			2	-521	-494
Total	**-513**	**116**	**-18**	**7**	**-408**	**-365**

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

The net gain on financial assets and liabilities held for trading of EUR 113 m (prior year: EUR 103 m) relates entirely to derivatives. EUR 106 m (prior year: EUR 42 m) of this net gain is presented in financial result. In the prior year, the amount also included EUR 143 m in compensation payments on interest rate derivatives designated as hedging instruments. Fair value changes on bifurcated embedded derivatives resulted in gains of EUR 128 m.

In 2012, Schaeffler incurred net foreign exchange gains of EUR 7 m (prior year: EUR 12 m) on loans and receivables and financial liabilities accounted for at amortized cost. The impairment loss on financial assets classified as loans and receivables consists of an impairment reversal of EUR 4 m (prior year: EUR 3 m) and an impairment loss of EUR 9 m (prior year: EUR 3 m) and relates entirely to the trade receivables class. Impairment losses on financial assets in the other loans receivable class amounted to EUR 13 m (prior year: EUR nil).

Financial risk management

Overview

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

(1) Liquidity risk

(2) Counterparty risk

(3) Market risk (currency, interest rate, and other price risk)

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

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

See the discussion in section 11.3 of the group management report for further details on financial risk management.

(1) Liquidity risk

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

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

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

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

No. 075

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2012					
Non-derivative financial liabilities	**8,225**	**9,978**	**1,747**	**7,345**	**886**
• Financial debt	7,261	9,014	796	7,338	880
• Trade payables	794	794	794		
• Other liabilities	170	170	157	7	6
Derivative financial liabilities	**240**	**252**	**144**	**108**	
Total	**8,465**	**10,230**	**1,891**	**7,453**	**886**
December 31, 2011					
Non-derivative financial liabilities	**8,553**	**9,126**	**1,810**	**7,309**	**7**
• Financial debt	7,485	8,058	751	7,307	0
• Trade payables	873	873	873	0	
• Other liabilities	195	195	186	2	7
Derivative financial liabilities	**316**	**320**	**176**	**144**	
Total	**8,869**	**9,446**	**1,986**	**7,453**	**7**

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

Schaeffler has access to an additional line of credit of EUR 1,000 m which bears interest at Euribor plus 400 basis points.

(2) Counterparty risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is called counterparty risk. This risk is primarily inherent in trade receivables and other financial assets. Among Schaeffler's major customers in the Automotive segment are various OEM's. Within trade receivables there is a concentration of counterparty risk with regard to these business relationships (see Note 5.4).

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

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

No. 076

	Carrying amount	
in € millions	**12/31/2012**	**12/31/2011**
Trade receivables	1,626	1,607
Other investments	14	14
Other assets		
• Marketable securities	6	4
• Other loans receivable	103	103
• Derivatives designated as hedging instruments	30	0
• Derivatives not designated as hedging instruments	84	13
Cash and cash equivalents	433	397
Total financial assets	**2,296**	**2,138**

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

(3) Market risk

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

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

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

No. 077

	Carrying amount	
in € millions	12/31/2012	12/31/2011
Variable interest instruments	**4,555**	**6,964**
• Financial debt	4,555	6,964
Fixed interest instruments	**2,706**	**521**
• Financial debt	2,706	521

The Schaeffler Group enters into interest rate swaps and caps to minimize its exposure to changes in interest rates on the variable interest debt under the SFA. These instruments are used to economically hedge variable rate debt. EUR 3,500 m (prior year: EUR 3,500 m) of the hedges are interest rate swaps to which hedge accounting has been applied in accordance with IAS 39 (cash flow hedge) in 2012. Thus, the effective portion of changes in the fair value of these hedging instruments is recognized in other comprehensive income. Gains and losses on hedging instruments are reclassified to financial income or financial expense when the hedged transaction (hedged item) affects net income. As a result, accumulated other comprehensive income includes accumulated gains of EUR 52 m (prior year: losses of EUR 13 m) arising from fair value changes on designated financial instruments as at December 31, 2012. The interest payments hedged will be expensed in 2013 and 2014.

Schaeffler demonstrates both prospective and retrospective effectiveness of the hedging relationships by regularly performing effectiveness tests. Prospective and retrospective effectiveness is tested using regression analysis to determine market sensitivities on the basis of a parallel shift in the yield curve by ± 150 basis points (Bp).

As the test results show effectiveness to be within a range of 80 % - 125 %, the hedging relationship is considered to be highly effective. There was no ineffectiveness related to designated cash flow hedges that would have had to be recognized in net income in 2012.

Any fair value changes on additional interest caps with a nominal value of EUR 2,488 m were recognized directly in profit or loss in 2012.

The equity reserve of EUR -286 m accumulated up to November 20, 2009 for the cash flow hedge relationship is being amortized to profit or loss using the effective interest method. In 2012, this resulted in interest expense of EUR 72 m (prior year: EUR 75 m).

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

No. 078

in € millions	2012	2011
Balance as at January 1	**-122**	**-184**
Additions	52	-13
Reclassified to income statement		
• to financial income	0	0
• to financial expense	72	75
Balance as at December 31	**2**	**-122**

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

With regard to variable interest instruments a shift in the yield curve of 100 Bp as at December 31, 2012 would affect (increase/decrease) net income and shareholder's equity by the following amounts. This analysis assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0 %.

No. 079

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2012				
Variable interest instruments	10	-10		
Interest rate derivatives designated as hedging instruments	0	0	54	-54
Interest rate derivatives not designated as hedging instruments	4	15		
Total	**14**	**5**	**54**	**-54**
As at December 31, 2011				
Variable interest instruments	-27	27		
Interest rate derivatives designated as hedging instruments	16	-2	96	-94
Interest rate derivatives not designated as hedging instruments	5	-5		
Total	**-6**	**20**	**96**	**-94**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income and shareholders' equity from interest rate derivatives is entirely due to changes in fair value. Changes in the fair value of interest rate derivatives designated as hedging instruments would not have an effect on net income, while their impact on the reserve in accumulated other comprehensive income (loss) would be EUR 54 m and EUR -54 m, respectively. The impact of interest rate derivatives not designated as hedging instruments on net income would be EUR 4 m and EUR 15 m, respectively, including the impact of embedded derivatives of EUR -8 m and EUR 16 m, respectively, as well as the impact from interest rate derivatives of EUR 12 m and EUR -1 m, respectively.

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

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

Loans between group entities denominated in a currency other than the functional currency of one of the entities involved are fully hedged using forward contracts with the same maturity as the loans.

Schaeffler hedges the foreign exchange risk of part of its investment in the U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollar (principal of USD 900 m) under a net investment hedge. This reduces the group's translation risk on the U.S. subsidiaries. As a result, accumulated other comprehensive income includes accumulated foreign exchange gains of EUR 2 m on designated financial debt as at December 31, 2012. The hedging relationship did not produce any ineffectiveness that would have had to be recognized separately. Investments in the Group's other subsidiaries are not hedged.

The portions of our third party financial debt denominated in a currency other than the functional currency and not designated as the hedging instrument under a net investment hedge are hedged using cross-currency swaps (nominal amount USD 1,700 m). This includes cross-currency swaps with a nominal amount of USD 800 m designated under a cash flow hedge in accordance with IAS 39. As a result, accumulated other comprehensive income includes accumulated losses of EUR 25 m arising from fair value changes on designated financial instruments as at December 31, 2012. There was no ineffectiveness.

Changes in the fair value of additional cross-currency swaps with a nominal amount of USD 900 m were recognized directly in profit or loss in 2012.

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

No. 080

in € millions	USD	JPY	HUF	RON
December 31, 2012				
Estimated currency risk from operations	942	85	-110	-194
Forward exchange contracts	-762	-78	81	149
Currency options	0	0	0	0
Remaining currency risk from operations	**180**	**7**	**-29**	**-45**
December 31, 2011				
Estimated currency risk from operations	1,062	108	-93	-190
Forward exchange contracts	-639	-82	76	152
Currency options	-156	0	0	0
Remaining currency risk from operations	**267**	**26**	**-17**	**-38**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance organization. Thus, this exposure represents the difference between recognized hedged items and hedged items in the form of expected future foreign currency cash flows that have not yet been recognized on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 5.3) is monitored by Schaeffler's finance organization. The most significant currency risk in these countries arises on the U.S. Dollar and amounts to an estimated volume of EUR -174 m (prior year: EUR -314 m).

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

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

No. 081

in € millions	2012	2011
Balance as at January 1	**-56**	**38**
Additions	23	-18
Reclassified to income statement		
• to other income	0	-84
• to other expense	56	8
Balance as at December 31	**23**	**-56**

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

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

No. 082

	12/31/2012		12/31/2011	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	3	-86	15	-77
JPY	-3	-6	-4	-6
HUF	-6	9	-5	8
RON	-16	16	-18	16

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

We apply cash flow hedge accounting to the foreign currency hedge of our bonds issued in U.S. Dollar using cross-currency swaps. The effective portion of changes in the fair value of these hedging instruments is recognized in other comprehensive income. The foreign exchange effects hedged will be recognized in profit or loss in the years 2013 to 2017.

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

No. 083

in € millions	2012	2011
Balance as at January 1	**0**	**0**
Additions	-26	0
Reclassified to income statement		
• to financial income	0	0
• to financial expense	2	0
Balance as at December 31	**-24**	**0**

The sensitivity analysis for currency risk is based on a hypothetical 10 % weakening of the Euro against the U.S. Dollar as of December 31. The analysis covers foreign currency financial debt and derivative financial instruments used to hedge foreign currency risk related to financing and assumes that all other variables, particularly interest rates, remain constant.

No. 084

	12/31/2012	
in € millions	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-142	-75
Foreign exchange gains and losses on derivatives	144	23
Total	**2**	**-52**

The foreign exchange effects of financial debt with a principal of USD 2,600 m affect both net income and shareholders' equity. Shareholders' equity includes the foreign exchange impact of a nominal volume of USD 900 m that has been designated under a cash flow hedge in accordance with IAS 39. The effective portion of changes in the value of cross-currency swaps designated as hedging instruments is recognized in shareholders' equity.

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

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

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

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

4.16 Capital structure

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) rose by EUR 393 m to EUR 2,107 m in 2012 (prior year: EUR 1,714 m). The equity ratio (ratio of shareholders' equity to total assets) was 15.6 % (prior year: 13.2 %) at December 31, 2012.

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

Under these financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.10). Compliance with these financial covenants is continually monitored at the group level. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from amounts in the consolidated financial statements.

The company has complied with the financial covenants as stipulated in the debt agreements both in 2012 and in 2011. Based on its forecast, the Schaeffler Group also expects to comply with the financial covenants under the agreements entered into in January 2012 and amended in December 2012 in 2013, 2014, and beyond.

In addition to the financial covenants contained in the financing agreements, the Schaeffler Group regularly determines financial indicators. One important such indicator is the ratio of net debt to EBITDA (earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation and amortization), which is calculated as follows:

No. 085

in € millions	12/31/2012	12/31/2011
Current financial debt	121	317
Non-current financial debt	7,140	7,168
Total financial debt	**7,261**	**7,485**
Shareholder loans	323	420
Total financial debt excluding shareholder loans	**6,938**	**7,065**
Cash and cash equivalents	433	397
Total liquidity	**433**	**397**
Total net financial debt	**6,828**	**7,088**
Net financial debt excluding shareholder loans	**6,505**	**6,668**
Earnings before financial result, share of net income of equity-accounted investees, income taxes, depreciation and amortization (EBITDA)	**2,031**	**2,243**
Net financial debt excluding shareholder loans to EBITDA ratio	**3.2**	**3.0**

4.17 Leases

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

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

No. 086

in € millions	12/31/2012	12/31/2011
Less than one year	46	44
Between one and five years	52	72
More than five years	3	4
Total	**101**	**120**

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

In 2012, expenses of EUR 68 m (prior year: EUR 57 m) related to operating rental and lease agreements were recognized in the consolidated income statement.

5. Other disclosures

5.1 Commitments

At December 31, 2012, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 164 m (prior year: EUR 261 m). These commitments are expected to be settled as follows:

No. 087

in € millions	12/31/2012	12/31/2011
Less than one year	117	249
Between one and five years	47	12
Total	**164**	**261**

5.2 Contingent liabilities

No. 088

in € millions	12/31/2012	12/31/2011
Obligations under guarantees and warranties	0	10
Other	37	34
Total	**37**	**44**

In the prior year, obligations under guarantees and warranties consisted primarily of securities given and payment guarantees.

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

Several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. The EU antitrust authorities are conducting further close examinations; the Schaeffler Group expects further steps in the proceedings in 2013. There is a risk that the antitrust authorities will impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

5.3 Additional disclosures on the consolidated statement of cash flows

Amounts reported by foreign subsidiaries are translated using average monthly exchange rates. Liquid funds, on the other hand, are measured using the exchange rate at the reporting date, as is the case in the balance sheet.

Changes in balance sheet items shown in the statement of cash flows cannot be derived directly from the balance sheet as they have been adjusted for the impact of foreign exchange rates.

At December 31, 2012, cash and cash equivalents amount to EUR 433 m (prior year: EUR 397 m), including EUR 154 m (prior year: EUR 95 m) held by subsidiaries in Argentina, Brazil, China, Chile, Colombia, India, South Korea, South Africa, Taiwan, Thailand, the Philippines, Venezuela, and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

The financing transactions completed in the first quarter of 2012 to refinance the company's senior loans – replacing existing loans with new loan agreements, issuing bonds, and placing loans with institutional investors – were largely non-cash in nature. The issue of the EUR 300 m in retail bonds and the employee bonds of EUR 26 m resulted in cash inflows of EUR 323 m, all of which were used to repay financial debt.

Schaeffler Beteiligungsholding GmbH & Co. KG immediately paid the net dividend of EUR 80 m it received from Continental AG to Schaeffler AG (see Note 4.3). In the statement of cash flows, the dividend is shown in cash flows from operating activities under dividends received. These EUR 80 m were used to repay bank debt as required by the SFA and are shown as a cash outflow from financing activities.

5.4 Segment Reporting

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

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

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

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

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

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

The amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as depreciation, are reported based on the current allocation of customers to segments. Prior year figures were adjusted accordingly for comparability. Gains on transactions between operating segments are not included.

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

No. 089

Reconciliation to earnings before income taxes in € millions	2012	2011
EBIT Automotive [1]	998	1,074
EBIT Industrial [1]	415	615
EBIT	**1,413**	**1,689**
Financial result	-676	-733
Share of net income of equity-accounted investees	**554**	**324**
Earnings before income taxes	**1,291**	**1,280**

[1] Prior year information presented based on 2012 segment structure.

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

Significant customers

In 2012, Schaeffler generated revenue of EUR 1,283 m (prior year: EUR 1,153 m) from one key customer, representing approximately 11.5 % (prior year: 10.8 %) of total group revenue and approximately 16.7 % (prior year: 16.1 %) of Automotive segment revenue.

Information about geographical areas

No. 090

	Revenue [1]		Non-current assets [2]	
in € millions	2012	2011	12/31/2012	12/31/2011
Germany	2,926	2,857	1,640	1,690
Europe w/o Germany	3,401	3,454	1,041	969
North America	1,665	1,409	382	352
South America	560	628	156	177
Asia/Pacific	2,573	2,346	850	693
Total	**11,125**	**10,694**	**4,069**	**3,881**

[1] Revenue by customer location. Prior year information presented based on 2012 segment structure.
[2] Non-current assets by production location. Non-current assets consist of property, plant and equipment and intangible assets.

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

5.5 Related parties

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

Related parties of the Schaeffler Group include the members of the executive board of Schaeffler AG: The members of the statutory board of directors Dr Juergen M. Geissinger, Wolfgang Dangel, Professor Dr Peter Gutzmer, Kurt Mirlach, Klaus Rosenfeld, and Robert Schullan, as well as the other members of the executive board Rainer Hundsdoerfer (until August 31, 2012), Norbert Indlekofer, Oliver Jung, Professor Dr Peter Pleus and Dr Gerhard Schuff.

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

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

The Continental Group companies are also related parties to the Schaeffler Group.

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

No. 091

	Receivables		Payables	
in € millions	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Parent IHO companies	0	1	324	422
Continental Group companies	10	10	4	4

No. 092

	Expenses		Income	
in € millions	2012	2011	2012	2011
Parent IHO companies	21	12	108	1
Continental Group companies	34	24	91	75

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

In 2012 and 2011, Schaeffler Group companies had various business relationships with the parent IHO companies. These include fees for bank guarantees and various services recharged to the Schaeffler Group as well as shareholder loans from a parent IHO company. Shareholder loans consist of the loans from Schaeffler Verwaltungs GmbH discussed in Note 4.10.

Schaeffler AG's annual general meeting in March 2012 resolved to pay a dividend of EU 300 m (or EUR 0.60 per share) for the year 2011 (see Note 4.9).

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

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

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

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

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

Members of the supervisory board and executive board of Schaeffler AG and parties related to them have acquired bonds issued by Schaeffler Finance B.V. totaling EUR 4 m in 2012.

Short-term employee benefits of EUR 21 m (prior year: EUR 17 m) were paid to members of the Schaeffler AG executive board, including EUR 13 m to members of the statutory board of directors (prior year: EUR 10 m). No post-employment benefit expenses (prior year: EUR 2 m) were recognized for members of the executive board. Total executive board remuneration for the year was EUR 21 m (prior year: EUR 19 m).

No advances or loans were granted to members of Schaeffler AG's executive board or supervisory board. The members of the Schaeffler AG statutory board did not change from the prior year.

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

Former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies received remuneration of EUR 8 m in 2012 (prior year: EUR nil).

Provisions for pension obligations, net of related plan assets, for former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies amount to EUR 9 m at December 31, 2012 (prior year: EUR 8 m).

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2012 and required to be disclosed by section 314 (1) (9) HGB total EUR 4,354 thousand (prior year: EUR 3,948 thousand) and consist of EUR 1,660 thousand (prior year: EUR 1,674 thousand) for financial statement audit services, EUR 885 thousand (prior year: EUR 1,068 thousand) for other attestation services, EUR 346 thousand (prior year: EUR 242 thousand) for tax advisory services, and EUR 1,463 thousand (prior year: EUR 964 thousand) for other services.

These fees were paid for services rendered to Schaeffler AG and its German subsidiaries. KPMG AG Wirtschaftspruefungsgesellschaft is considered to be the auditor.

5.7 Exemptions under section 264 (3) HGB

The following domestic subsidiaries meet the requirements set out in section 264 (3) HGB to be eligible for the exemption for 2012 and are availing themselves of that exemption:

- AFT Atlas Fahrzeugtechnik GmbH (since 02/21/2013: Schaeffler Engineering GmbH), Werdohl
- AS Auslandsholding GmbH, Buehl
- Duerkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach
- IAB Verwaltungs GmbH, Herzogenaurach
- INA Automotive GmbH, Herzogenaurach
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Buehl mbH, Buehl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach
- LuK Auslandsholding GmbH, Buehl

- LuK Beteiligungsgesellschaft mbH, Buehl
- LuK Vermoegensverwaltungsgesellschaft mbH, Buehl
- PD Qualifizierung und Beschaeftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach

5.8 Events after the reporting period

In 2011 and 2012 several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. The EU antitrust authorities are conducting further close examinations; the Schaeffler Group expects further steps in the proceedings in 2013. There is a risk that the antitrust authorities will impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

On February 21, 2013, Schaeffler AG announced plans to seek a repricing of a Euro and U.S. Dollar loan tranche equivalent to EUR 1.6 bn by repaying it and obtaining a new loan tranche. The transaction is expected to close in mid-March 2013. The maturity, collateral, financial covenants, and other terms contained in the loan agreement will remain unchanged.

No other material events occurred after December 31, 2012 that we expect to have a significant impact on the results of operations, financial position, and net assets of Schaeffler Group.

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

The parent company is Schaeffler AG, which is based in Herzogenaurach.

No. 093

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated **I. Germany (54)**			
AFT Atlas Fahrzeugtechnik GmbH (since 02/21/2013: Schaeffler Engineering GmbH)	Werdohl	DE	100.00
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH - AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics AG & Co. KG	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	Herzogenaurach	DE	100.00
KWK Verwaltungs GmbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00
LuK Vermoegensverwaltungsgesellschaft mbH	Buehl	DE	100.00

MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschaeftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
REDON Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.90
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Europa Logistik GmbH	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00

II. Foreign (105)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
HYDREL GmbH	Romanshorn	CH	100.00
INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00

Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
LuK-Aftermarket Service s.r.o.	Prague	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
RODISA, S.A.	Elgoibar	ES	100.00
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
FAG France SAS	Chatillon	FR	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (Hereford) Limited	Hereford	GB	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LUK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
FAG Bearings India Ltd.	Baroda	IN	51.33
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Madras	IN	100.00
FAG Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00
Schaeffler Korea Corporation	Seoul	KR	100.00
INA Mexico S.A. de C.V.	Mexico City	MX	100.00

LuK Puebla, S.A. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S.A. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Manufacturing Rus GmbH	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, a.s.	Kysucke Nove Mesto	SK	100.00
INA Skalica spol. s.r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00

Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Valencia	VE	100.00
Schaeffler Vietnam Co., Ltd.	Ho Chi Minh City	VN	100.00
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00
B. Associated companies/Joint ventures			
I. Germany (5)			
Contitech-INA Beteiligungsgesellschaft mbH [1]	Hannover	DE	50.00
Contitech-INA GmbH & Co. KG [1]	Hannover	DE	50.00
IFT Ingenieurgesellschaft für Triebwerkstechnik mbh	Clausthal-Zellerfeld	DE	49.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG [1] [2]	Herzogenaurach	DE	100.00
II. Foreign (4)			
Colinx, LLC	Greenville	US	20.00
Endorsia International AB	Gothenburg	SE	30.00
Eurings Rt.	Debrecen	HU	37.00
Roland Corporate Housing LLC	Cheraw	US	49.00

[1] Joint ventures accounted for using the equity method.
[2] Schaeffler Beteiligungsholding GmbH & Co. KG holds 36.14 % of the voting interest in Continental AG, Hanover.

5.10 Preparation of consolidated financial statements

The statutory board of directors of Schaeffler AG prepared the consolidated financial statements on March 11, 2013 and released them for submission to the supervisory board. The supervisory board is responsible for examining and approving the consolidated financial statements.

Herzogenaurach, March 11, 2013

The Executive Board

Members of the supervisory board

Georg F. W. Schaeffler
Chairman

Maria-Elisabeth Schaeffler
Vice chairman

Juergen Wechsler*
Vice chairman

Prof. Dr Hans-Joerg Bullinger
Dr Eckhard Cordes
Dr Hubertus Erlen
Prof. Dr Bernd Gottschalk
Jochen Homburg*
Franz-Josef Kortuem
Norbert Lenhard*
Dr Siegfried Luther
Thomas Moelkner*
Wolfgang Mueller*
Tobias Rienth*
Stefanie Schmidt*
Dirk Spindler*
Robin Stalker
Salvatore Vicari*
Dr Otto Wiesheu
Juergen Worrich*

* Employee representative

Members of the executive board

Dr Juergen M. Geissinger*
Chief Executive Officer

Wolfgang Dangel*
Automotive

Prof. Dr Peter Gutzmer*
Research and Development

Rainer Hundsdoerfer (until August 31, 2012)
Industrial

Norbert Indlekofer
Automotive – Transmission Systems

Oliver Jung
Development of Production Methods

Kurt Mirlach*
Human Resources

Prof. Dr Peter Pleus
Automotive –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 (the "Group"), comprising the consolidated statements of income, comprehensive income, financial position, cash flows, and changes in shareholders' equity and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2012 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and the results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 11, 2013

KPMG AG

Wirtschaftsprüfungsgesellschaft

Becker	Sailer
Wirtschaftspruefer	Wirtschaftspruefer

Report of the supervisory board

Georg F. W. Schaeffler

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 scrutinized all significant transactions and provided advice to the executive board on all material decisions. All members of the supervisory board were also available for consultations with the executive board between meetings. The chairman of the supervisory board in particular kept in contact regularly with the executive board and particularly with the chief executive officer, and obtained information about current issues and developments at the company on an ongoing basis.

There were no changes to the supervisory board or the statutory board of directors in 2012; one member, Rainer Hundsdoerfer, retired from the company's executive board.

No conflicts of interest of any supervisory board members became known during the year. The supervisory board believes that it had a sufficient number of independent members at all times.

Main activities

The supervisory board held four regularly scheduled meetings in 2012 which were attended, with a few exceptions, by all members of the supervisory board.

In its meeting on March 16, 2012, the supervisory board dealt with the company's separate financial statements as at and for the year ended December 31, 2011, the consolidated financial statements and the dependency report. The supervisory board adopted the separate financial statements as at and for the year ended December 31, 2011 and approved the consolidated financial statements.

At its meeting on May 25, 2012, the supervisory board discussed the interim report as at March 31, 2012 and obtained information about Schaeffler's production technology. In addition, it approved another bond issue (including employee bonds) as well as a plan to syndicate the senior financing arrangement to a maximum of four additional banks. An ad hoc committee was set up to deal with decisions regarding details of the syndication concept.

At its September 14, 2012, meeting, the supervisory board addressed the interim report as at June 30, 2012 and issues concerning Schaeffler Automotive and the company's operations in Asia/Pacific.

At its meeting on December 14, 2012, the supervisory board discussed the results of the third quarter 2012, the budget for 2013, the multi-year budget 2014/2015, an amendment to the senior financing agreement improving the covenants as well as preparations for steps to be taken in connection with the reorganization. The supervisory board approved the amendment to the refinancing agreement and the transfer of the senior financing arrangement to INA Beteiligungsgesellschaft mbH, accompanied by additional reorganization measures within the Schaeffler Group.

In addition, members of the supervisory board met in Herzogenaurach on May 24, 2012 with the chairman of the executive board and the chief financial officer to discuss ways to reduce the company's debt and to further develop the cooperation with Continental AG.

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.

In addition, it established an ad hoc committee consisting of Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr Siegfried Luther, Georg F. W. Schaeffler, Dirk Spindler, Robert Stalker and Juergen Worrich.

There are no other committees.

The executive committee met five times during the year; one resolution was passed in writing. The meetings and resolutions were mainly held to prepare for the meetings of the supervisory board and to deal with human resource issues.

The audit committee held four regular meetings in 2012.

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 involved with compliance and risk management and obtained information about the work of the Schaeffler Group's internal auditors. The audit committee satisfied itself that the internal control system, the risk management system, and internal audit are effective and defined the supervisory board's focal points for the audit of the auditors KPMG AG Wirtschaftspruefungsgesellschaft, Munich ("KPMG"). In addition, the audit committee dealt with the refinancing of the senior debt, reporting projects of the company, and the economic and financial situation in the Euro region.

In a meeting on January 19, 2012, and teleconferences on January 26, 2012, and January 27, 2012, the ad hoc committee made decisions related to implementing the refinancing concept approved by the supervisory board on December 16, 2011.

The supervisory board re-established the ad hoc committee on May 25, 2012. During a total of four teleconferences on July 4, 2012, July 10, 2012, July 19, 2012, and July 27, 2012, it made decisions about the syndication concept approved by the supervisory committee on May 25, 2012.

The mediation committee established in accordance with section 27 (3) MitbestG did not meet in 2012.

Separate and consolidated financial statements 2012

As proposed by the supervisory board, the annual general meeting appointed KPMG as auditors of the separate financial statements and the dependency report of the company and of the consolidated financial statements on March 16, 2012. 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, 2012 prepared by the statutory board of directors in accordance with German commercial law, including the accounting records and the system of internal controls over financial reporting.

KPMG has also audited the report on relations with affiliated companies (“dependency report”) prepared by the statutory board of directors in accordance with section 312 of the German Stock Companies Act (“Aktiengesetz” – AktG). The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2012 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 consolidated financial statements and the group management report were also audited by KPMG. The auditors have issued unqualified audit opinions. KPMG has issued the following unqualified audit opinion on the dependency report in accordance with section 313 (3) AktG:

“In accordance with our conscientious audit and assessment, we confirm that

- the statements of fact in the report are correct,
- the consideration of the company in the course of the transactions listed in the report was not unreasonably high,
- the measures listed in the report are not the occasion for an assessment substantially different from that of the statutory board of directors”.

The audit committee discussed the financial statement documents, the dependency report, and the long-form audit reports with the executive board and the auditors on March 18, 2013. The audit committee scrutinized the development of earnings for 2012, 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 20, 2013. 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 and management report, 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 concurs with the result of the auditors’ audits. There was no cause for objection, including objection to the closing statement on the dependency report prepared by the statutory board of directors. The supervisory board has approved the separate financial statements and the consolidated financial statements. The separate financial statements have thus been adopted.

2012 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 20, 2013

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Financial glossary

A

AfS: Abbreviation for “Available for sale”.

C

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.

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”.

General glossary

A

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 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 Schaeffler Group's Automotive division 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.

E

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", allowing it to pursue a holistic approach that integrates the expertise of both the Automotive and Industrial divisions. The goal is to aggregate Schaeffler's wide-ranging expertise in one place and to access the market at the systems level.

eWheel Drive: The eWheelDrive is a wheel hub drive that facilities the development of forward-looking vehicle architecture and interior concepts, particularly in electric city vehicles. In addition to increasing useable space and improving maneuverability, further advantages of the eWheelDrive include its braking assistance function providing increased driving safety and its more rapid response.

F

FAG SmartCheck: The FAG SmartCheck is a new, innovative measuring system for real-time monitoring with patented diagnosing technology.

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.

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) in that 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 their 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

Schaeffler Academy: The Schaeffler Academy combines all employee development activities globally, supports corporate strategic objectives, promotes a culture of lifelong learning, and enables the employees to reach personal and professional goals.

Sustainability: Sustainability means utilizing 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 rotating at different speeds.

W

WPOS – Wind Power Standard: Schaeffler has introduced a new Wind Power Standard (WPOS) for wind power applications, which fulfills the increasing demands in terms of reliability placed on wind turbines and components in the wind power sector. This new standard for products and processes means Schaeffler is ensuring outstanding quality and reliability.

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March 2013

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 2011 to 4th quarter 2012

No. 094

	2011				2012			
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Income statement								
Revenue	2,697	2,682	2,703	2,612	2,858	2,794	2,770	2,703
EBITDA	613	552	605	473	549	530	520	432
• in % of revenue	22.7	20.6	22.4	18.1	19.2	19.0	18.8	16.0
EBIT	472	411	466	340	401	379	364	269
• in % of revenue	17.5	15.3	17.2	13.0	14.0	13.6	13.1	10.0
Net income 1)	**438**	**203**	**102**	**146**	**236**	**269**	**226**	**141**
Statement of financial position								
Total assets	13,372	12,738	13,001	12,989	13,449	13,806	13,936	13,546
Shareholders' equity 2)	3,288	2,719	1,498	1,714	1,617	1,865	2,060	2,107
• in % of total assets	24.6	21.3	11.5	13.2	12.0	13.5	14.8	15.6
Net financial debt 3)	6,108	6,063	6,529	6,668	6,884	6,828	6,698	6,505
• Financial debt to EBITDA ratio 4)	2.7	2.7	2.9	3.0	3.2	3.2	3.2	3.2
Additions to intangible assets and property, plant and equipment 5)	122	190	212	322	235	224	199	169
Statement of cash flows								
Free cash flow 6)	11	66	152	90	-107	137	92	259
Employees								
Headcount (at end of reporting period)	69,517	71,084	72,951	74,031	74,948	75,868	76,656	76,099

1) Attributable to shareholders of the parent company.
2) Including non-controlling interests.
3) Excluding shareholder loans.
4) EBITDA based on the last twelve months.
5) Additions to intangible assets and property, plant and equipment for the quarter.
6) Free cash flow for the quarter.

Multi-year comparison

No. 095

in € millions	2008	2009	2010	2011	2012
Income statement					
Revenue	8,905	7,336	9,495	10,694	11,125
EBITDA	1,731	1,103	2,097	2,243	2,031
• in % of revenue	19.4	15.0	22.1	21.0	18.3
EBIT	1,040	446	1,509	1,689	1,413
• in % of revenue	11.7	6.1	15.9	15.8	12.7
Net income (loss) [1]	**424**	**-1,204**	**63**	**889**	**872**
Statement of financial position					
Total assets	12,688	12,608	13,344	12,989	13,546
Shareholders' equity [2]	4,076	2,852	3,341	1,714	2,107
• in % of total assets	32.1	22.6	25.0	13.2	15.6
Net financial debt [3]	3,778	6,131	5,711	6,668	6,505
• Financial debt to EBITDA ratio	2.2	5.6	2.7	3.0	3.2
Additions to intangible assets and property, plant and equipment	949	325	386	846	827
Statement of cash flows					
Free cash flow	-3,802	-1,400	566	319	381
Employees					
Headcount (at end of reporting period)	66,034	61,536	67,509	74,031	76,099

[1] Attributable to shareholders of the parent company.
[2] Including non-controlling interests.
[3] Excluding shareholder loans.

Financial calendar 2013

March 21, 2013

Full year results 2012

May 21, 2013

First quarter results 2013

August 28, 2013

Second quarter results 2013

November 19, 2013

Third quarter results 2013

All information is subject to correction and may be changed at short notice.

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