

External group financing is primarily provided by capital market instruments as well as syndicated and bilateral lines of credit from international banks. One such line of credit is a contractually agreed revolving credit facility of EUR 1,300 m available to cover any short- to medium-term liquidity needs. Please refer to section 2.4 “Financial position and finance management” – “Financial debt” for further detail on the various instruments representing the group financing arrangements.

The Schaeffler Group has a policy of financing its domestic and foreign subsidiaries from internal sources. In accordance with this policy, subsidiaries’ financing needs are met using internal loans to the extent possible and economically justifiable. As a result, subsidiaries are primarily financed by loans provided by Schaeffler AG and one other subsidiary. As part of the company’s liquidity management measures, liquidity is balanced between group companies on a short- and medium-term basis using primarily cash pools or intercompany loans. In a few cases, Corporate Treasury obtains lines of credit for subsidiaries from local banks for legal, tax, or other reasons. Local financing is primarily used to cover fluctuations in working capital.

Centralized finance management performed by the Corporate Treasury department also ensures a uniform presence in the capital markets and when dealing with rating agencies, eliminates structural differences between the various groups of creditors, and strengthens the group’s bargaining position with respect to banks and other market participants. In addition, centralized finance management facilitates the centralized allocation of liquidity as well as groupwide management of financial risk (foreign exchange and interest) on a net basis.

## 2.5 Net assets and capital structure

The Schaeffler Group’s total assets decreased by EUR 916 m or 7.3 % to EUR 11,564 m (prior year: EUR 12,480 m) in 2016.

### Consolidated statement of financial position (abbreviated) No. 055

in € millions	12/31/2016	12/31/2015	Change in %
Total non-current assets	5,979	7,438	-19.6
Total current assets	5,585	5,042	10.8
<b>Total assets</b>	<b>11,564</b>	<b>12,480</b>	<b>-7.3</b>
Total shareholders equity	1,997	1,568	27.4
Total non-current liabilities	6,361	8,144	-21.9
Total current liabilities	3,206	2,768	15.8
<b>Total assets</b>	<b>11,564</b>	<b>12,480</b>	<b>-7.3</b>

**Non-current assets** declined by EUR 1,459 m to EUR 5,979 m as at December 31, 2016 (prior year: EUR 7,438 m), primarily due to the prepayment of a loan of EUR 1,773 m that was receivable from the company’s shareholder IHO Verwaltungs GmbH. The decrease was partially offset by a EUR 327 m increase in property, plant and equipment. Additions to intangible assets and property, plant and equipment amounted to EUR 1,115 m and were primarily invested in expanding capacity and in equipment and machinery for product start-ups in the Automotive division. The Automotive division accounted for approximately 81 % of total additions for the reporting period.

**Current assets** increased by EUR 543 m to EUR 5,585 m (prior year: EUR 5,042 m) in 2016. The increase was largely attributable to the increase in cash and cash equivalents (see “Cash flow”, pp. 49 et seq.). Higher inventories and trade receivables also contributed to the increase in current assets.

**Shareholders' equity** including non-controlling interests rose by EUR 429 m to EUR 1,997 m as at December 31, 2016 (prior year: EUR 1,568 m). Net income of EUR 872 m increased shareholders' equity. The increase was partially offset by EUR 328 m in dividends paid to Schaeffler AG's shareholders. Shareholders' equity was also reduced by an increase in provisions for pensions and similar obligations due to the reduction in the average discount rate to 2.1 % (December 31, 2015: 2.6 %). The equity ratio was 17.3 % at December 31, 2016 (December 31, 2015: 12.6 %).

**Non-current liabilities** declined by EUR 1,783 m to EUR 6,361 m as at December 31, 2016 (prior year: EUR 8,144 m), largely due to the redemption in full of a USD bond series with a principal of USD 850 m and two EUR bond series with a principal of EUR 500 m each completed in October 2016. The redemptions were largely funded using the proceeds of the prepayment in full of a loan receivable from the company's shareholder IHO Verwaltungs GmbH as discussed above. Voluntary partial prepayments of institutional loan tranches during the first half of 2016 also reduced non-current financial debt. These decreases were partially offset by an increase in provisions for pensions and similar obligations by EUR 240 m, mainly as a result of lower discount rates.

**Current liabilities** increased by EUR 438 m to EUR 3,206 m as at December 31, 2016 (prior year: EUR 2,768 m). The increase was largely attributable to higher trade payables and higher other financial liabilities.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The Schaeffler Group's obligations under non-cancellable operating rental and lease agreements totaled EUR 123 m at December 31, 2016 (prior year: EUR 126 m); obligations under finance leases were insignificant.

## 2.6 Value management

Ensuring that the Schaeffler Group continues to meet its core business objective of growing profitably in the long-term necessitates a value-based approach to managing its business portfolio. The Schaeffler Group's key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. Neither indicator is directly used in managing the Schaeffler Group's operations, although Schaeffler Value Added represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management.

See section "Group strategy and management" – "Value-based management" for further detail.

Positive Schaeffler Value Added means that the Schaeffler Group's EBIT exceeds the cost of capital for the period and has added the corresponding amount in value. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year.

Average capital employed is calculated by adding up the following operating balance sheet items: property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters.

While Schaeffler Value Added is an absolute measure of the value added by the company, return on capital employed – the ratio of EBIT to capital employed – measures the Schaeffler Group's return on capital. Both indicators are determined before special items.

### ROCE and Schaeffler Value Added

No. 056

	12/31/2016	12/31/2015
EBIT (in EUR m)	1,556	1,402
EBIT before special items (in € millions)	1,700	1,676
Capital employed (in € millions)	7,848	7,455
Cost of capital (in %)	10.0	10.0
Cost of capital (in € millions)	785	745
ROCE (in %)	19.8	18.8
<b>ROCE before special items (in %)</b>	<b>21.7</b>	<b>22.5</b>
Schaeffler Value Added (in € millions)	771	657
<b>Schaeffler Value Added before special items (in € millions)</b>	<b>915</b>	<b>931</b>