

2.7 Overall assessment of the 2016 business year

The Board of Managing Directors looks back on a successful year 2016. Schaeffler achieved its targets for the three key performance indicators growth, EBIT margin, and free cash flow. The group's revenue growth excluding the impact of currency translation of 3.4 % was within the target corridor of 3 to 5 %. The EBIT margin before special items amounted to 12.7 %, reaching the top third of the targeted range of 12 to 13 %. Free cash flow of EUR 735 m considerably exceeded the target of approximately EUR 600 m.

This encouraging development of the key performance indicators was primarily driven by the strong performance of the Automotive division. This division benefitted from favorable overall conditions in the automotive industry which exceeded expectations, especially in China. In addition, revenue growth in the Automotive division of 6.0 % (at constant currency) outpaced growth in global automobile production. The Automotive EBIT margin before special items increased once again, reaching a very encouraging level of more than 14 %.

The Industrial division, on the other hand, continued to face a challenging market environment marked by declining demand in important sectors, particularly in China. Industrial division revenue declined by 4.8 % excluding the impact of currency translation in 2016. Its EBIT margin before special items declined as well, falling short of the division's plan for 2016 at 7.0 %. Achieving the targeted return for 2018 of 10 to 11 % will be challenging. In light of this, the Board of Managing Directors of Schaeffler AG decided in 2016 to step up its measures for revitalizing the Industrial division – in a second wave of the program “CORE” – in order to put the Industrial division, an integral component of the Schaeffler Group, back on course for long-term success. The measures to improve efficiency and reduce costs initiated in the first wave of the program “CORE” were executed as planned.

In addition, the Board of Managing Directors, cooperating closely with the Schaeffler Group's senior management and the Schaeffler AG Supervisory Board, finalized its strategy discussions and approved the strategy “Mobility for tomorrow” and the “Agenda 4 plus One” excellence program in October 2016. The strategy “Mobility for tomorrow” was backed with ambitious medium-term financial targets for 2020. Since the Schaeffler Group's strategy has been approved, the Board of Managing Directors views key fundamentals for profitable long-term growth and adding value to be in place.

2.8 Net assets, financial position and earnings of Schaeffler AG

Schaeffler AG is a corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. It acts as a management holding company and is responsible for directing the Schaeffler Group and managing its business as well as its financing; it also employs the staff at the Schaeffler Group's corporate head office.

The Board of Managing Directors of Schaeffler AG is responsible for the key management functions of the Schaeffler Group. Schaeffler AG's situation is largely determined by the Schaeffler Group's operating performance.

The following discussion relates to the separate financial statements of Schaeffler AG prepared in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

Schaeffler AG earnings

Schaeffler AG earnings			No. 057
in € millions	2016	2015	Change in %
Revenue	88	54	63.0
Cost of sales	-84	-51	64.7
Gross profit	4	2	100
General and administrative expenses	-71	-46	54.3
Net other operating income	118	30	> 100
Income from equity investments	600	1,119	-46.4
Interest result	-289	-408	-29.2
Income taxes	204	-122	-
Earnings after income tax	566	575	-1.6
Net income for the year	566	575	-1.6
Retained earnings brought forward	0	3,096	-100
Retained earnings	566	3,671	-84.6

As Schaeffler AG is the ultimate parent company of the Schaeffler Group, it generates revenue from managing the group, including from public relations activities, treasury, legal consulting, tax consulting, compliance, human resources, internal audit, quality management, and general management.

In performing its function as management holding company of the Schaeffler Group, Schaeffler AG incurred EUR 71 m in general and administrative expenses.

The increase in revenue, cost of sales, and administrative expenses over the prior year was due to the transfer of certain employees with group-related responsibilities from a subsidiary to Schaeffler AG.