SCHAEFFLER GROUP

ANNUAL REPORT **2010**

LuK INA FAG

KEY FIGURES

In € millions	2010	2009	Change	
Earnings				
Revenue	9,495	7,336	+ 29.4	%
EBITDA	2,097	1,103	+ 90.1	%
- in % of revenue	22.1	15.0	7.1	%-pts
EBIT	1,509	446	+ 1,063	€ millions
- in % of revenue	15.9	6.1	9.8	%-pts
Net income (loss) [1]	63	-1,204	+ 1,267	€ millions
Financial position				
Cash flows from operating activities	890	597	+ 293	€ millions
Capital expenditures	386	325	+ 61	€ millions
Free cash flow	566	-1,400	+ 1,966	€ millions

In € millions	12/31/2010	12/31/2009	Change	
Assets				
Total assets	13,344	12,608	+ 5.8	%
Shareholders' equity [2]	3,294	2,818	+ 476	€ millions
- in % of total assets	24.7	22.4	2.3	%-pts
Net financial debt	5,744	6,131	- 6.3	%
- in % of equity	174.4	217.6	-43.2	%-pts
Employees				
Number of employees	67,509	61,536	+ 9.7	%

1) Attributable to shareholders of the parent company.
2) Equity attributable to shareholders of the parent company.

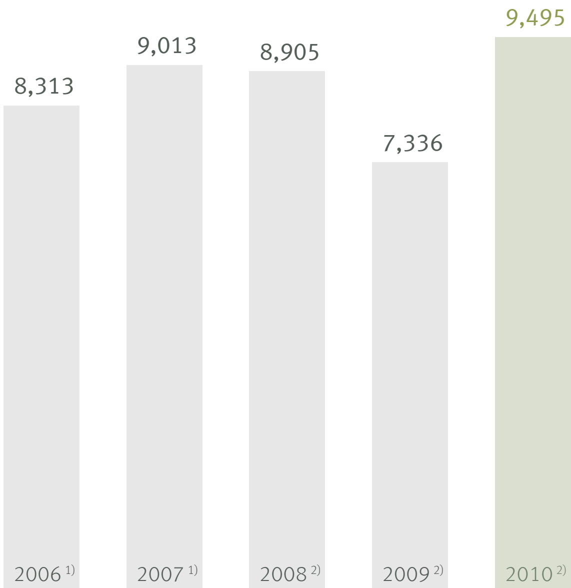
Automotive

In € millions	2010	2009	Change	
Revenue	6,341	4,743	+ 33.7	%
EBITDA	1,352	707	+ 91.2	%
- in % of revenue	21.3	14.9	6.4	%-pts
EBIT	1,005	283	+ 722	€ millions
- in % of revenue	15.8	6.0	9.8	%-pts

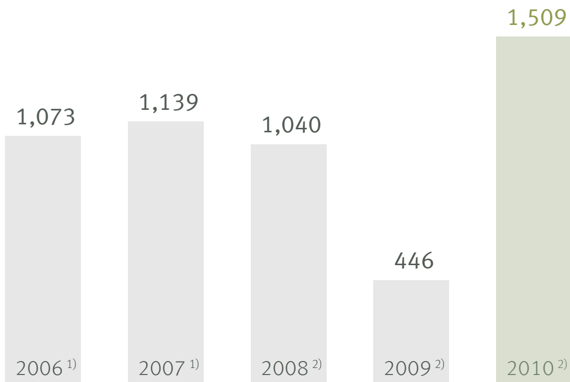
Industrial

In € millions	2010	2009	Change	
Revenue	3,012	2,513	+ 19.9	%
EBITDA	745	396	+ 88.1	%
- in % of revenue	24.7	15.8	8.9	%-pts
EBIT	504	163	+ 341	€ millions
- in % of revenue	16.7	6.5	10.2	%-pts

Revenue
(in € millions)

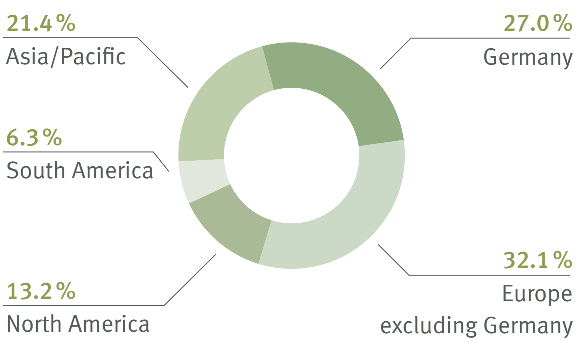


Earnings before interest and taxes (EBIT)
(in € millions)

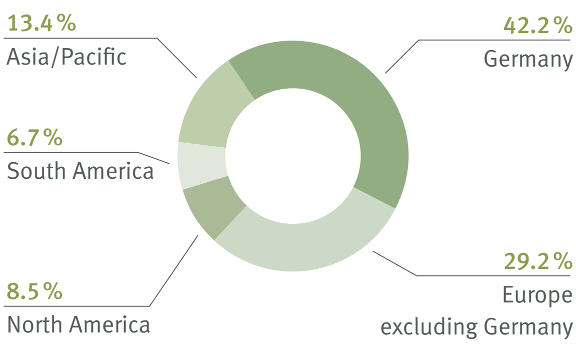


[1] IHO Group [2] Schaeffler Group

Revenue in 2010 by region
(Share)



Headcount 2010 by region
(Averages)



Automotive

Revenue 2010: EUR 6,341 m (prior year: EUR 4,743 m)

The Schaeffler Group is a supplier to the automotive industry of worldwide renown. Its products range from wheel bearings as well as chassis and steering components through transmission systems and developments to engine components and valve control systems. Schaeffler innovations contribute to preparing the automobile of today and tomorrow for the challenges of the future. Schaeffler is making a substantial contribution to the successes of modern automotive engineering, particularly in the area of energy efficiency and is, therefore, helping to minimize fuel consumption and emissions.


Engine


Transmission


Chassis

Aftermarket

Industrial

Revenue 2010: EUR 3,012 m (prior year: EUR 2,513 m)

Customers from around 60 different industrial sectors count on rolling and plain bearings, linear guidance systems and direct drives from the Schaeffler Group. Serving as an important development partner and supplier of components to the engineering and plant construction industry, the Schaeffler Group offers not only more than 40,000 catalog products but also countless solutions to our customers' requirements for specific applications and environments.


Heavy Industries


Production Machinery


Wind Energy


Aerospace


Power Transmission


Railway


Power Generation


Consumer Products/Motorcycles

Aftermarket & Industrial Services

YEAR ENDED DECEMBER 31, 2010

Strong growth:

Revenue EUR 9.5 bn

Above average earnings level:

EBIT margin 15.9 %

Back to profitability:

Net income EUR 63 m

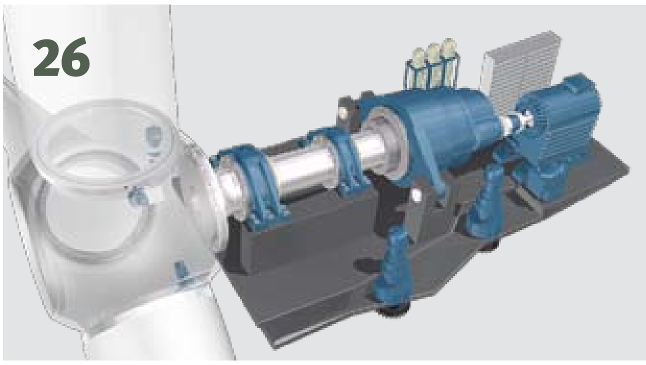
Sustained positive cash flow:

Free cash flow EUR 566 m

Net financial debt reduced further:

Debt to EBITDA ratio 2.7

Trend: Dry double clutch



Trend: Wind energy

Trend: Lightweight differential

Trend: Generator sensor bearings for rail vehicles

Trend: Schaeffler Hybrid

Trend: Wheel sensor bearings for pedelecs

CONTENTS

INTRODUCTION

Ladies and Gentlemen,

2010 was a year of change for the Schaeffler Group, a year in which important milestones were set for the Schaeffler Group's long-term future development.

Economically, 2010 was characterized by an unexpectedly positive business environment. After the unpredictable dramatic slump in the global economy in late 2008 and a very difficult year 2009, the economy recovered in 2010 at a pace that was just as surprising. This recovery was first seen in the automotive sector and then, somewhat later, in the engineering industry as well. This almost V-shaped development of the economy posed significant challenges to our staff. Following massive crisis management and tough cuts required in late 2008 and in 2009, the Schaeffler Group then had to switch to full utilization and high delivery volumes in a very short period of time. As we had been able to largely retain our top performers during the crisis in 2008 and 2009, in part by extensive use of short-time work, the Schaeffler Group managed this challenge very well, not least thanks to the strong dedication of our employees. The end result is the best year in company history.

The most significant structural change this year was the gradual transformation of the Schaeffler Group into a corporation having a supervisory board with co-determination. With this transformation comes the ongoing improvement and professionalization of our structures and systems in order to meet the requirements and expectations of the capital markets and relevant stakeholders. The implementation of structures appropriate for the capital markets represents a profound change for our group of companies, not least a cultural one. The new structures will combine the advantages of a family-owned company with those of a corporation. On the one hand, we can benefit from the advantages of the capital market, broadening our strategic options, while, on the other hand, still being able to rely on our well-proven lean decision-making structures in ongoing operations.

In addition to our long-standing and experienced advisory board members, we were able to attract excellent and well-versed executives and industry experts to represent the shareholders' side on the Schaeffler GmbH supervisory board. The representatives for the employees' side have been members and executives of IG Metall for many years, and we will cooperate with them for the benefit of the company based on our mutual respect. Together, the Schaeffler Group's shareholders, employee and shareholder representatives, staff and executive management board will take Schaeffler into the next phase of its successful development, which has already lasted for more than 65 years. As family shareholders, and in the spirit and tradition of a family business, we continue to bear responsibility for the welfare of the company and its employees by participating in chairing the supervisory board. Thus, we remain committed to the long-term strategy of a family-owned business, and this strategy will continue to guide our decisions.

Maria-Elisabeth Schaeffler | Georg F. W. Schaeffler

Another cultural milestone was the introduction of profit sharing for employees. The Schaeffler Group's success is based to a very large extent on its employees' motivation to provide exceptional performance. This motivation – measured in terms of quality, absenteeism due to illness and added value – will be recognized directly in the future.

The relationship with Continental AG has continued its positive development in 2010, both at the supervisory board and at the operational level. In addition to the expanded project-related collaboration between Continental AG and the Schaeffler Group, both companies are successfully working to strengthen their respective market positions to facilitate further steps. Our long-term objective of a strategic partnership with Continental AG has not changed. What form this will take is secondary. The form of the partnership must never be an end in itself; rather, it is key that this strategic partnership and cooperation make economic sense and follow industrial logic. Whatever the form of partnership and cooperation, it naturally has to benefit both parties and appropriately reflect the interests of all significant stakeholders.

We would like to thank everyone who has supported the Schaeffler Group during this challenging year 2010. Above all, we thank our employees and the members of the executive management board. Without their loyalty and unwavering commitment, it would not have been possible to successfully cope with a year so full of change and challenge. We look forward to continuing working with you successfully and with mutual trust in the future.

Both the company and the shareholders have stayed on course and made good on commitments. Together with you, we are optimistic in looking to the future – true to our motto "Together we move the world".

Best regards,

Maria-Elisabeth Schaeffler

Maria-Elisabeth Schaeffler

Georg F. W. Schaeffler

Georg F. W. Schaeffler

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The Schaeffler GmbH supervisory board took up its duties on September 17, 2010. At its constituent meeting, it elected the chairperson of the supervisory board, the vice chairpersons and the members of the executive committee and the audit committee.
In addition, the executive management board provided an overview of the structure of the Schaeffler Group and current developments in the business of Schaeffler GmbH. At the second supervisory board meeting, the final internal rules of procedure were adopted, current business developments were reported on, and the budget and the capital expenditure plan for 2011 were presented and approved. All supervisory board members personally attended both meetings of the supervisory board.
During the reporting period, the supervisory board has performed the duties mandated by law and the company's articles of association and has provided extensive advice to the executive management board and monitored its activities.

Both the executive committee and the audit committee met once during the reporting period. At its meeting, the executive committee extensively discussed the budget and the capital expenditure plan and recommended that the supervisory board approve the budget and the capital expenditure plan. At its meeting, the audit committee dealt with preparations for the year-end audit and extensively discussed current business developments. In addition, the internal control system and the compliance management system were presented. The mediation committee did not meet during the reporting period.

Between meetings, the chairperson of the supervisory board kept in close contact with the executive management board. He was informed on an ongoing basis, both in writing and in person, of significant transactions and current developments significant to the situation and the development of the Group.

The separate financial statements of Schaeffler GmbH and the consolidated financial statements of the Schaeffler Group for 2010 were audited by KPMG AG Wirtschaftspruefungsgesellschaft, Munich, who have issued an unqualified audit opinion on these financial statements.

Chairperson of the supervisory board Georg F. W. Schaeffler

The shareholders' meeting passed a resolution appointing KPMG as auditors. In accordance with the internal rules of procedure of the supervisory board, the audit committee assigned the engagement for the audit. The chairmen of the audit committee and the supervisory board have discussed the significant findings of the audit of the separate and the consolidated financial statements with the auditors. In addition, the audit committee examined the separate and the consolidated financial statements and the related audits extensively at its meeting in March 2011. The audit committee has taken note of and agreed with the result of the audits of the separate and the consolidated financial statements.

The members of the supervisory board extensively discussed the financial statements of Schaeffler GmbH, the consolidated financial statements of the Schaeffler Group, and the proposal for the appropriation of net income at its meeting in March 2011.
The auditors attended this discussion of the supervisory board, reported on significant audit findings and were available to answer questions. Based on the auditors' report and its own examination, the supervisory board arrived at the same audit findings as the auditors. No objections were raised. The supervisory board has approved the separate financial statements of Schaeffler GmbH and the consolidated financial statements of Schaeffler Group.

With its very dynamic recovery following the dramatic downturn in 2009, the year ended December 31, 2010 posed significant challenges to the Schaeffler Group, which Schaeffler has dealt with very well. The supervisory board would like to thank the executive management board and all employees for their high level of commitment and their excellent performance.

Best regards,

Georg F. W. Schaeffler

MEMBERS OF THE SUPERVISORY BOARD

Georg F. W. Schaeffler
Chairperson

Maria-Elisabeth Schaeffler
Deputy Chairperson

Juergen Wechsler *
Deputy Chairperson

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 *

Stefanie Schmidt *

Dirk Spindler *

Robin Stalker

Juergen Stolz *

Salvatore Vicari *

Dr. Otto Wiesheu

Juergen Worrich *

* Employee representatives

REPORT OF THE EXECUTIVE MANAGEMENT BOARD

Ladies and Gentlemen,

Following 2009, which was a difficult year because of the crisis, 2010 has brought the Schaeffler Group back on track to success. Driven by the rapid economic development of the automotive industry, the recovering industrial production and the excellent competitive and market position of the Schaeffler Group, revenue growth was significantly stronger and more rapid than we had anticipated at the beginning of the year. In combination with a continued strict cost management, the Schaeffler Group was able to generate its best results of operations ever.

Revenue for 2010 was approximately EUR 9.5 bn, an increase of almost 30 % compared to the prior year. Around two thirds of revenue came from the Automotive business, which was able to grow its revenue by 34 % to around EUR 6.3 bn in 2010. The Industrial business expanded by 20 % to around EUR 3.0 bn. While the growth in the Automotive business remained high but slowed somewhat during the course of the year, the growth rate in the Industrial sectors increased steadily.

Geographically, we profited particularly from our strong position in the emerging markets. In the Asia/Pacific region revenue increased by more than 50 % to approximately EUR 2.0 bn compared to the prior year, bringing this region's contribution to revenue to more than 21 %. Our business in North and South America also performed well: We experienced growth rates of over 30 % in these regions.

Driven by the growth in revenue, the Schaeffler Group generated earnings before financial result and income taxes (EBIT) of approximately EUR 1.5 bn during the year, representing an EBIT margin of around 16 %.
Our earnings profited both from the cost saving measures started during the 2009 crisis year and, particularly, from the still moderate materials and energy prices. In addition, the capacity expansion started in 2010 will not affect earnings until later. In light of this, we anticipate the above-average EBIT margin for 2010 to follow a slight downward trend in the future.

Net income after non-controlling interests for 2010 was EUR 63 m. As reported in our semi-annual report, it includes a non-recurring charge of approximately EUR 400 m related to a dilution loss resulting from the capital increase Continental AG completed in January 2010. Despite this non-recurring charge, our earnings have returned to profitability. Without this non-recurring charge, net income would have been EUR 459 m.

In addition, our financing situation has improved steadily, as we are benefiting from the tremendous operating performance of the Schaeffler Group. At the same time, we were able to further reduce funds tied up in working capital despite the strong growth in revenue. The ratio of working capital to revenue was around 24 % at the end of the reporting period, close to our short-term goal of 25 %. Our "MOVE" program, which we started in late 2008 to optimize our supply chain, helped us reach an important first milestone. However, there is room for further improvement in this area in the medium term.

On this basis, the Schaeffler Group was able to generate a free cash flow of EUR 566 m in 2010. The debt to EBITDA ratio dropped to 2.7 at the end of 2010 from 5.6 at the end of 2009. We consider the further reduction of funds tied up in working capital, the consistent implementation of the "MOVE" program and the gradual improvement of our debt situation our highest priorities for the coming years.

At the same time, we need and want to continue investing in order to satisfy the increasing demand of our customers for our innovative products and to open up new markets for the Schaeffler Group. Last year, we incurred capital expenditures of EUR 386 m. This represented around 4 % of revenue, less than our usual goal. For the current reporting period, we have approximately doubled our capital expenditure budgets. Most of the capital expenditures will be spent on customer projects and capacity expansions.

The improved business environment is also reflected in the number of employees working at the Schaeffler Group, which rose by approximately 6,000 to around 67,500 during 2010. We anticipate hiring more staff in 2011 and are proud of the fact that this will allow us to make an important contribution to the labor market.

The collaboration with Continental AG has continued to move in a positive direction during the year. Our joint turbo charger project, for instance, is on target. More projects are planned. In addition, we were able to support Continental AG's Powertrain business in a series of strategic development projects. We will continue to further expand and strengthen the strategic collaboration with Continental AG in 2011.

The positive development of our business in 2010, the above average net income, our focus on costs, our innovative strength and the positive economic outlook leave us optimistic that we will continue on our successful course in 2011.

We would like to thank everyone who has supported us on this path in 2010. We would like to express our particular gratitude to the employees of the Schaeffler Group, who have again demonstrated their exemplary commitment to our company.

Best regards,

Dr. Juergen M. Geissinger

Klaus Rosenfeld

MEMBERS OF THE EXECUTIVE MANAGEMENT BOARD

Dr. Juergen M. Geissinger
Chairperson of the executive management board
Schaeffler Group

Prof. Dr. Peter Gutzmer
Research and Development

Rainer Hundsdoerfer
President of the Industrial Division

Norbert Indlekofer
President of the Automotive Division

Oliver Jung
Manufacturing Technology

Kurt Mirlach
Human Resources

Dr. Peter Pleus
President of the Automotive Division

Klaus Rosenfeld
Chief Financial Officer

Dr. Gerhard Schuff
Purchasing

Robert Schullan
President of the Industrial Division

THE SCHAEFFLER GROUP

As a reliable partner for our customers, we count on innovation, creativity and consistent customer focus as well as top performance in all areas. In the process, we strive for balanced growth between the industrial, retail and automotive sectors with leading positions for all our products in the important market regions worldwide. Goal orientation, constructive teamwork and the drive to constantly improve processes and products characterize the working environment at the Schaeffler Group.

Automotive

Industrial

The Schaeffler Group is a leading manufacturer of rolling bearings and linear products worldwide as well as one of the most important suppliers of components and systems for engines, transmissions and chassis applications to the automotive industry. The Group's success is based on its strong innovative ability, maximum quality in all processes and products and its ability to react quickly to customers' special requirements and requests.

The Schaeffler Group operates under its three strong product brands INA, FAG and LuK in two divisions: Automotive and Industrial. The Group's strong customer focus has been an essential part of its success. The Schaeffler Group regards itself as a development and engineering partner to its customers. To ensure quick and flexible manufacturing processes, we develop some of our own technology, equipment and control systems. The Schaeffler Group's largest customer, the automotive industry, generates around 65 % of sales. As a reliable partner for nearly all automotive manufacturers and important suppliers worldwide, the Schaeffler Group offers expertise for the entire drive train: Engines, transmissions, chassis and accessory units in passenger cars and commercial vehicles. Reduced fuel consumption, fewer emissions, safety and increased driving pleasure are the objectives the Schaeffler Group strives for in cooperation with its partners in the automotive industry.

Our rolling bearings, engine components as well as transmission and clutch components are developed specifically for our customers' particular applications and are tested for customer acceptance purposes on testing facilities, some of which are developed in-house.
This ensures maximum quality and safety for customers' volume production. Automotive Aftermarket provides spare parts and services to distributors and independent workshops.

The Industrial Division supplies more than 225,000 products for applications in around 60 industrial sectors – an extremely wide product range. While working closely with its customers, this division develops bearing solutions for countless applications that perfectly match the customer's specific requirements and offer maximum benefit. The product portfolio ranges from super-precision bearings only a few millimeters in size, rotating at speeds of several hundred thousand revolutions per minute for dentists' drills or machine tools to large heavyweights over four meters in diameter for tunnel boring machines or wind turbines. The Schaeffler Group's Industrial Aftermarket, which consists of distribution, the spare parts business and, most importantly, the service business, is responsible for the Industrial Division's service business worldwide.

In aerospace engineering, as well, the Schaeffler Group with its FAG and Barden product brands is considered the world's leading manufacturer of precision bearings for aircraft and helicopter engines, as well as for applications in space travel. Schaeffler is development partner and preferred supplier for nearly all modern aircraft engine concepts and supplies rolling bearings for the engines of Ariane 5, the Airbus A380 and the Boeing 787 Dreamliner, amongst others. With over 1,600 patent registrations (per German Patent and Trade Mark Office, DPMA) in 2010 alone and currently more than 16,000 patents in effect, the Schaeffler Group ranks among the innovative leaders in the industry. The main development locations are Herzogenaurach, Schweinfurt and Buehl. Numerous other development centers in Europe, Asia as well as North and South America form a global research and development network.

The Schaeffler Group companies have a strong regional presence: In addition to the traditional core markets in Europe and North and South America, the growth markets in Asia and Eastern Europe continue to gain in significance. More than 67,000 employees at over 150 locations worldwide ensure excellent customer care in close proximity.
All Schaeffler Group plants worldwide operate to the highest standards of quality and environmental protection and are certified under international standards. Moreover, with its Code of Conduct, the Schaeffler Group has committed to complying with high social and ethical standards.
The Schaeffler Group is one of the largest family-owned industrial companies in Germany and Europe. Schaeffler GmbH, the reporting entity, is a corporation domiciled in Germany with its registered office located in Herzogenaurach.

REPORT FROM THE AUTOMOTIVE DIVISION

Forward-looking technology that sets the pace. With its groundbreaking innovations for engines, transmissions and chassis and important components for reducing fuel consumption and CO_2 emissions, the Automotive division is making a valuable contribution to the advanced automobile of today and tomorrow, helping to set new standards in modern automotive engineering.

Reducing fuel consumption and, consequently, CO_2 emissions is the automotive industry's dominant issue. 125 years after automobility first began, the passenger car is reinventing itself.
For developers, this reinvention ranges from optimizing classic drive trains with internal combustion engines through hybridization right up to electric mobility. Energy efficiency is the main focus of all these vehicle concepts.

Friction minimization and energy efficiency are firmly anchored in the company's "DNA". Schaeffler has made its mark as a renowned supplier to the automotive industry worldwide with its fundamental innovations and outstanding manufacturing expertise. Components and systems of Schaeffler's various product brands are found in automobiles of almost every manufacturer, whether in Europe, Asia, North or South America.

The world's first fully variable electro-hydraulic valve control system, UniAir/MultiAir, which Schaeffler has co-developed, brought into production, and now manufactures, is an excellent example of this. Alfa Romeo and Fiat have been using the system since the end of 2009, and Chrysler in the U.S. will begin using it in the future. When combined with modern downsizing techniques, this technology can cut fuel consumption and emissions by up to 25 %.
This fully variable valve control system has played a significant role in advanced engine construction from the start and will soon be available for other applications in gasoline and diesel engines in Europe, America and Asia. A cooperation with ABB Turbo Systems also secures the distribution of UniAir technology in marine power units and large aircraft engines.

The dry double clutch is another example of an innovative system for minimizing CO_2 emissions that is enjoying rapidly growing demand. This product, developed by the Schaeffler product brand LuK, is the key component in an innovative transmission technology. It combines the advantages of manual transmissions with the convenience of automatic transmissions. The dry double clutch does not require a hydraulic system, making it a key component on the way to the "world's most efficient transmission". After its debut in the European market, the double clutch transmission will soon also play a role in the Chinese and American markets.
UniAir and the dry double clutch are only two examples of numerous innovative and future-oriented products strengthening the outstanding market position of Schaeffler Group Automotive.

Additional groundbreaking components, such as the wheel bearing with spur gear teeth (FAG) and the lightweight differential (INA) reduce weight and required space while simultaneously improving performance, thus setting new benchmarks.

In addition to the technology trends excellently covered by Schaeffler, geographic niches are also proving to be guarantees for success.

Dr. Peter Pleus | Norbert Indlekofer

For example, LuK supplies key components for the fully-variable CVT transmission widely used in Asia. Schaeffler innovations already established in the market, such as the dual mass flywheel (DMF) patented by LuK 25 years ago, represent a secure mainstay. Thanks to continuous development, for example by integrating a centrifugal pendulum absorber, another benchmark has been set. With this technology Schaeffler is making an important contribution to more convenience and reduced fuel consumption.

In its CO_2ncept-10 %, Schaeffler has shown in detail what these developments are capable of contributing. The project is a close-to-production concept vehicle based on a Porsche Cayenne S in which selected components from Schaeffler's product range for the engine, transmission and chassis have been shown to reduce fuel consumption and CO_2 emissions by 10 %.

In addition, Schaeffler has presented the Schaeffler Hybrid, a car full of ideas with elements for hybridization and electric mobility – areas for which Schaeffler offers a constantly growing variety of products, ranging from wheel hub motors to electric drive axles. The latter are a good example of the productive cooperation between Schaeffler's Industrial and Automotive divisions. In the case of electric drives, for example, the company profits from the many years of experience the Schaeffler product brand IDAM has gained in manufacturing direct drives for machine tools.

Ball screw drives are another example of the technology transfer from industrial applications to the automobile. This system uses electromechanical actuators previously introduced for aviation applications. Today, these components are core elements in electromechanical steering systems and roll stabilizers. Electrohydraulic chassis components operate with maximum precision and consume considerably less energy than conventional hydraulic systems. As a result, the market share for these systems is growing steadily.

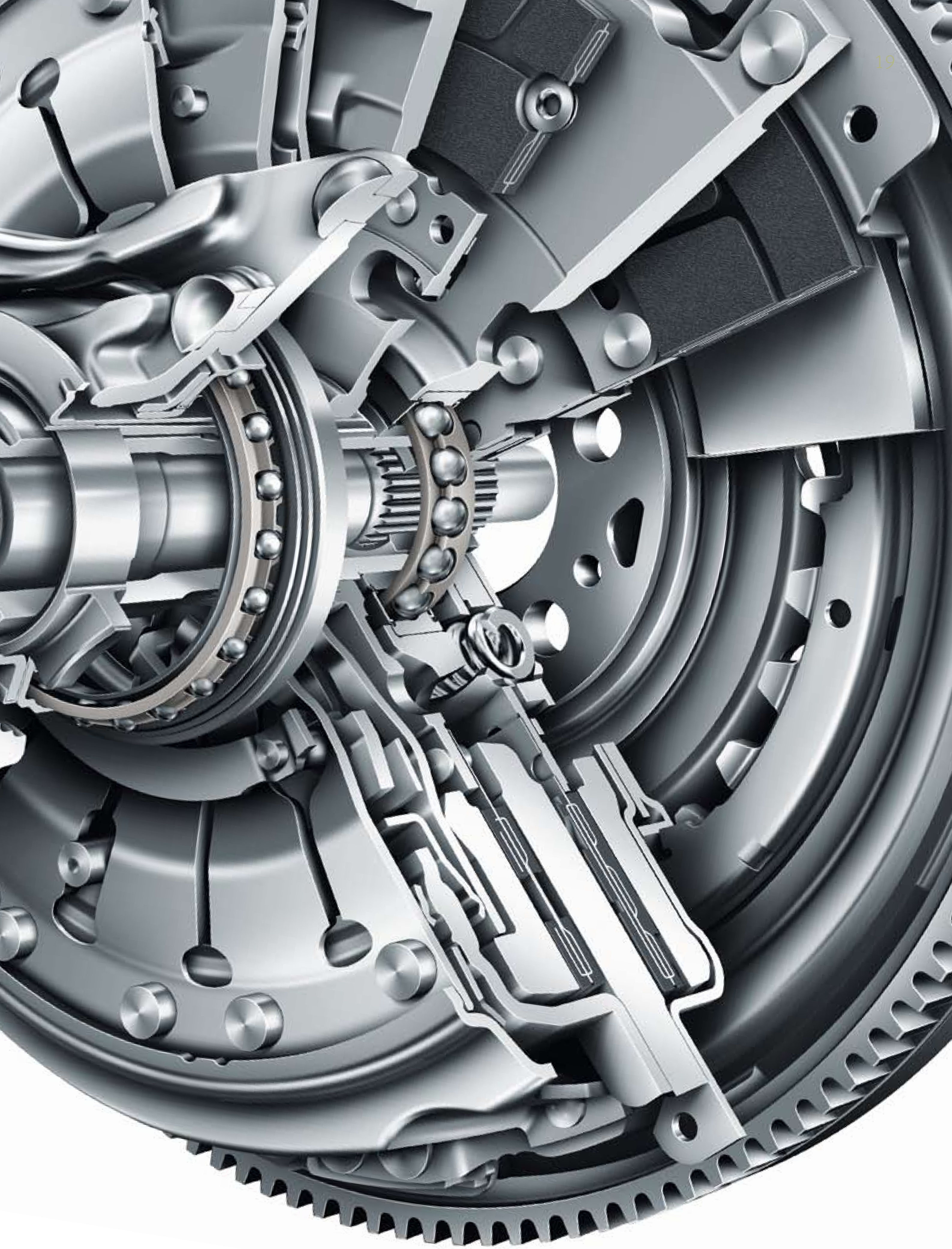
As a reliable engineering partner, Schaeffler satisfies its customers with its strong innovative ability, proximity to the customer, and direct availability worldwide. By expanding development centers in China, Japan and India, Schaeffler has immediately reacted to the needs of the local automotive industry. The expansion of production capacities in China and North America reflects the growing order volumes and our commitment to localization.

Dr. Peter Pleus

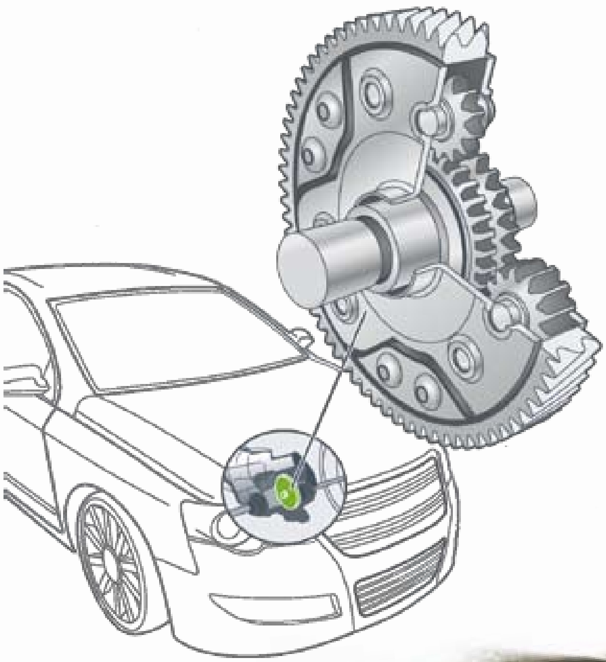
Norbert Indlekofer

EFFICIENCY AND PERFORMANCE FROM ONE SOURCE

The dry double clutch is the key module in modern double clutch transmissions. This technology combines the convenience of automatic transmissions with the efficiency of manual transmissions. In addition, LuK's innovative dry double clutch eliminates the need for an energy-consuming hydraulic system, making it a key component of the "world's most efficient transmission".

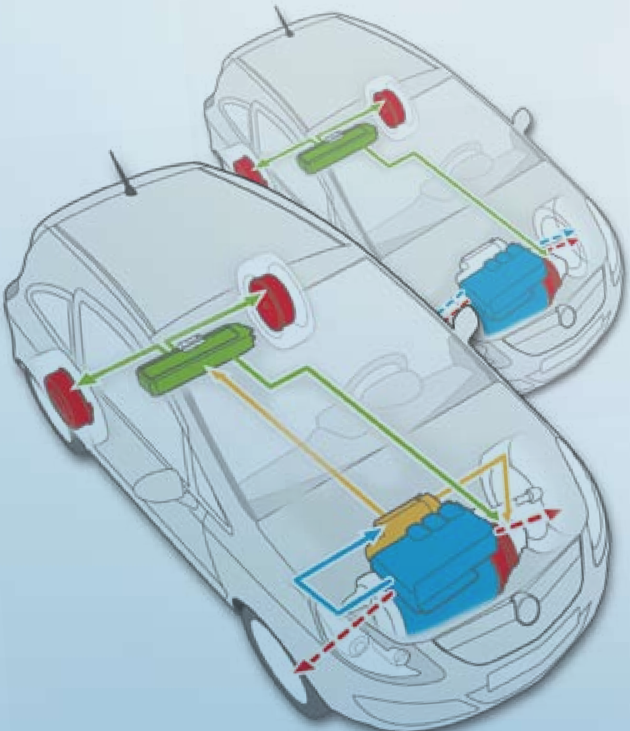


LIGHTWEIGHT DIFFERENTIALS CREATE SPACE



More compact, lighter, quieter, more efficient and with better performance – those are the characteristics of the new, innovative lightweight differential from Schaeffler's product brand INA. They are made possible by a completely new design, saving 30 percent in weight and up to 70 percent in required space compared to the classic bevel gear transmission. The lightweight differential therefore creates more room for larger double clutches or transfer boxes, or for electronic components for modern hybrid solutions.

SCHAEFFLER HYBRID – A CAR FULL OF IDEAS FOR ELECTRIC MOBILITY



Schaeffler has developed a car full of ideas called the Schaeffler Hybrid which can demonstrate various powertrain configurations and modes of operation. Various Schaeffler products – such as the electric wheel hub drive eWheelDrive – are used in the Schaeffler Hybrid. This advanced development project offers Schaeffler's customers clear comparisons and an overview of various innovations for electric mobility.


SCHAEFFLER GROUP
HYBRID
TECHNOLOGIES
FAG
IDAM
AFT
SCHAEFFLER GROUP
AUTOMOTIVE

REPORT FROM THE INDUSTRIAL DIVISION

Rolling and plain bearings are of key importance to the functionality, cost-effectiveness and reliability of a large number of industrial applications. The consistent further development of these proven machine elements and expansion of their functionality repeatedly generates considerable potential for efficiency that can be used to reduce friction, improve performance, and downsize.

In line with the overall global economic trend, the engineering and plant construction industry has also experienced an unexpectedly strong and rapid recovery from the 2009 crisis in 2010. From the very beginning, the Schaeffler Group's Industrial Division has utilized the crisis to secure and expand its long-term market share and competitiveness. For example, we continued to place strong emphasis on research and development (R&D) efforts and intensified the development dialog with our customers. The significant increase in demand for rolling and plain bearing solutions as well as linear and direct drive technology from the Schaeffler Group's Industrial Division in 2010 and our disproportionally high growth in several industries and regions show that we are on the right track. This enables us to take advantage of the major opportunities offered by currently recovering markets.

Nearly all customer segments and regions have grown in 2010 compared to the prior year. For example, our production machinery and fluid and pneumatics sectors experienced particularly favorable growth after being severely affected by the crisis in 2009. Our power transmission, construction and agricultural machinery as well as wind power sectors also benefited significantly from the upward trend. On a regional basis, the impetus for growth came from Asia, particularly from China and India, and from South America, again showing that the Schaeffler Group is actively benefiting from the positive trend in the growth markets due to its excellent position.
We not only have large manufacturing capacities there, but with our strong and extensive network of sales teams, we are also directly available to our customers for consultation and engineering services. In addition, we are strengthening our local purchasing organization and are developing specific areas of our R&D capacities in order to develop market-specific solutions locally in cooperation with our customers.

Mechatronic systems are increasingly gaining significance for the Industrial Division in terms of future developments.
Integrating electronics, information technology and classical mechanical systems in rolling bearings increases functionality and thus raises the productivity, cost-effectiveness and reliability of machines and plants. Newly-developed rolling bearings with integrated sensors and an integrated or adjacent power supply offer new solutions to numerous industrial sectors.
One example of this is our Train Support System (TSS) for railway technology. It is based on a generator sensor bearing that can be used as an independent energy source, for instance in freight cars. This new on-board unit enables information about the condition of the bearing, axle box and rail to be recorded and transmitted via satellite to a higher-level control system. In 2010, this development project received the "Intelligence for Transportation and Logistics" innovation award and was presented to the public for the first time at the InnoTrans international trade show in Berlin.

Rainer Hundsdoerfer | Robert Schullan

Electric mobility is a megatrend not only in the automotive industry. Electric bicycles are also becoming increasingly popular. Schaeffler Group Industrial has developed a range of sensor bottom brackets facilitating the convenient control of electric bicycle drives. The torque sensor bottom bracket, for example, enables the bicycle to detect the rider's requirement for motor assistance depending on the situation and to control the output accordingly. The rider thus receives optimal assistance in every situation. This not only means increased convenience, but also maximum efficiency, resulting in an extension of the range.

Renewable energies are also a strategic growth area where Schaeffler Group Industrial is positioning itself early in order to secure and expand its long-term market share and competitiveness. In addition to wind power, this sector includes particularly solar power plants as well as wave and tidal power plants. Schaeffler Group Industrial is the development partner for numerous projects, creating a basis for advancing the development and cost-effectiveness of renewable energies with application-specific expertise and innovative products. An example of this are wave energy converters that float on the water surface like a sea snake and generate energy from the wave action.
The British company Pelamis Wave Power achieved an essential breakthrough for this type of energy generation, made possible by the Schaeffler Group's innovative bearing and seal technology.

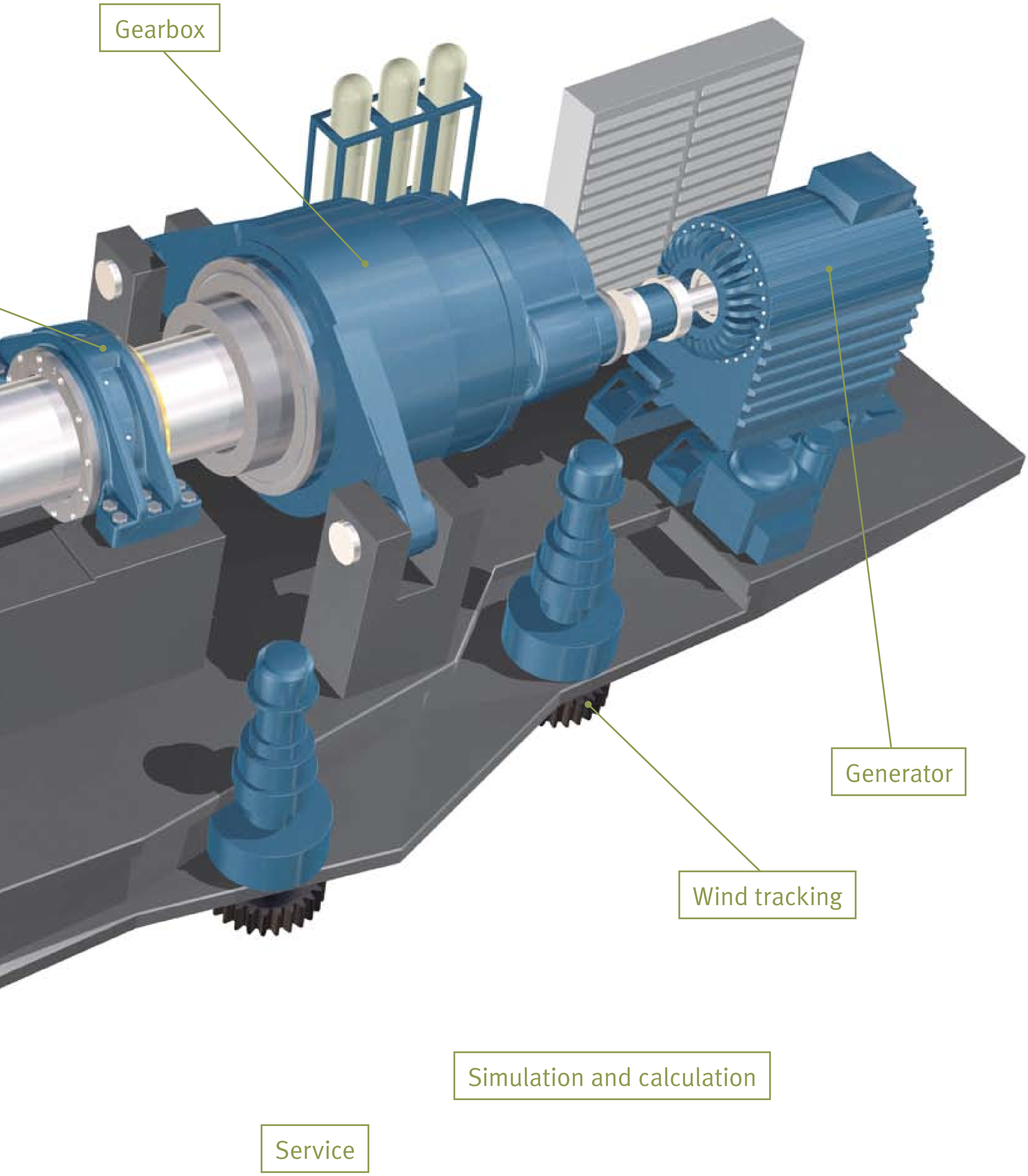
Industrial Aftermarket is a significant sector for the Industrial Division. It is responsible for the worldwide spare parts business, primarily via strong distributors. Service provides customer support.

Overall, Schaeffler Group Industrial can look back at 2010 as an extraordinarily successful year and has started the new fiscal year with similar optimism. We are now expecting a stable phase of growth after the dynamic development we experienced last year.
Our innovative strength, technological expertise and our excellent position in the market will provide our basis for participating in this growth more than proportionally once again. With our previously announced capital expenditures for expanding our manufacturing and R&D capacities in the growth markets, more new products and by systematically opening up new fields of application in the new megatrends of the future, we are confident that we can gain new customers and projects and therefore continue to grow in 2011 at the same speed as last year.

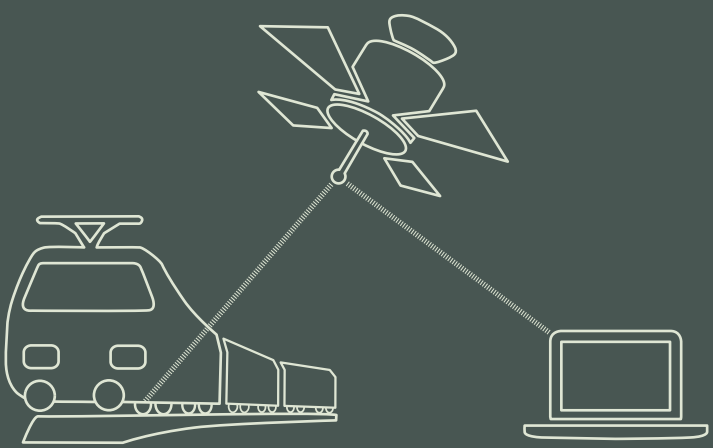
Robert Schullan   Rainer Hundsdoerfer

MARKET LEADER IN WIND POWER

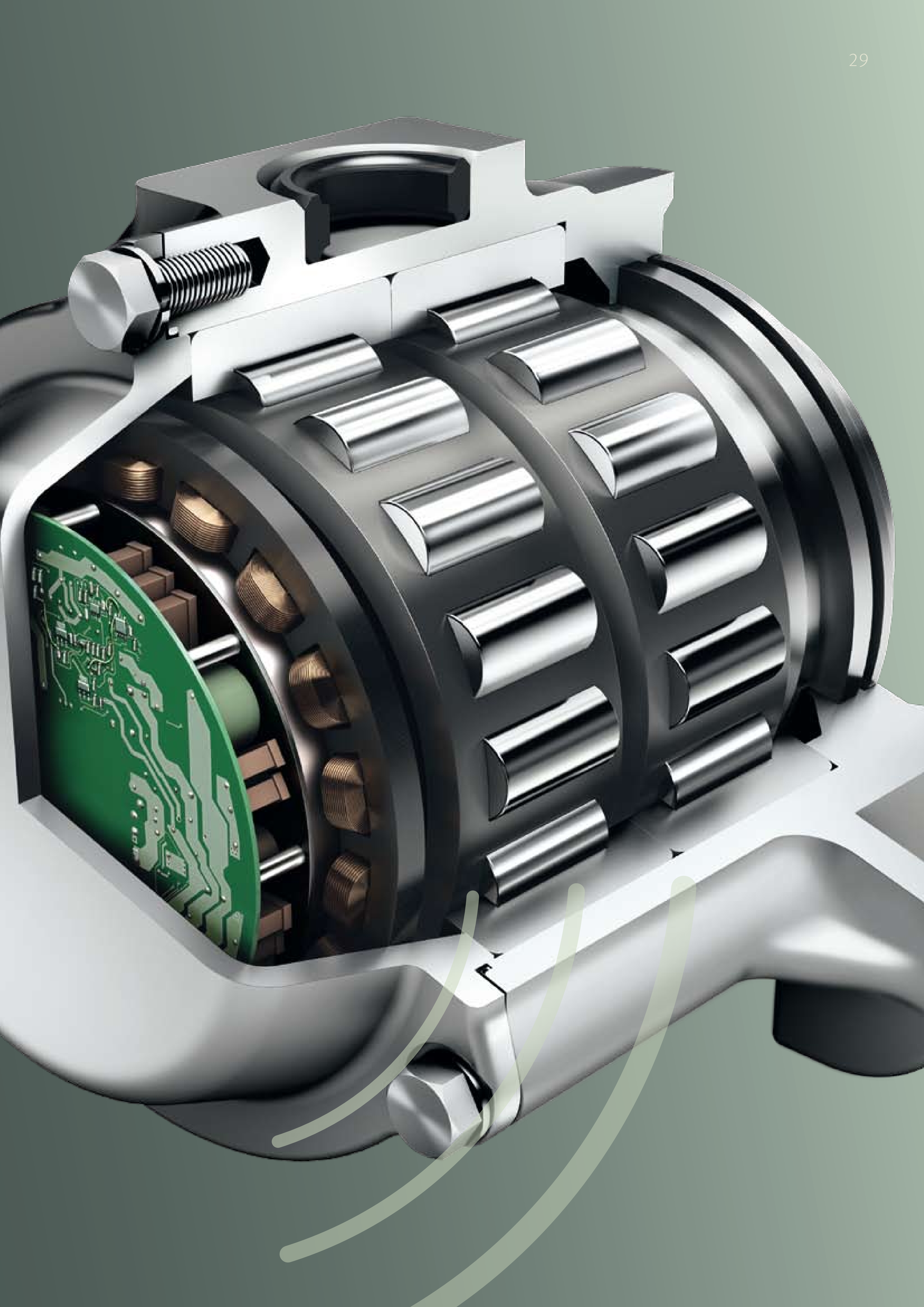
Schaeffler has been providing important impetus for more efficiency and reliability in wind power since the early days of the industry almost 30 years ago. Schaeffler's expertise in this field covers the entire drive train with its almost 30 bearing positions and ranges from simulation and project management, manufacturing and assembly right up to accompanying services. Once again, Schaeffler presented several innovations in the wind power sector during 2010.


Gearbox
Generator
Wind tracking
Simulation and calculation
Service

SENSING SAFETY AND EFFICIENCY

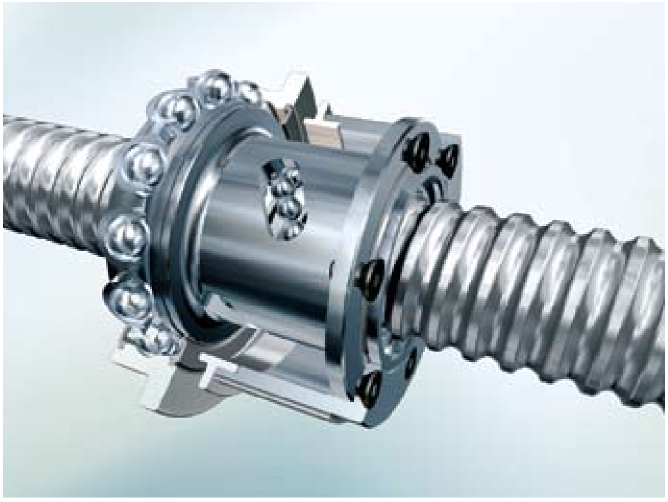


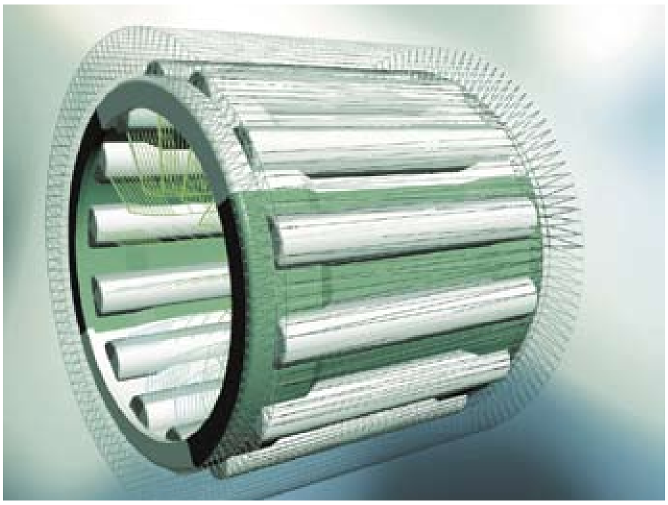
An intelligent axle box bearing turns mute freight cars into intelligently communicating, safe and highly efficient logistics components for tomorrow. Diagnosing and monitoring chassis, wheel and rail components provides safety for the operator. Thanks to an independent energy supply, the Train Support System enables freight cars to communicate with a central computer using radio frequency. The integrated GPS facilitates exact determination of vehicle location and monitoring of routes.



THE INTELLIGENT BEARING

Electric bicycles are an important driver of growth and technology for electric mobility. Schaeffler Group Industrial has developed a range of sensor bottom brackets facilitating the convenient control of electric bicycle drives. The torque sensor bottom bracket, for example, enables the bicycle to detect the rider's requirement for motor assistance depending on the situation and to control the output accordingly. This provides the rider with maximum convenience, efficiency and range.





CREATIVITY

Courage to think laterally

"Thinking outside the box" is the motto of the Schaeffler Group's many thousands of engineers and technicians. Being creative, trying out new things, sharing expertise and thinking beyond one's own nose is actively supported and required at the Schaeffler Group. As an example, 2010 saw the fourth edition of the Forum of Inspiration, a knowledge fair that serves as a platform for questions and ideas on product development processes. The results are fascinating again and again. Ball screw drives are an excellent example of this. The aviation industry was one of the first application areas for ball screw drives: These high-precision components are used in tail unit controls. Creative Schaeffler engineers adapted this technology for use in passenger car steering systems. The product, manufactured in Herzogenaurach, is used, for example, in the electromechanical steering system of the Volkswagen Tiguan. This ball screw drive with low friction and optimized noise characteristics is a further step along the way to cutting fuel consumption and reducing CO_2 emissions.

Electromechanical steering systems have a great advantage over conventional hydraulic power assisted steering systems in that the actuators only require energy when an actual steering motion occurs. Ball screw drives are becoming more important not only for advanced steering systems, but also for other automotive applications such as electromechanical braking systems or electronically controlled track adjustment for rear axle steering systems. Ball screw drives are among the numerous Schaeffler Group products with great potential for the future. Creative lateral thinking is paying off.

INNOVATION

The key to success

Innovative products from the Schaeffler Group's three products brands, INA, LuK and FAG, have formed the backbone of the company's success for several decades. Whether this involves rolling bearings with optimized friction characteristics, engine components that reduce emissions or clutch and transmission components, the Schaeffler Group is consistently relying on research and development of new products and services with ever increasing efficiency and has created an R&D management system for this purpose.

As a result, the Schaeffler Group today has a high level of expertise in developing products and systems including electronics, software and mechatronics and has been making above-average investments in manufacturing methods, state-of-the-art simulation processes, laboratories and testing facilities for several years.

"Innovation can be planned" is one of the company's principles

More than 5,000 employees at 40 locations worldwide are developing new products, technologies, processes and methods for market-driven solutions. This powerful network of central and regional expertise is the source of over 1,600 new patent registrations in 2010 (per DPMA).

This puts the Schaeffler Group with its more than 16,000 patents in effect at the top of the most inventive companies in Germany. With its consistent promotion of science and research, such as the FAG Innovation Award, the Schaeffler Symposium and the Endowed Chair at Tongji University, the Schaeffler Group is also using external impulses to achieve one goal: Innovations for our customers.

QUALITY

Constantly striving for perfection

Providing maximum quality to its customers is one of the Schaeffler Group's most important principles. With various programs such as "Fit for Quality" and "MOVE" ("Mehr ohne Verschwendung" – more without waste), as well as testing and simulation processes often developed in-house, the Schaeffler Group emphasizes its goal of achieving zero-defect quality for the entire supply chain worldwide. The numerous awards and certifications the Schaeffler Group receives for its products and services show that the company meets this objective. In 2010, for example, Schaeffler was awarded the "Quality Achievement Performance Certificate" by Toyota in Brazil, the "Zero Defect Supplier" award by Ford in the U.S. and the Quality Award in Wales.

Year after year, these awards emphasize the Schaeffler Group's leadership position in terms of engineering and quality in many sectors and segments with its products and services.

For instance, the Group is not only certified as a testing facility for railway wheel bearings by the German Federal Railway Authority, but it is also the only rolling bearing manufacturer in the world to be certified by EASA (European Aviation Safety Agency) as an aviation development company. The Schaeffler Group offers maximum quality for everything that moves.

SUSTAINABILITY

For long-term success

Sustainability is an issue that is particularly important to the Schaeffler Group, both in the development of environmentally sound and highly energy-efficient products and in its operation of production facilities. Worldwide, all materials used are subjected to exhaustive internal tests to ensure maximum protection of humans and the environment. The Schaeffler Group has implemented several programs related to this issue, including establishing and certifying a standardized worldwide environmental protection and occupational safety management system in accordance with ISO 14001 and OHSAS 18001, the validation of all locations according to the strict EMAS regulations of the European Union, for which the Schaeffler Group received the European EMAS Award in 2005, the EnEffPro initiative (for which the Schaeffler Group has applied for the German Energy Efficiency Prize) as well as the internal improvement program MOVE.

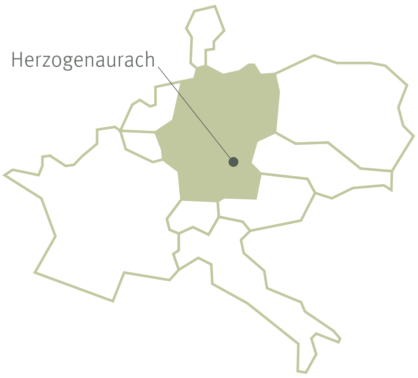
The Schaeffler Group uses these programs to consistently optimize its production methods and processes with the aim of improving its own performance as well as increasing customer satisfaction.

MOVE was implemented in all business units, plants and regions and rolled out to the organization by employees trained in-house. More than 1,000 MOVE workshops were conducted worldwide and around 800 employees were trained as MOVE coaches. MOVE academies were opened at eight locations. The success has been significant – for instance, we have been able to reduce floor space in manufacturing by more than 28,000 square meters. A convincing example of sustainable management.

REGIONAL PRESENCE

The Schaeffler Group develops and manufactures precision products for everything that moves – in machinery, plants and motor vehicles. We provide our customers with customized solutions that help them move the world – around the world.

Germany

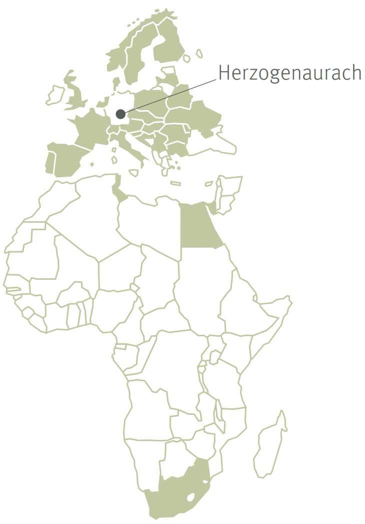


Revenue	2,565
Employees	27,938
Manufacturing locations	24
R&D locations	14

The Schaeffler Group has numerous production locations and research and development facilities. Its headquarters are located in Herzogenaurach. The Group's large manufacturing and development plants are in Herzogenaurach, Schweinfurt and Buehl. Schaeffler's employees are working on new future-oriented products and technologies at 14 locations. Whether it is bearings for high-speed trains and wind turbines or innovations for tomorrow's automobile, the Schaeffler Group is one of Germany's most innovative companies.

Europe/Africa

(excluding Germany)



Revenue	3,049
Employees	20,063
Manufacturing locations	19
R&D locations	11

Our European plants are closely linked to the Schaeffler Group's plants in Germany, both logistically and operationally. In addition to its large production sites in Western Europe – primarily in France and Spain – the Schaeffler Group has important manufacturing plants in Eastern Europe. Over the past few years, large plants were built in the Czech Republic, Hungary, Romania and Slovakia. Numerous distribution companies in nearly all European countries ensure full customer support with short response times.

Asia/Pacific

Revenue	2,028
Employees	9,258
Manufacturing locations	12
R&D locations	8

Our Asian operations are managed from our regional headquarters established in Shanghai in the People's Republic of China in 2007. With its locations in the People's Republic of China, Korea, Japan, Taiwan, the Philippines, Malaysia, Vietnam, Thailand, Singapore, Indonesia, Australia and India, the Schaeffler Group is present throughout the region. We currently have twelve production sites providing
local support for our Automotive and Industrial Divisions. In addition, regional development centers ensure that we meet the needs of our Asian customers quickly and appropriately for their specific application.

North America

Revenue	1,254
Employees	5,866
Manufacturing locations	12
R&D locations	6

Based in Fort Mill, South Carolina, USA, Schaeffler has been firmly established in North America for close to five decades. Schaeffler has numerous state-of-the-art production sites allowing it to tailor the supply of its products to the North American market. Our North American development centers are part of a global network of research and development facilities that promote dynamic technology transfer and facilitate synergy effects. The Schaeffler Group's R&D center in Troy, just outside of Detroit, Michigan, is only a short distance away from the North American automobile manufacturers.

South America

Revenue	599
Employees	4,384
Manufacturing locations	3
R&D locations	1

The Schaeffler Group has been present in South America since 1958. With its headquarters in Sorocaba, Brazil, the Schaeffler Group is represented in South America's most important automotive location. We have sales and engineering companies in Argentina, Chile, Colombia and Venezuela. As a result of its customer focus and high-quality products, the Schaeffler Group enjoys the same excellent reputation in South America it has earned in other regions. The "Quality Achievement Performance Certificate" awarded to Schaeffler in May 2010 during Toyota's South American supplier conference was clear evidence of this renown.

GROUP MANAGEMENT REPORT

Disclaimer in respect of forward-looking statements

This management report contains forward-looking statements that are based on management's current estimation at the time of the creation of this report. Such statements refer to future periods or they are designated by terms such as “to estimate“, “to forecast“, “to intend“, “to predict“, “to plan“, “to assume“, or “to expect“. Forward-looking statements bear risks. 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. BUSINESS ENVIRONMENT

The Schaeffler Group is a worldwide leading manufacturer of rolling bearings, linear products as well as one of the most important suppliers of components and systems for engines, transmissions and chassis to the automotive industry. It operates under the three product brands INA, FAG and LuK in two divisions: Automotive and Industrial.

The Schaeffler Group has a presence in over 50 countries with more than 150 subsidiaries and supplies its products to a large number of business partners in nearly all parts of the world. In 2010, we generated 27.0% of our revenue in Germany, 32.1% in Europe excluding Germany, 13.2% in North America, 6.3% in South America and 21.4% in the Asia/Pacific region.

The Schaeffler Group operates as an integrated entity across corporate and national boundaries. Cross-company functions and standardized processes facilitate consistent and fast decision making. The Schaeffler Group is represented by a closely-linked network of manufacturing and sales companies in all important markets. The business divisions assume responsibilities and observe guidelines worldwide.

The Schaeffler Group's largest customer is the automotive industry. The Group offers know-how from product development through mass production to nearly all manufacturers and major suppliers. In the Industrial Division, the Schaeffler Group has over 40,000 volume produced catalog products covering the requirements for standard products of around 60 industry sectors. In addition, it offers over 225,000 products developed as application-specific customer solutions.

The Automotive Division generated 66.8% of revenue with its sectors Automotive Aftermarket, Engine Systems, Transmission Systems and Chassis Systems. The Industrial Division generated 31.7% of revenue. It is divided into the sectors Industrial Applications and Service / Distribution.

1.1 Economic environment

The global economy returned to growth faster and stronger than expected in 2010. This marked economic recovery was significantly supported by very expansive monetary and fiscal policies in many countries, together with a stable level of demand in developing countries. The recovery was particularly rapid in the second quarter and at the start of the third quarter. Due to the expiry of fiscally-driven economic incentive programs and completion of inventory restocking, the global economic expansion lost some of its impetus towards the end of the year. The International Monetary Fund announced a global economic growth of 5% for 2010.
The extent of the economic crisis and rate of recovery varied considerably from region to region. Following a comparatively mild fall in economic activity, developing countries in Asia and Latin America

were able to regain the level of growth they had achieved before the crisis and contributed considerably to the global economy. On the other hand, the economies of most industrial countries were not quite able to recover to pre-crisis levels.

Of the large industrial nations, Germany proved to be a particularly positive surprise. Gross domestic product (GDP) rose by 3.6 % in 2010, due in almost equal parts to a recovery in domestic demand and increased exports. Germany's industry was able to react rapidly to higher demand and this can certainly be partly attributed to the fact that entities could retain their staff during the crisis despite underutilization. In contrast to other industrial countries, the state deficit increased less sharply and there was no significant deterioration in financing conditions for the private sector.

In the European Union (EU), GDP increased by 1.8 % in 2010, but developments varied considerably amongst the individual member states. Particularly the export-oriented countries with relatively stable state finances, such as Germany, The Netherlands and Finland, profited more than average from positive growth in global demand. Peripheral countries such as Greece, Ireland, Portugal and Spain were forced to take strict steps to reduce their deficits in the summer of 2010 due to heightened concerns about their solvency and sharp increases in their debt financing costs. Accordingly, the economies of these countries were severely affected, with recessions in Greece and Ireland becoming entrenched midyear and a stagnating Spanish economy from the start of the year.

Following a noticeable recovery in the USA in the first half of the year, expansion again slowed as a result of a slowdown in benefits from economic recovery programs and a decline in the export business. The continuing high level of private household debt and the ongoing crisis in the employment market and housing sector dampened the recovery. The U.S. government again presented an economic recovery program in the second half of the year, the results of which cannot currently be entirely foreseen. Overall, the U.S. economy grew by 2.8 % in 2010.

Thanks to massive fiscal incentive policies, the economic recovery in Japan continued. However, due to the sharp rise in the Yen, Japan benefited less than average from the global economic recovery.

Emerging economies, above all China, showed above-average growth. However, growth rates slowed down here also, due to a withdrawal of the public expenditure initiative and an increasingly restrictive monetary policy. Following an increase of 12 % in the first quarter, GDP growth in the third quarter fell back to a real 9 %. Overall, growth in China was 10.3 % in 2010.

1.2 Sector development

Automotive Division – development of global automobile production

Following the dramatic decline in 2009, the global automotive industry developed much better than expected in 2010. Production of passenger cars and light commercial vehicles grew by 21 % worldwide and 38 % more heavy commercial vehicles were manufactured. Automotive component suppliers profited from this strong increase. The negative scenarios for the passenger car business in Germany following expiry of the scrapping scheme proved incorrect.
Although domestic demand declined sharply, due to the extremely strong level of export orders passenger car and light commercial vehicle production rose by 12 %, higher than in Western Europe as a whole (9 %). With a total of 5.6 million passenger cars and light commercial vehicles produced, the 2008 level was exceeded and production was only 4 % short of the record set in 2007.

The automotive industry in North America again expanded strongly. After production levels almost stagnated in 2009, the production of passenger cars and light commercial vehicles rose by 36 % in 2010, so that a total of 11.7 million passenger cars and light commercial vehicles were built in North America.

In Japan, the passenger car business profited from the state economic program introduced already in 2009 to support the automotive industry. Together with the increase in overseas demand, the stable level of domestic demand resulted in a 19 % rise in production of passenger cars and light commercial vehicles to 9.5 million.
The number of passenger cars and light commercial vehicles made in China in 2010 was more than a quarter higher than in 2009 (26 %). A total of 13.9 million passenger cars and light commercial vehicles were produced in China. With a 20 % share of the global production of passenger cars and light commercial vehicles, China thus continues to lead the list of most important global locations for the automotive industry. With an increase of 31 % to 2.9 million, the production of passenger cars and light commercial vehicles also grew strongly in India. This was mainly driven by rising domestic demand.
In addition to the large Asian automotive markets, Indonesia, Thailand, Taiwan and Malaysia in South-East Asia became increasingly important as production locations. Passenger car production in these countries rose by over 36 % to 1.7 million units.

Industrial Division – Global development of engineering and plant construction

According to the German Engineering Association ("Verband deutscher Maschinen- und Anlagenbau" (VDMA)), machinery construction returned to growth in almost every country throughout the world in 2010. According to the VDMA, sales rose by a global average of 17 % in real terms after a decrease of 18 % in 2009.

In Germany, with growth of approximately 9 %, the engineering and plant construction sector grew more dynamically than expected, although the extent of the economic recovery varied from segment to segment. Those segments that were affected by the downturn at an early stage, such as textile machinery, almost recovered their pre-crisis production level. Late-cyclical segments such as machine tools did not overcome the crisis until year-end.

The engineering and plant construction sector in EU countries grew by approximately 6 % in real terms according to the VDMA. In line with the economic development in each country, the contribution made by individual EU member states was very varied.

The engineering industry in the USA has gained momentum. Companies modernized, repaired and maintained their machinery and equipment, from which above all suppliers of machine tools profited. The engineering industry expanded by a real 8 % in 2010.

Following a steep decline in 2009, the engineering industry in Japan showed an increase of approximately 35 % in real terms in 2010.

In China the engineering industry profited greatly from the state economic development program. In particular, sectors such as wind power plants, power transmission, machine tools, construction and mining machinery and textile machinery showed sales growth of over 40 % in the first eight months of the year. Overall, industry growth for 2010 amounted to some 30 %. With a few exceptions, there was a noticeable recovery in the Schaeffler Group's major industrial customer industries in 2010.

Global demand for *construction machinery* in the first half of 2010 was restrained due to the continuing decline in construction activity. However, there were also considerable regional differences here. Whereas construction activity in 2010 again declined by 3.1 % in the western industrialized nations, construction activity in the BRIC countries increased by 13.8 % in 2010.

A significant factor for this was a growth of 17.8 % in China. The related demand for construction machinery caused an equal rise in demand for rolling bearings. Hence, higher sales were recorded in the entire *construction machinery* sector in the final quarter of 2010. Order intake in the fourth quarter was substantially higher than sales.
In particular, rolling bearing orders from Asian construction machinery manufacturers increased sharply. The established construction machinery manufacturers in western industrial nations grew under-proportionately in Asia, which could not be offset by the modest growth rates in their traditional markets in Europe and North America. As a consequence, demand from these manufacturers increased only slightly in the last quarter of 2010.

The *agricultural machinery* sector presents a similar picture. Global tractor production only increased slightly in the first half of the year; however, rolling bearing orders rose again in the fourth quarter of 2010 as a result of the increase in demand for agricultural machinery, with order intake considerably higher than sales. A driver of this growth is the worldwide rise in demand for food and biomass for fuel production. Geographically, Asian and South American countries as well as industrialized nations such as Germany and the U.S. profited from this growth.

Following a slump of 31 % in 2009, the international *machine tools industry* returned to growth in 2010. Order intake made major advances and, by the end of 2010, was some 80 % higher than in 2009. Once again, the strongest growth continued to come from Asia, and China retained its first place amongst machine tools manufacturing countries. The *textile machine industry* also recovered from the decline it suffered in 2009. With growth of 60 %, the sector has returned to levels seen before the crisis. The *printing machine* sector order intake improved moderately, with Asia and South America being the drivers for growth. On the other hand, demand from western industrialized nations and Japan remained below-average in 2010.

The global *wind power* market declined slightly in 2010 compared with the previous year. This was primarily due to the collapse of the market in the USA, caused by a continuing lack of enthusiasm for financing wind power projects in that country. In contrast, the wind power market grew significantly in China, with almost half of all newly-installed megawatts worldwide being in China in 2010.

2. BUSINESS DEVELOPMENT

2.1 Important events during the fiscal year

The Schaeffler Group with its parent company INA-Holding Schaeffler GmbH & Co. KG ("IHO Group") was extensively reorganized in terms of its legal structure in 2009 and 2010. The objective of the reorganization was to establish structures suitable for the capital markets, with Schaeffler GmbH as holding company.

The reorganization of the Group included a number of company law-related transactions. A significant milestone was the hive-down of the interests in the subsidiaries comprising the operations of IHO Group from Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH to Schaeffler GmbH. In addition to the interests in subsidiaries, the transfer to Schaeffler GmbH in connection with the hive-down also included the shares in Continental AG (42.17 % of the capital stock of Continental AG) as well as part of IHO Group's liabilities (Senior Facility Agreement).

The hive-down took the form of a capital increase in kind at Schaeffler GmbH in return for new shares totaling EUR 500 m. The hive-down was entered into the commercial register of Schaeffler GmbH on June 28, 2010. Following completion of the Group reorganization the entire operating activities of IHO Group are concentrated in the Schaeffler Group.

As a corporation, Schaeffler GmbH is required by the German Co-Determination Act ["*Mitbestimmungsgesetz*"] to establish a supervisory board with employee representatives, made up of ten representatives of the shareholders and ten employee representatives.
The shareholder representatives were appointed by resolution of the shareholders in mid-August. At the same time, the court appointed the employee representatives. The initial meeting of the supervisory board took place in September 2010.

2.2 Course of business

Schaeffler Group revenue totaled EUR 9,495 m in 2010, increasing 29.4 % from the prior year. Overcoming both the downturn in demand in most of the significant automotive markets, which saw a marked recovery during the second half of 2009, and the difficult situation in the engineering and wind power industries existing throughout 2009, the Schaeffler Group surpassed pre-crisis levels and generated the largest-ever revenue in company history in 2010. Revenue of EUR 6,341 m (prior year: EUR 4,743 m) came from the Automotive Division, while the Industrial Division contributed EUR 3,012 m (prior year: EUR 2,513 m).

The strict cost management initiated in 2009 was continued in 2010. In combination with economies of scale with respect to fixed costs experienced as a result of improved utilization of plants that came with increased orders, Schaeffler was able to increase gross profit by 67.5 %, proportionately more than revenue, bringing gross profit to EUR 2,989 m (prior year: EUR 1,784 m). EUR 1,842 m (prior year: EUR 1,058 m) of this amount was generated by the Automotive Division and EUR 1,147 m (prior year: EUR 726 m) by the Industrial Division.

Research and development expenses grew by 21.6 % to EUR 467 m compared to the prior year. The Schaeffler Group has accelerated its research and development activities in 2010 in order to further expand its technological expertise, particularly in energy efficiency and environmental technology.

Selling expenses as a percentage of revenue fell to 6.8 % (prior year: 7.2 %) of revenue.

The decrease in general administrative expenses of 9.6 % results primarily from the materials cost saving measures started in 2009 and the continuing strong cost discipline.

All in all, the Schaeffler Group was able to generate positive earnings before financial result and income taxes (EBIT) of EUR 1,509 m (prior year: EUR 446 m), profiting more than proportionally from the recovery from the most severe economic downturn of the post-war era. EUR 1,005 m (prior year: EUR 283 m) of EBIT was generated by the Automotive Division and EUR 504 m (prior year: EUR 163 m) by the Industrial Division.

In combination, the loans obtained to finance the acquisition of the shares in Continental AG and the Schaeffler Group's share of net income (loss) of associated companies led to a financial result of EUR -1,159 m (prior year: EUR 1,520 m).
Net income after non-controlling interests was EUR 63 m following a net loss of EUR 1,204 m in the prior year.

2.3 Production

Production volumes for 2010 were budgeted to be some 21 % higher than for 2009. Due to the economic recovery commencing in 2010 with rapidly-growing customer demand, Schaeffler was able to improve on these ambitious goals by some 20 % compared to the production volumes budgeted for 2010. Production volumes for 2010 were thus some 45 % higher than in 2009. The most substantial increases were in Europe (excluding Germany) at 51 % and Asia/Pacific at 61 %. On the other hand, the increases in production were smaller in North America at approximately 34 % and in South America at some 29 %.

In the Automotive Division, production volumes for 2010 were approximately 44 % higher than in the prior year. The increase in the Industrial Division was 47 %, although this compares with an extremely low production level in 2009.

Due to low capacity utilization, we had to accept higher production costs per unit for our products in 2009 but, as for production volumes, we were able to also considerably exceed our budgeted production cost reductions in 2010.

2.4 Research and development

High innovative ability and global customer proximity

The Schaeffler Group continues to stand for high innovative ability and substantial internationalism. Development and production is carried out for local markets with a close-knit network of development centers driving forward-looking innovation. At the end of 2010 over 5,000 employees at 40 development locations worldwide were employed in developing new products, processes and methods. The results are impressive: With more than 1,600 patent registrations in 2010 (per DPMA) and rising, the Schaeffler Group has been one of Germany's leaders of innovation for years.

One reason for this success is a systematic R&D management system, another being the creativity and innovative ability of our employees, for whom thinking outside the box is the norm. The formulation of ever new solutions is as valid today as during the early years of the company, when the founder, Georg Schaeffler, developed the cage-guided needle roller bearing. The collaboration with Continental provides new incentives and will expand the existing product portfolio of the Schaeffler Group and add to the range in the areas of mechatronics and electronics. Cooperation with renowned institutes and universities in Germany and abroad unlock additional expertise in new fields of knowledge. For example, in the past year we expanded our cooperation with the Chinese Henan University of Science and Technology (HUST).

The focus of the expansion of our global R&D activities is on Asia. As part of the expansion of our Asian business an investment program of some EUR 300 m was initiated in 2010 for the largest growth region. In addition to new production locations in China and India we extended our research and development capacities in Japan and India. Our strong R&D presence in Asia, with our existing large development locations in China and Korea, was thus expanded further.

Automotive Division

The automotive world of tomorrow will be more demanding, with a growing need for mobility and increased environmental considerations, and requirements for vehicles and components will become more complex. In this conflicting situation the Schaeffler Group has established itself as a problem solver, working with the automotive industry as a development partner and offering modules and systems. Schaeffler supplies almost all the major automobile manufacturers and suppliers with components for engines, transmissions and chassis.

Following the launch of UniAir, the fully variable valve control system, we are preparing to expand our production capacities in North America. At the “Gelber Engel” event the ADAC (Allgemeiner Deutscher Automobil-Club e.V.) demanded an expansion of the range of vehicles for sale that are equipped with UniAir. In the presence of Horst Köhler, Germany’s former Federal President, the valve control system was awarded a “Gelber Engel” award for “innovation and environment”. The award of the Eco Globe in the presence of Norbert Roettgen, German Federal Environmental Minister, marked another recognition. UniAir with downsizing enables consumption to be reduced by up to 25 % and enhances driving pleasure by improving performance, torque and responsiveness.

Schaeffler innovations were again finalists for the PACE awards in 2010. The jury’s attention was drawn to the lightweight balancer shaft with rolling bearing supports, which improves running smoothness of combustion engines and lowers fuel consumption. It celebrated its launch in 2009 and can now be found in other engines such as the “engine of the year 2010”, the two-cylinder engine by Fiat.

A further contribution to lowering CO_2 emissions comes from two LuK products: A torque converter with a centrifugal pendulum-type absorber and the dry double-clutch. Success was achieved by the latter due to advantages in effectiveness.
This product was launched in North America in 2010. The automatic torque converter with centrifugal pendulum-type absorber improves comfort and also offers potential for environmental protection.

The newest dual-mass flywheel (DMF) from LuK also has a centrifugal pendulum-type absorber. Its predecessor was able to reduce engine vibration and hence increase comfort for the first time 25 years ago. There is still no end in sight for this success today and the opportunities for further development are manifold. Attention is concentrated on another effect: The DMF encourages driving in areas of the operating range that are beneficial for consumption, leading to a reduction in CO_2 emissions.

More compact, lighter, quieter, more efficient and with better performance – that is Schaeffler’s lightweight differential. It is made possible by the design of the component, which is different from traditional differentials: Instead of using conventional differential pinions, the lightweight differential has spur gears arranged as a planetary gear set in one plane. The advantages: Up to 30 % less weight than conventional differentials and additional axial space of up to 70 %.

A special highlight in 2010 is the “Schaeffler Hybrid”, an advance development project. It is a “car full of ideas”, providing a comparison of the various options available for electric mobility by having various constellations of drives. For instance, the “Schaeffler Hybrid” has a combustion engine as well as a central electric motor and two wheel hub motors. The possibilities range from classic operation using a combustion engine through parallel or serial hybrid, to pure electric driving. The combustion engine can also be coupled for use as a range extender. The central motor designed and produced by IDAM, the Schaeffler subsidiary, is connected to the automated manual transmission by means of a toothed chain and drives the front wheels. The “eWheel Drive” wheel hub motors, also developed by the Schaeffler Group, form a compact unit, integrating wheel bearing, drive and brake.

Industrial Division

The engineering sector recovered rapidly from the 2009 crisis. Increased demand and more than proportional growth in many business sectors and geographic areas show that the Industrial Division has utilized the crisis to use innovation as a basis for taking advantage of growing markets.

Customer dialog continued in 2010 and over 150 customers attended the Innovation Days in Schweinfurt, learning about new product innovations and development initiatives. Innovations and trends were also introduced to journalists at press workshops and conferences. The focus was on solutions for renewable energy and for the future of mobility in rail travel and the cycle industry. Schaeffler is increasingly developing integrated mechatronic solutions for all areas of application that, with many additional functions, further increase productivity, efficiency and reliability.

Schaeffler is positioned in the renewable energy growth sector in order to secure and extend its market share and competitiveness. Apart from wind power, this also includes in particular solar power stations, wave and tidal power stations. In many projects Schaeffler uses its expertise and innovation to drive the development of renewable energy, including the following in 2010: New bearing solutions, satellite-supported condition monitoring of our bearings, a systems simulation to calculate dynamic operating efficiency of wind power plants, expanded performance limits in bearing and seal technology for wave power converters and bearings for tracking systems for solar power plants.

In the railway technology sector, Schaeffler has developed a Train Support System (TSS), based on an axlebox bearing with an integrated generator sensor bearing serving as an energy source. The new on-board unit enables information on the condition of bearings and wheelset to be passed to a control system. The center for transportation & logistics Neuer Adler e.V. (CNA) has awarded the TSS the innovation price for “intelligence for travel and logistics”.

Bicycles with an electric motor to assist the rider, known as e-bikes or pedelecs, are increasing in popularity. Controlling and regulating them requires data which can best be recorded directly in the bottom bracket: Speed, torque, direction and angle of rotation. Schaeffler has developed a portfolio of bottom brackets for various applications, integrating bearing, sensor and electronics.

Further highlights in 2010 include a bearing unit for improved securing and easier adjustment of ceiling stands in operating rooms, an electronic evaluation system, a measurement system which measures the wear of the sliding layer in plain bearings, and Insutect, the new insulating coating.

2.5 Procurement

Procurement markets were characterized in 2010 by an unexpectedly fast recovery from the economic crisis. This led to an extreme increase in demand everywhere, which in many individual cases led to supply bottlenecks and price increases.

Overall, Schaeffler procurement was able to avoid negative effects from both prices and supply for the most part by bundling requirements and taking advantage of the global competitive environment, particularly in Asia and Eastern Europe. For this purpose, new procurement sources were tapped in Asia in order to intensify localization.

Due to substantial efforts and the high level of flexibility of our suppliers and our production, the supply situation of our factories had hardly any negative effect on our customers in 2010, despite partial bottlenecks for some orders.

This was particularly the case for the steel products that are of importance to Schaeffler which, after a relaxation in 2009, were once again the center of attention in 2010.

Many steel producers had not re-established their plant capacities after the crisis year of 2009, when the considerable increase in demand led to initial bottlenecks.

With rising prices for coking coal and iron ore, it was mainly flat steel products that came under price pressure. Many producers have changed their contract policy in this connection and only permit fixed prices for a quarterly or semi-annual period.
For rolled steel products, the base prices could be maintained during most of 2010 but, due to high demand in the second half of the year, scrap and alloy prices increased substantially. Raw materials price increases had little effect on component purchases, with only those components dependent on scrap steel such as cast iron increasing in price during the year. In 2010 the localization of component purchases in growth regions was further developed, particularly aluminum pressure die cast parts and rolling bearing components were purchased in Asia to a greater extent.

In 2010 we were again able to improve the quality of purchased parts by means of intensive and sustained activities. As a result, the number of complaints again declined considerably, by some 23 % compared with 2009. At the same time action was taken to recharge suppliers for insufficient quality causing us to incur costs.
The Supplier Performance Meetings we initiated were continued and were successfully held by regional purchase organizations for the first time. Analyses were carried out with selected suppliers covering the entire performance spectrum of business relationships and the resulting recommendations for improvement were noted for all process participants involved.

In the general purchasing area, the trend towards higher prices was more than offset by a positive volume effect. Electricity and gas were the only areas where an increase in costs could not be avoided. In the second half of the year there were also bottlenecks in air and sea freight, which also led to cost increases.

The risk of probable and actual supplier insolvencies was slightly reduced in 2010 compared with the previous year. Our risk identification and risk management systems have continued to be successful and the few cases arising could all be settled without loss to Schaeffler.

As part of a working capital project, purchasing has been able to optimize cash flow by applying few standardized payment conditions with extended payment terms worldwide, systematically avoiding early payments to suppliers, and redefining payment terms.

Purchasing has also worked on increasing its performance in 2010, and has in particular achieved improvements through further development and strengthening of regional purchasing functions in China, India and Eastern Europe. This is important, particularly in view of the shift in volumes of purchased goods and services away from Germany and Western Europe towards Eastern Europe and Asia.

The intensive collaboration with the purchasing function of Continental AG that commenced with the formation of a purchasing co-operation at the beginning of 2009 continued undiminished in 2010.
The objective of obtaining synergies by bundling and comparing joint purchase volumes for production materials as well as in general purchasing was met again in 2010. The newly-introduced sourcing boards between Schaeffler and Continental AG, which coordinate important decisions on awarding supplier contracts, have been successful. The supplier base for both companies was focused further, above all by designating as premium suppliers the important strategic suppliers for both companies that are distinguished by their high quality standards, global presence and innovative ability.

Special attention will again be paid in 2011 to the further development of purchasing structures in the growth regions of China and India. Well functioning purchasing organizations in these countries are a fundamental condition for supporting growth through local sourcing and thus establishing a solid supplier base for global sourcing. In addition, Schaeffler intends to continue the intensive cooperation with Continental AG, including jointly implementing uniform software for catalog orders in purchasing. A joint Premium Supplier Day was held in Herzogenaurach on March 14, 2011.

2.6 Employees

The Schaeffler Group employed an average of 65,041 employees (prior year: 62,355) in 2010. The number of employees at December 31, 2010 was 67,509, 9.7 % above the prior year level of 61,536.

Number of employees [1]	12/31/2010	12/31/2009	Change in %
Germany	27,938	26,661	4.8
Europe excluding Germany	20,063	17,534	14.4
Asia/Pacific	9,258	8,038	15.2
North America	5,866	5,118	14.6
South America	4,384	4,185	4.8
Schaeffler Group	**67,509**	**61,536**	**9.7**

Number of employees [1]	12/31/2010	12/31/2009	Change in %
Production	53,050	47,639	11.4
Research and development	5,032	4,779	5.3
Selling	5,498	5,177	6.2
General administration	3,929	3,941	-0.3
Schaeffler Group	**67,509**	**61,536**	**9.7**

1) Figures as of December 31.

The headcount rose by 5,973 across all regions and functional areas in 2010, including 5,411 in production and production-related areas, representing an increase of 11.4 %. The research and development headcount increased by 253 (+5.3 %) to 5,032 (prior year: 4,779), and selling by 321 (+6.2 %) to 5,498 employees (prior year: 5,177). The number of employees in general administration fell by 12 (-0.3 %) to 3,929 (prior year: 3,941). The Eastern European and German companies experienced the largest increase in staffing levels in absolute numbers.

Employee qualification and continuing education
The objective of the Schaeffler Group's HR development and continuing education activities is to support and qualify employees to meet complex challenges. 2,137 continuing education events took place in Germany during 2010, 681 more than last year. The number of participants in continuing education courses increased by 6,919 to 22,189 compared to the prior year, returning to its pre-crisis level.

Labor turnover
The labor turnover rate within the Schaeffler Group worldwide was very low in 2010. The labor turnover rate was 1.9 % in 2009, rising slightly by 0.2 percentage points to 2.1 % for 2010.

Absenteeism due to illness
Worldwide absenteeism due to illness experienced by the Schaeffler Group varies strongly across regions and has increased slightly this year compared to the prior year by 0.1 of a percentage point to 3.3 %.

3. EARNINGS

3.1 Schaeffler Group

In € millions	2010	2009	Change in %
Revenue	9,495	7,336	29.4
Cost of sales	-6,506	-5,552	17.2
Gross profit	2,989	1,784	67.5
Functional expenses 1)	-1,478	-1,315	12.4
EBIT	1,509	446	> 100
- in % of revenue	15.9	6.1	0.0
Financial result	-1,159	-1,520	-23.8
Income taxes	-277	-125	> 100
Net income (loss) 2)	63	-1,204	< -100

1) Selling, administration and research and development.

2) Attributable to shareholders of the parent company.

The earnings of the Schaeffler Group and its Automotive and Industrial Divisions have shown sustainable improvement in 2010.

In 2010, revenue grew to EUR 9,495 m (prior year: EUR 7,336 m), an increase of 29.4 % compared to the prior year. This represents the largest revenue figure in company history. The improvement is mainly due to the strong demand for the Schaeffler Group's innovative products and the worldwide recovery of the automotive market, resulting in an increase in volumes. The improved market environment in the industrial business has led to significantly higher revenues particularly in certain industrial sectors such as wind power, distribution, power transmission and production machinery, as well as in the Asian market in general.

Cost of sales for 2010 increased by 17.2 % to EUR 6,506 m (prior year: EUR 5,552 m). This increase in cost of sales was less than proportionate to the growth in revenue, a relationship reflected in the increase in gross margin for 2010 by 7.2 percentage points to 31.5 % (prior year: 24.3 %) and a gross profit of EUR 2,989 m (prior year: EUR 1,784 m).

This significant improvement in the revenue and cost structure is due in particular to the substantial increase in sales volumes and the resulting economies of scale as well as the staff and materials cost saving measures started in 2009.

In light of the positive course of business and high order volumes the Schaeffler Group has significantly expanded its research and development activities in 2010. The focus of numerous new development projects was on energy efficiency and environmental technology. Research and development expenses grew by 21.6 % to EUR 467 m compared to the prior year.

Research and development expenses in the Automotive Division for 2010 amounted to EUR 339 m, increasing 20.2 % (prior year: EUR 282 m) compared to the prior year. In the Industrial Division, research and development expenses for 2010 rose by 25.5 % to EUR 128 m (prior year: EUR 102 m).

With the expansion of the volume of business in 2010 came a 22.6 % increase in selling expenses to EUR 645 m (prior year: EUR 526 m), primarily due to higher sales-related freight and logistics expenses.

In contrast, general administrative expenses fell slightly by 9.6 % to EUR 366 m (prior year: EUR 405 m) in 2010, predominantly due to the materials cost saving measures started in 2009 and the continuing strong cost discipline.

EBIT grew by EUR 1,063 m to EUR 1,509 m (prior year: EUR 446 m) in 2010 compared to the prior year. As a result, the EBIT margin increased to 15.9 % (prior year: 6.1 %), significantly exceeding the level before the beginning of the economic and automotive crisis.

The Schaeffler Group's financial result for 2010 of EUR -1,159 m (prior year: EUR -1,520 m) is driven by its share of the net income (loss) of associated companies of EUR -349 m (prior year: EUR -591 m) and net interest expense of EUR 810 m (prior year: EUR 929 m).

Of the share of net income (loss) of associated companies, EUR -348 m relate to the 42.17 % investment in Continental AG, which is accounted for in the Schaeffler Group's consolidated financial statements using the equity method.

Share of net income (loss) of associated companies includes a non-recurring dilution loss of EUR 396 m on the capital increase of Continental AG in January 2010, which the Schaeffler Group did not participate in.

Net interest expense comprises interest income of EUR 51 m (prior year: EUR 39 m) and interest expense of EUR 861 m (prior year: EUR 968 m).

Interest expense on financial debt of EUR 386 m (prior year: EUR 602 m) includes mainly interest payments for the Senior Facility Agreement of EUR 282 m and expenses of EUR 30 m relating to transaction costs amortized over the life of the financial debt.
Interest expense on interest rate derivatives includes approximately EUR 30 m related to non-cash unrealized fair value losses on interest rate derivatives and EUR 252 m in compensation payments on interest rate derivatives which are due to the continued low interest rate levels. Since the refinancing arrangement was entered into in the fall of 2009, the interest rate hedging instruments no longer qualify for hedge accounting under IFRS, and the related fair value changes are, therefore, recognized in the income statement.
The reserve of EUR -286 m accumulated up to November 20, 2009 for cash flow hedge accounting is being amortized to profit or loss using the effective interest method. In 2010, this resulted in non-cash interest expense on interest rate derivatives of EUR 91 m (prior year: EUR 10 m).

Net income after non-controlling interests was EUR 63 m following a net loss of EUR 1,204 m in the prior year.

3.2 Schaeffler Group Automotive

In € millions	2010	2009	Change in %
Revenue	6,341	4,743	33.7
Cost of sales	4,499	3,685	22.1
Gross profit	1,842	1,058	74.1
EBIT	1,005	283	› 100

The economic recovery following the marked slump in demand in 2009 as a result of the financial and economic crisis allowed the Automotive Division to increase its revenue by 33.7 % to EUR 6,341 m (prior year: EUR 4,743 m) in 2010.

In addition to the general recovery of the market which was reflected in a worldwide increase in vehicle production and increased inventories at all value-adding stages of the global supply chain, the Automotive Division profited particularly from double-digit growth rates in Asia and the unexpectedly rapid recovery of the North American economy. Further positive momentum came from various new projects, production start-ups and above-average growth rates for equipping small gasoline engines for passenger cars with variable valve control systems.

Cost of sales rose by 22.1 % to EUR 4,499 m (prior year: EUR 3,685 m) in 2010. As this increase in cost of sales was less than proportionate to the growth in revenue, gross margin improved by 6.7 percentage points to 29.0 % (prior year: 22.3 %) in 2010. Thus, gross profit increased by EUR 784 m to EUR 1,842 m (prior year: EUR 1,058 m).

This trend is the result of better coverage of fixed costs due to increased production volumes combined with productivity gains and increased plant utilization.

Total Automotive Division EBIT grew by EUR 722 m to EUR 1,005 m (prior year: EUR 283 m) in 2010 compared to the prior year.
As a result, the EBIT margin increased to 15.8 % (prior year: 6.0 %).

Due to the widespread economic recovery within the automotive industry, all Automotive Division sectors contributed to the significant increase in revenue and earnings from the prior year.
High order volumes, evidenced by an increase in average monthly incoming orders of more than 40 % compared to 2009, led to all plants again operating at very high utilization levels since the second quarter of 2010.

3.3 Schaeffler Group Industrial

In € millions	2010	2009	Change in %
Revenue	3,012	2,513	19.9
Cost of sales	1,865	1,787	4.4
Gross profit	1,147	726	58.0
EBIT	504	163	› 100

Following a restrained start in the first quarter of 2010, the recovery process in the Industrial segment following the global economic crisis has continued at a rapid pace during subsequent quarters. Revenue grew by 19.9 % to EUR 3,012 m (prior year: EUR 2,513 m) compared to the prior year. This growth in revenue is the result of the continuing dynamic global economic recovery with its increasingly stabilizing effect on the industrial sector.

The OEM sector profited most strongly from the rapidly growing demand for machinery and equipment, while revenue growth for Industrial Aftermarket was restricted for a longer period by dealers' high inventory levels. The Aerospace sector has been protected to a large extent from the extreme fluctuations in the economy during the last three years; this sector still saw revenue growing slightly even in the crisis year of 2009, but was only able to generate below-average growth this year.

In the Industrial Division, cost of sales for 2010 increased by 4.4 % to EUR 1,865 m compared to EUR 1,787 m in the prior year.

Significantly improved utilization of the plants during the reporting period (in contrast to the prior year, which was still marked by the economic crisis), reaching full capacity in many areas, related increases in productivity, a moderate increase in materials costs and the implementation of cost saving measures have led to an improved cost structure. As a result, gross profit margin improved by 9.2 percentage points in 2010 to 38.1 % (prior year: 28.9 %) compared to the prior year. Thus, gross profit increased by EUR 421 m to EUR 1,147 m (prior year: EUR 726 m).

Total Industrial Division EBIT grew by EUR 341 m to EUR 504 m (prior year: EUR 163 m) in 2010 compared to the prior year. As a result, the EBIT margin increased to 16.7 % (prior year: 6.5 %) in 2010.

4. FINANCIAL POSITION

4.1 Cash Flow

In € millions	2010	2009
Cash flows from operating activities	890	597
Cash flows used in investing activities [1]	-324	-1,997
Cash flows before financing activities (free cash flow)	**566**	**-1,400**
Financial debt	6,477	6,481
Cash and cash equivalents	733	350
Net financial debt	**5,744**	**6,131**

1) Including currency translation effects.

In 2010, cash flows from operating activities rose by EUR 293 m from the prior year to EUR 890 m (prior year: EUR 597 m). This inflow results primarily from improved earnings in 2010 as reflected in EBIT of EUR 1,509 m (prior year: EUR 446 m).

In 2010, cash totaling EUR 324 m was used in investing activities (prior year: EUR 1,997 m). Cash paid for property, plant and equipment and intangible assets totals EUR 361 m, compared to EUR 321 m in the prior year.

On this basis, free cash flow amounts to EUR 566 m (prior year: EUR -1,400 m). When comparing to the prior year, it should be noted that the improvement in free cash flow is due in particular to cash paid in 2009 to acquire shares in Continental AG. There were no comparable cash outflows in 2010. Cash used in investing activities before M&A activities was EUR 211 m in 2009.
At December 31, 2010, net financial debt has fallen by EUR 387 m to EUR 5,744 m (prior year: EUR 6,131 m), primarily as a result of the increase in cash and cash equivalents as at the reporting date.

Financial debt as at December 31, 2010 includes liabilities related to the Senior Facility Agreement of EUR 6,271 m (prior year: EUR 6,241 m). The increase of EUR 30 m is attributable to transaction costs which are amortized over the life of the refinancing arrangement.

The debt to EBIDTA ratio, defined as the ratio of net financial debt to earnings before interest, taxes, depreciation, amortization and impairment losses (EBITDA) has improved to 2.7 at December 31, 2010 (prior year: 5.6). In addition to the decrease in net financial debt, this marked reduction is primarily due to the improved earnings in 2010 as reflected in EBITDA of EUR 2,097 m (prior year: EUR 1,103 m).

4.2 Capital Structure

In € millions	12/31/2010	12/31/2009	Change in %
Shareholders' equity	**3,341**	**2,852**	**17.1**
Provisions for pensions and similar obligations	1,111	1,120	-0.8
Provisions	127	135	-5.9
Financial debt	6,413	6,420	-0.1
Income tax payables	102	24	› 100
Other liabilities	423	473	-10.6
Deferred tax liabilities	116	75	54.7
Total non-current liabilities	**8,292**	**8,247**	**0.5**
Provisions	317	306	3.6
Financial debt	64	61	4.9
Trade payables	729	425	71.5
Income tax payables	115	102	12.7
Other liabilities	486	615	-21.0
Total current liabilities	**1,711**	**1,509**	**13.4**
Total shareholders' equity and liabilities	**13,344**	**12,608**	**5.8**

The increase in the Schaeffler Group's shareholders' equity (including non-controlling interests) by 17.1 % to EUR 3,341 m in 2010 is due both to net income for 2010 of EUR 73 m earned this year (prior year: net loss of EUR 1,199 m) and to other changes in equity with no effect on net income (loss). These resulted primarily from the translation of net assets of foreign group companies (EUR 369 m), pension obligations and similar obligations (EUR -42 m), and cash flow hedges (EUR 86 m). As a result, the equity ratio increased to 25.0 % as at December 31, 2010 (prior year: 22.6 %).

Non-current liabilities rose by EUR 45 m, mainly as a result of an increase in income tax payables of EUR 78 m and in deferred tax liabilities of EUR 41 m. These increases were partially offset by decreases in non-current financial debt by EUR 7 m, other liabilities by EUR 50 m, mainly due to fair value changes on the interest rate hedging instruments included in this balance, and provisions by EUR 8 m.

The increase in current liabilities of EUR 202 m is primarily due to higher trade payables and increased provisions. Trade payables rose by EUR 304 m in line with the positive course of business. The increase in provisions by EUR 11 m mainly relates to provisions for other taxes. In addition, financial debt rose by EUR 3 m and income tax payables by EUR 13 m. These increases were partially offset by a reduction in other liabilities of EUR 129 m, mainly as a result of the repayment of a liability existing until 2010 which was related to the refinancing arrangement (arrangement fee), fair value changes on derivative financial instruments and a reduction in the financial allocation account.

4.3 Capital expenditures

The Schaeffler Group has increased its capital expenditures by 18.8 % to EUR 386 m in 2010 (prior year: EUR 325 m) compared to the prior year.
The Automotive Division received a disproportionally large share of capital expenditures due to the extraordinarily positive market growth in almost all business areas, particularly for new products and partial expansions of capacity in the Engine Systems and Transmissions sectors. The economic recovery led to a strong increase in customer demand in North and South America and particularly in the Asia/Pacific region. As a result, the geographic focus of capital expenditures was on the plants in Taicang and Suzhou in China and Changwon, Jeonju and Ansan in Korea.

However, capital expenditures in the Industrial Division have decreased in 2010, mainly as a result of the capacity expansions completed in 2009 at the plants in Brasov in Romania, Wuppertal in Germany, Taicang in China and Joplin in the United States.

4.4 Financial management

Liquidity risks, interest rate risks, currency risks, and counterparty risks (financial counterparties) are managed centrally for the Schaeffler Group by Corporate Treasury. Corporate Treasury acts as a cost center with the objective of providing optimal liquidity to the Group, monitoring financial risks and securing a financing and capital structure appropriate to the business model. Internally, Corporate Treasury is the in-house bank; externally, it functions as the central interface with banks and the capital market. As a center of excellence for all Treasury-related issues within the Schaeffler Group, Corporate Treasury also supervises the consistent implementation of group-wide Treasury rules and standards and promotes the standardization of Treasury processes and systems.

4.5 Refinancing the acquisition facility for the acquisition of shares in Continental AG

The existing financial debt was last refinanced on November 20, 2009 and, for the Schaeffler Group, comprises primarily the Senior Facility Agreement (SFA), which consists of a term loan of EUR 6.35 bn and an additional line of credit (revolver) of EUR 0.79 bn. The Schaeffler Group has to comply with certain financial covenants defined in the agreements. In 2010, the Schaeffler Group has fully complied with all of these financial covenants. Based on the current forecast, compliance with the financial covenants is also expected for 2010, 2011 and 2013.

The most important of financial covenants are:
- Ratio of net debt to EBITDA (debt leverage)
- Ratio of EBITDA to interest expense (interest cover)
- Ratio of cash flow to debt service (cash flow cover)

The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from the consolidated financial statements. The SFA matures on June 30, 2013 and includes a one-year extension option.

5. ASSETS

In € millions	12/31/2010	12/31/2009	Change in %
Intangible assets	575	618	-7.0
Property, plant and equipment	3,041	3,129	-2.8
Investments in associated companies	5,252	5,472	-4.0
Other investments	8	8	0.0
Other assets	166	255	-34.9
Deferred tax assets	289	248	16.5
Total non-current assets	**9,331**	**9,730**	**-4.1**
Inventories	1,482	1,162	27.5
Trade receivables	1,443	1,144	26.1
Other assets	257	183	40.4
Income tax receivables	98	39	151.3
Cash and cash equivalents	733	350	109.4
Total current assets	**4,013**	**2,878**	**39.4**
Total assets	**13,344**	**12,608**	**5.8**

The financial position as at December 31, 2010 is marked by an increase in total assets of EUR 736 m or 5.8 % to EUR 13,344 m (prior year: EUR 12,608 m) compared to the prior year. This increase is entirely due to the increase in current assets of EUR 1,135 m to EUR 4,013 m, while non-current assets have fallen by EUR 399 m to EUR 9,331 m.

Intangible assets decreased by EUR 43 m to EUR 575 m compared to the prior year. Additions of EUR 21 m were more than offset by amortization of EUR 48 m and disposals of EUR 18 m. Amortization comprised regular amortization of EUR 44 m and amortization of fair value adjustments of EUR 4 m.

Property, plant and equipment decreased by EUR 88 m to EUR 3,041 m compared to the prior year. Capital expenditures of EUR 365 m were more than offset by regular depreciation of EUR 536 m, depreciation of fair value adjustments of EUR 2 m and impairment losses of EUR 2 m. Impairment losses of EUR 5 m recognized in the prior year in Brazil were reversed in 2010 because of capacity expansions due to the positive market trend in the economic environment. Furthermore, disposals (EUR 20 m) and foreign exchange effects (increase of EUR 102 m) have affected carrying amounts.

Investments in associated companies have decreased by EUR 220 m to EUR 5,252 m (prior year: EUR 5.472 m) compared to the prior year. The decrease in other non-current assets by EUR 89 m to EUR 166 m (prior year: EUR 255 m) is due to fair value changes on the derivative financial instruments included in this balance.

Inventories increased by EUR 320 m to EUR 1,482 m (prior year: EUR 1,162 m) due to the successful course of business.

Trade receivables increased by EUR 299 m to EUR 1,443 m as of December 31, 2010 (prior year: EUR 1,144 m), due in particular to higher revenue at year-end compared to the prior year.

Cash and cash equivalents increased to EUR 733 m (prior year: EUR 350 m). The increase of EUR 383 m in 2010 was due to a positive operating cash flow of EUR 890 m, partially offset by a negative cash flow from investing activities of EUR 324 m and a negative cash flow from financing activities of EUR 200 m.

6. CORPORATE RESPONSIBILITY

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

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

The environmental protection and occupational safety policy of the Schaeffler Group defines minimum requirements worldwide. There are also local environmental and occupational safety policies in the different countries and locations which expand on the Schaeffler Group policy and can be used to clarify the more general statements and definitions for the respective location. All local requirements are not only designed to pass various audit tests but further to structure processes and give those concerned more security and assistance. These clarifications have proved very helpful for implementing strategic requirements in practice.

6.1 Environmental protection

Protection of the environment is a significant part of sustainable management. The continuous development of new technologies, the constant striving for further reductions in the consumption of resources, the prevention of waste, improvement of energy efficiency and many other practical environmental protection measures are important components of sustainable management. The executive management board and all employees in every business unit support the efforts in environmental protection because they are convinced that the success of the company can be ensured by proactive environmental protection activities.

The E&S management system that has been developed step-by-step over the past few years has been introduced and put into practice at all Schaeffler Group locations worldwide. At the end of 2010, all manufacturing locations of the Schaeffler Group are validated regarding environmental protection in accordance with EMAS and ISO 14001 and certified regarding occupational safety in accordance with OHSAS 18001. Those certifications conducted by independent assessors outside Europe play an extremely important role in international comparison, because there are very few industrial companies worldwide that can demonstrate a similar degree of success.

The strength of the E&S management system lies in close cooperation between the Group's strategic and operating units. Those responsible for E&S at each location are brought together in a regional structure, ensuring an active exchange of information within each region. In turn, the regions are in close and constant touch with the E&S Competence Center, which is responsible for global strategy. However, the work of the Competence Center is not restricted to strategy. Support for implementing strategy at operating entities as well as carrying out internal audit work are additional significant tasks of the Competence Center. Adhering to these two roles, support and advisory on the one hand and supervision and control on the other hand, permits staff at the E&S Competence Center always to keep both sides in view.

Contamination of the environment and depletion of resources are to a large extent due to increasing consumption of products. The aim must be to follow a new approach based on more environmentally-friendly products that use fewer resources, have less impact on and are a reduced hazard for the environment. The integrated product policy (IPP) addresses this idea and is aimed at promoting more environmentally-friendly products.

This idea has been actively practiced by the Schaeffler Group for many years. The challenge of designing more environmentally-friendly products was taken up a considerable time ago, but the means and tools for achieving this goal are new. How can previously unused potential be utilized to improve the ecological impact of a product over its entire life cycle?

Creating a product with a long useful life is certainly an important aspect for the product to be considered sustainable. Additionally by further improving the efficiency of material and energy input and hence decreasing the impact on the environment of manufacturing a product, we are increasingly meeting this target. Our efforts are centered on a holistic view and design of material and energy flows from entry into the company to exiting as a product or residual, through the end of the utilization phase and the subsequent recycling opportunities.

An environmental data coordinator is employed to account for material and energy flows on an operational, process and product level. Integration of the environmental management system in the corporate areas of the company such as Logistics, Production or Controlling is further strengthened by the material flow analysis. Existing procedures and technologies are subjected to a more critical analysis and further possibilities for process improvement are identified and implemented.

A product's effect on the environment starts as early as the mining of raw materials. The Schaeffler Group is in close contact with suppliers and customers in order to make its products even more environmentally-friendly.
A joint network serves to record and evaluate environmental information along the entire product chain. The findings identify new solutions for environmentally-friendly products and sustainable development.

Successful, sustainable management requires intensive analysis of the economic, social and ecological performance of a company. Sustainable management may not exist in isolation, but rather has to be integrated into day-to-day operations. This integration and openness in dealing with questions help identify new solutions that also contribute to the sustainability of our company.

6.2 Occupational safety

Long before we started to have our efforts in the occupational safety area checked by external examiners by certification in accordance with OHSAS 18001, the theme of employee protection was embedded in our corporate philosophy. The same risk analyses are carried out throughout the world and have led to a steady reduction in the number of accidents at work. Knowledge gained at individual workplaces is immediately passed to the open information area via the E&S Competence Center network and thus directly assists other locations to avoid repeating errors made in the past.

We have set ourselves the worldwide mission of safeguarding the safe and healthy working environments that we have created. We want to prevent workplace-related injuries and occupational diseases by carrying out appropriate measures. We do not just comply with the various national legal obligations when implementing the required measures. We go significantly beyond that at most locations worldwide. Providing active support with workplace design and ensuring local medical care, as well as providing assistance for business travelers before, during, and after a trip are included in these measures.

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

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

7. RISK REPORT

The Schaeffler Group intentionally takes manageable business risks in order to implement its corporate strategy and realize the related earnings opportunities.

Responsibilities for identifying and controlling significant risks are clearly divided within the Schaeffler Group at various levels and organizational units. The risks are monitored by local management at the subsidiaries as well as group-wide by members of the executive management board.

The risk management system is constantly improved and updated. Existing processes for identifying and controlling risks are currently being optimized throughout the Group by combining activities and developing a uniform risk evaluation system. The evaluation is based on an estimate of the monetary impact on group earnings when considering the probability of occurrence. Monitoring and documentation of these estimates are currently being standardized further.

Identified risks and related measures are combined at group level by risk management, monitored and regularly reported to the relevant members of management. Management considers and decides upon the measures to be taken and reports to the audit committee of the supervisory board. The responsible bodies monitor the development of all identified risks and the status of measures taken on an ongoing basis.

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

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

- extensive system-based plausibility checks are integrated in the day-to-day reporting system;
- there is a regular dialog between group headquarters and operating units on accounting matters;
- controls using reviews by a second member of staff are carried out at individual company level as well as at group reporting level on a regular basis;
- it is ensured that accounting standards are applied uniformly throughout the group, and that
- internal transactions within the group are completely recorded and eliminated.

The proper functioning of the internal control system was confirmed at individual company level in 2010 with the help of a control self-assessment process. Identified control weaknesses were evaluated and analyzed at company and group level by appropriate levels of management. As part of the continuous improvement of the internal control system, risk-minimization measures were planned for each identified control weakness. This plan is being implemented with the help of the internal audit function.

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

The risks to which the Schaeffler Group is exposed are divided by management into strategic, operating, legal and financial risks.

7.1 Strategic risks

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

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

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

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

7.2 Operating risks

The development and bringing to market of new products leads to the risk that timing, quality or planned costs can not be met. In order to counter this, the Schaeffler Group has implemented a group-wide system to manage the research and development processes. Decision makers can monitor the relevant projects efficiently and influence further progress timely. In particular in the Automotive Division we can further reduce the above-mentioned risks by close cooperation with our key customers in the areas of customer-specific development and continuous improvement.

Procurement risks arise both from market price fluctuations and from lack of availability of raw materials of the appropriate quality and quantity.

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

The continuing success and planned growth of the Schaeffler Group depend above all upon recruiting, integrating and retaining appropriate personnel. The competition for highly-qualified employees, in particular 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 level of awareness and attractiveness of the Schaeffler Group. Measures to develop and train personnel are designed to improve the qualification and motivation of staff.

Poor quality of delivered products can represent a product liability risk. The use of defective products leads to damages, unplanned repairs or recalls which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can lead to increased guarantee and warranty claims by our customers. We react to this risk by adopting strict quality control measures and carrying out continuing improvements in the production process.

Sales risks arise from price risks and the risk of delays in making products available to customers. This can lead to a loss of orders and a loss of market share. We counter this risk by systematically improving our production and delivery logistics.
Close product development cooperation with our customers and strict product quality control measures prevent substitution of our products and, at the same time, help to maintain price levels.

7.3 Legal risks

There are various legal claims against the Schaeffler Group that have been asserted or that could be asserted in the future. We consider these to be mainly normal, routine legal disputes arising in connection with our business. If the conditions are met, provisions for legal disputes are recognized in the Group financial statements. There is a risk that, due to future developments relating to outstanding legal disputes, existing provisions may prove to be too low or that costs currently not recognized as provisions may arise in connection with these legal disputes.

7.4 Financial risks

The fundamental capital requirements of the Group are covered by the Senior Facility Agreement dated November 20, 2009 (see Notes 3.5 and 4.10 for details). The Schaeffler Group has a further credit line (revolver) for additional capital requirements, together with bilateral credit lines which are available to cover short-term and medium-term liquidity requirements arising from operations and for tax payments resulting from the Group restructuring.

Financial covenants have been agreed in the Senior Facility Agreement, whereby the loan can become repayable immediately if there is a breach of the financial covenants. This constitutes a liquidity and refinancing risk. In addition, short-term liquidity risk arises from the danger that incorrect estimates are made in the working capital budget regarding the timing of receipts and payments relating to trade accounts receivable and trade accounts payable.

Corporate Treasury prepares a rolling four-week liquidity plan to monitor and control the short-term liquidity risk of the Group. Short-term fluctuations in working capital requirements are monitored daily and can be offset by using bilateral credit lines. Structural short-term and medium-term liquidity requirements can generally be met by drawing down the revolver.

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

Medium-term liquidity risk is monitored and managed using a rolling 12-month liquidity budget. Current and forecasted compliance with financial covenants is rigorously monitored and regularly reported to the executive management board and the banks. See the notes to the consolidated financial statements for details relating to financial covenants.

Due to the floating rate senior term loan, there is an interest rate risk for the Schaeffler Group relating to fluctuations in 1-month EURIBOR. As part of interest rate risk management, this interest rate risk is hedged by entering into interest rate swaps, caps and collars. Currently existing interest rate hedging transactions were entered into at a higher interest rate level than current rates and limit the risk of fluctuations in 1-month EURIBOR over the entire term of the senior term loan. Interest rate risk, market values of interest rate derivatives and development of interest rate markets are continually monitored as part of the market risk reporting to the Chief Financial Officer (CFO) of the Schaeffler Group.

The Schaeffler Group is exposed to diverse foreign exchange risks due to its international presence. The largest foreign currency risks result from exchange rate fluctuations of the U.S. Dollar and Romanian Leu. Potential foreign currency fluctuations have an effect on sales as well as on purchase costs. Specific effects on earnings are monitored as part of a regular reporting program.

Foreign exchange risks are managed centrally by Corporate Treasury, which acts as an in-house bank for the Group. Corporate Treasury aggregates existing foreign currency risks of the Group and hedges these by entering into hedging instruments with third parties. Hedging instruments used include forward exchange contracts and options. Currency risk, market values of foreign currency derivatives and development of foreign exchange markets are continuously monitored as part of the risk management system and reported to the CFO of the Schaeffler Group.

Cash deposits and hedging instruments used to hedge interest rate and foreign currency risks are concluded exclusively with the Schaeffler Group's main banks. The core banks of the Schaeffler Group have a low credit risk. As part of the risk management system, Corporate Treasury regularly checks individual exposures and monitors any change in credit risk of individual core banks based on changes in their external ratings.

8. REPORT ON EXPECTED DEVELOPMENTS

The comprehensive range of high-quality products, continuous process improvement and rapid decision-making processes enable the Schaeffler Group to benefit from the global economic recovery.
The outstanding expertise of our employees together with state-of-the-art plant and machinery enable us to continuously improve the efficiency of our plants. Our global presence gives us a strong customer focus and market proximity, providing excellent opportunities for us to further extend our market position.

8.1 Economic conditions

We are confident that the global economic expansion will continue. However, the dynamic growth of the economy both in industrial and in emerging countries will probably be slightly more restrained in 2011 than in 2010 as the effects of the rebound from the global crisis will have been substantially absorbed into production and world trade by then. In line with the forecast by the International Monetary Fund (IMF), we believe that the global economy will grow by 4.4 % in 2011. The IMF forecasts a continuing robust global economy in 2012, with growth of 4.5 %.

Economic growth trend (in % compared with the prior year, in real terms)	2010	2011	2012
Germany	3.6	2.2	2.0
EU	1.8	1.5	1.7
U.S.A.	2.8	3.0	2.7
Japan	4.3	1.6	1.8
China	10.3	9.6	9.5
World	**5.0**	**4.4**	**4.5**

Source: IMF, WEO Update January 2011.

The rate of economic recovery in the Euro area will continue to be varied. Whereas the large Euro region countries will probably continue their recovery, problems will continue to weigh on the economies of the peripheral countries (Greece, Ireland, Portugal and Spain), whether in the financial, real estate or employment markets. The IMF forecasts economic growth of 1.5 % for 2011.

The economic growth in the United States will remain moderate in the coming year. We anticipate that, due to the continuing favorable level of interest rates and an expansive monetary policy, capital expenditures will grow at a slightly higher rate, although structural problems such as private household deficits and the high level of unemployment will have a restraining effect on an upturn in the overall economy. The IMF anticipates economic growth in the USA of 3.0% for 2011.

In addition to the overall slower rate of expansion of the global economy, Japan in particular will suffer from the strong yen so that a substantially lower level of growth of some 1.6% is anticipated for 2011.

We expect a weakening in the rate of economic growth for the emerging markets. In China, an increasingly restrictive monetary policy will serve as a brake on growth. The IMF forecasts growth of slightly less than 10% for 2011.

We expect that global sales and production of passenger vehicles will again move in parallel in the coming year, as the significant effects from the past of restocking inventories will decrease. We assume that in 2011 the worldwide production of passenger vehicles and commercial vehicles will increase by some 5% and we expect growth to be at a similar level in 2012.

Based on the VDMA forecast, we expect a high single-digit increase in sales for the global engineering industry in 2011. In particular China and the other Asian emerging countries will be the drivers of growth in this sector. These countries are also continuing to show strong capital expenditure activity, resulting in good sales opportunities for the engineering industry. This positive development is expected to continue in 2012.

The prospects for continuation of the global economic recovery are subject to uncertainties. Many industrial countries are confronted with the task of reducing their sharply increased budget deficits. Economically, many countries are entering new territory in fighting the recession, so that it is difficult to assess the longer-term effects of measures taken. In the emerging markets concerns are growing of an abrupt end to the real estate price rise in China, which could have considerable effects on other Asian emerging markets and the global economy as a whole.

A particular risk relates to continuing tensions in markets for European government bonds. A further massive increase in uncertainty on the financial markets could considerably raise finance costs for all countries. Further write-downs in the European banking sector could have a negative effect on credit activity due to the related negative effect on banks' balance sheets and thus economic growth could be considerably restricted.

However, we assume that the crisis mechanisms resolved by the European Union will be sufficient to prevent a new crisis in the financial markets and that the countries affected will be able to implement the consolidation measures they have resolved to carry out.

We expect a stable Euro in 2011. However, continuity of the European support mechanism, changes in interest rates relative to the rate of inflation and relative economic improvements between the two economic zones will be of importance to the further development of the Euro. A revaluation of the Euro against the U.S. Dollar could negatively affect export opportunities for the German economy.

With the recovery of the world economy, energy and commodity prices have risen strongly. If there is a further rapid price increase, the global economic recovery could be considerably dampened. Despite their already high levels, we expect further increases in energy and commodity prices in the coming year.

8.2 Schaeffler Group outlook

Due to the expected economic development, the Schaeffler Group continues to have good opportunities for further growth in the coming years. Its global structure enables the Schaeffler Group to profit particularly from the high rate of growth in the world's emerging markets.

The Automotive Division anticipates stable growth in revenues in 2011, supported by growth forecasts from the commencement or continuation of various projects, amongst others 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 also plan for significant growth in sales in the Industrial Division in 2011. The main drivers of this growth are the overall economic recovery and, above all, above-average growth in Asian markets together with good prospects in the key sectors of wind power, power transmission and production machinery.

To the extent the expected conditions occur, we expect overall growth in sales of 8 % – 10 % for the Schaeffler Group in 2011. Due to our excellent positioning in the various business areas on the one hand and in regional growth markets on the other hand, we expect a high single-digit rate of growth for 2012.

The Schaeffler Group plans to make capital expenditures of 6 % to 8 % of revenue in both 2011 and 2012. Planned capital expenditures are intended primarily for new products and capacity expansion. They form the foundation for our organic growth. In addition to Germany, the regional focus of capital expenditures will be concentrated on Asia. Existing production capacities will be supplemented by three further factories in China and India.

The positive development of worldwide automobile production and the recovery of markets in the industrial sector form the basis for the excellent results of the Schaeffler Group in 2010. The Group profited, amongst other things, from a stable development of material costs.

Due to the planned further increase in capacity and expected higher material costs, we do not anticipate a further improvement in results of operations in 2011, despite the forecast growth in revenue. Based on a continuing positive economic environment we currently believe that we will achieve similar earnings in 2011 as in 2010.

We continue to believe in strong development activities and, as in prior years, we will also invest some 5 % of our Group revenue in research and development for new products and processes in both 2011 and 2012.

Net income for 2011 will continue to be dampened by interest expense for financing the Continental investment. As Continental AG is accounted for at equity in the consolidated financial statements of the Schaeffler Group, the financial result is affected by the economic development of Continental AG.

We currently believe that there will be a continuing positive free cash flow in 2011 and 2012, so that net debt can be successively further reduced.

9. REPORT ON SUBSEQUENT EVENTS

On January 5, 2011, the dividend of EUR 400 m declared as an advance dividend in December 2010 was paid to Schaeffler Verwaltungs GmbH, the company's shareholder.

There were no other material events after December 31, 2010 that would have had a significant impact on the company's assets, financial position or results of operations.

On March 11, 2011, Japan was hit by a strong earthquake which also triggered a tsunami. This natural disaster has severely affected the country. Estimates of its impact on the Japanese and global economies vary, and the impact can not be forecast reliably at this time.
The Schaeffler Group's Japanese business is insignificant to the Group, and a significant impact on our core markets is currently not expected. Based on information currently available, we do not anticipate a material impact on the Schaeffler Group's net assets, financial position or results of operations.

CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED INCOME STATEMENT

In € millions	Note	2010	2009	Change in %
Revenue	3.1	9,495	7,336	29.4
Cost of sales		-6,506	-5,552	17.2
Gross profit		**2,989**	**1,784**	**67.5**
Research and development expenses		-467	-384	21.6
Selling expenses		-645	-526	22.6
Administrative expenses		-366	-405	-9.6
Other income	3.2	375	458	-18.1
Other expenses	3.3	-377	-481	-21.6
Earnings before financial result and income taxes (EBIT)		**1,509**	**446**	**> 100**
Share of net income (loss) of associated companies	2.2	-349	-591	-40.9
Interest income	3.5	51	39	30.8
Interest expense	3.5	-861	-968	-11.1
Financial result	**3.5**	**-1,159**	**-1,520**	**-23.8**
Earnings before income taxes		**350**	**-1,074**	**< -100**
Income taxes	3.6	-277	-125	> 100
Net income (loss)		**73**	**-1,199**	**< -100**
Attributable to shareholders of the parent company		63	-1,204	< -100
Attributable to non-controlling interests		10	5	100.0

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In € millions	2010 before taxes	2010 taxes	2010 after taxes	2009 before taxes	2009 taxes	2009 after taxes
Net income (loss)	**350**	**-277**	**73**	**-1,074**	**-125**	**-1,199**
Foreign currency translation differences for foreign operations	199	0	199	81	0	81
Effective portion of changes in fair value of cash flow hedges	121	-32	89	-53	45	-8
Net change in fair value of available-for-sale financial assets	1	0	1	-2	0	-2
Defined benefit plan actuarial gains / losses	10	-9	1	-118	15	-103
Other comprehensive income (loss) before associated companies	**331**	**-41**	**290**	**-92**	**60**	**-32**
Share of other comprehensive income (loss) from associated companies accounted for under the equity method	126	0	126	-6	5	-1
Total other comprehensive income (loss)	**457**	**-41**	**416**	**-98**	**65**	**-33**
Total comprehensive income (loss) for the period	**807**	**-318**	**489**	**-1,172**	**-60**	**-1,232**
Total comprehensive income (loss) attributable to shareholders of the parent company	794	-318	476	-1,177	-60	-1,237
Total comprehensive income (loss) attributable to non-controlling interests	13	0	13	5	0	5
Total comprehensive income (loss) for the period	**807**	**-318**	**489**	**-1,172**	**-60**	**-1,232**

See notes to the consolidated financial statements.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In € millions	Note	12/31/2010	12/31/2009	Change in %
ASSETS				
Intangible assets	4.1	575	618	-7.0
Property, plant and equipment	4.2	3,041	3,129	-2.8
Investments in associated companies	4.3	5,252	5,472	-4.0
Other investments		8	8	0.0
Other assets	4.7	166	255	-34.9
Deferred tax assets	4.4	289	248	16.5
Total non-current assets		**9,331**	**9,730**	**-4.1**
Inventories	4.5	1,482	1,162	27.5
Trade receivables	4.6	1,443	1,144	26.1
Other assets	4.7	257	183	40.4
Income tax receivables	4.7	98	39	> 100
Cash and cash equivalents	4.8	733	350	> 100
Total current assets		**4,013**	**2,878**	**39.4**
Total assets		**13,344**	**12,608**	**5.8**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	0	
Other reserves		2,801	3,239	-13.5
Accumulated other comprehensive income (loss)		-7	-421	-98.3
Equity attributable to shareholders of the parent company		**3,294**	**2,818**	**16.9**
Non-controlling interests		47	34	38.2
Total shareholders' equity	**4.9**	**3,341**	**2,852**	**17.1**
Provisions for pensions and similar obligations	4.11	1,111	1,120	-0.8
Provisions	4.12	127	135	-5.9
Financial debt	4.10	6,413	6,420	-0.1
Income tax payables	4.14	102	24	> 100
Other liabilities	4.14	423	473	-10.6
Deferred tax liabilities	4.4	116	75	54.7
Total non-current liabilities		**8,292**	**8,247**	**0.5**
Provisions	4.12	317	306	3.6
Financial debt	4.10	64	61	4.9
Trade payables	4.13	729	425	71.5
Income tax payables	4.14	115	102	12.7
Other liabilities	4.14	486	615	-21.0
Total current liabilities		**1,711**	**1,509**	**13.4**
Total shareholders' equity and liabilities		**13,344**	**12,608**	**5.8**

4. CONSOLIDATED STATEMENT OF CASH FLOWS

In € millions	2010	2009	Change in %
Operating activities			
EBIT	1,509	446	> 100
Interest paid	-644	-686	-6.1
Interest received	10	8	25.0
Income taxes paid	-298	-161	85.1
Depreciation, amortization and impairments	588	657	-10.5
Gains / losses from the disposal of assets	-2	0	
Other non-cash items	-3	-1	> 100
Changes in: • Inventories	-257	573	< -100
• Trade receivables	-241	73	< -100
• Trade payables	271	-100	< -100
• Provisions for pensions and similar obligations	-55	-59	-6.8
• Other assets, liabilities and provisions	12	-153	< -100
Cash flows from operating activities [1)]	**890**	**597**	**49.1**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	25	50	-50.0
Capital expenditures on intangible assets	-21	-51	-58.8
Capital expenditures on property, plant and equipment	-340	-270	25.9
Investments in associated companies	-4	-3,905	-99.9
Acquisition / disposal of cash settled swaps	0	2,112	-100.0
Other (de-) investing activities	16	67	-76.1
Cash flows from investing activities	**-324**	**-1,997**	**-83.8**
Financing activities			
Dividends paid to non-controlling interests	-1	-1	0.0
Receipts from loans	3	2,150	-99.9
Repayments of loans	-83	-250	-66.8
Payments to Schaeffler Verwaltungs GmbH / change in financial allocation account	-134	-592	-77.4
Receipts / payments from other financing activities	15	-144	< -100
Cash flows from financing activities	**-200**	**1,163**	**< -100**
Net increase / decrease in cash and cash equivalents	**366**	**-237**	< -100
Effects of foreign exchange rate changes on cash and cash equivalents	17	2	> 100
Cash and cash equivalents as of beginning of period	350	585	-40.2
Cash and cash equivalents as of end of period	**733**	**350**	**> 100**

1) Excluding interest payments, cash flows from operating activities for the period from 1/1 to 12/31/2010 amount to EUR 1,534 m (prior year: EUR 1,283 m).

See notes to the consolidated financial statements.

5. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In € millions	Share capital [1]	Partners' interests [1]	Other reserves [1]	Accumulated other comprehensive income (loss) [3]				Subtotal	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses			
Balance as of January 1, 2009	**0**	**4,435**		**-340**	**-187**	**1**	**138**	**4,047**	**29**	**4,076**
Net income (loss)		-1,204						-1,204	5	-1,199
Other comprehensive income (loss)		0		150	-19	-1	-163	-33	0	-33
Total comprehensive income (loss) for the period	**0**	**-1,204**		**150**	**-19**	**-1**	**-163**	**-1,237**	**5**	**-1,232**
Other items from associated companies recognized directly in shareholders' equity		8						8		8
Founding of Schaeffler GmbH on September 29, 2009 [2]		-3,239	3,239							
Balance as of December 31, 2009	**0**	**0**	**3,239**	**-190**	**-206**	**0**	**-25**	**2,818**	**34**	**2,852**
Balance as of January 1, 2010	**0**		**3,239**	**-190**	**-206**	**0**	**-25**	**2,818**	**34**	**2,852**
Net income (loss)			63					63	10	73
Other comprehensive income (loss)			-1	369	86	1	-42	413	3	416
Total comprehensive income (loss) for the period	**0**		**62**	**369**	**86**	**1**	**-42**	**476**	**13**	**489**
Transfer	500		-500					0		0
Acquisitions in stages			-6					-6		-6
Other items from associated companies recognized directly in shareholders' equity			6					6		6
Balance as of December 31, 2010	**500**		**2,801**	**179**	**-120**	**1**	**-67**	**3,294**	**47**	**3,341**

1) See Notes for details of shareholders' equity.
2) See Note 1.2 for details.
3) Including the effect of the acquisition of shares in Continental AG.

See notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 Reporting entity

Schaeffler GmbH (until June 28, 2010: Schaeffler Verwaltung Zwei GmbH), Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1–3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 12116). The consolidated financial statements of Schaeffler GmbH as at December 31, 2010 comprise Schaeffler GmbH and its subsidiaries, investments in associated companies and joint ventures (together referred to as “Schaeffler” or “Schaeffler Group”). Schaeffler is a supplier to automotive, aerospace and other manufacturing customers with operations worldwide.

1.2 Reorganization of Group

The Schaeffler Group with its parent company INA-Holding Schaeffler GmbH & Co. KG (“IHO Group”) was extensively reorganized in terms of its legal structure in 2009 and 2010. The objective of the reorganization was to establish structures suitable for the capital markets, with Schaeffler GmbH as holding company.

The reorganization of the Group included a number of company law-related transactions. A significant milestone was the hive-down of the interests in the subsidiaries and associated entities comprising the operations of IHO Group from Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH to Schaeffler GmbH. In addition to the interests in subsidiaries, the transfer to Schaeffler GmbH in connection with the hive-down also included the shares in Continental AG (representing 42.17 % of the capital stock of Continental AG on December 31, 2010) as well as part of IHO Group’s liabilities (Senior Facility Agreement).

The hive-down took the form of a capital increase in kind at Schaeffler GmbH in return for new shares totaling EUR 500 m. The hive-down of Schaeffler GmbH was entered in the Commercial Register on June 28, 2010. Following completion of the Group reorganization the entire operating activities of IHO Group are concentrated in the Schaeffler Group.

Schaeffler GmbH is jointly and severally liable under par. 133 of the German Reorganization of Companies Act [“Umwandlungsgesetz”] for the liabilities of the transferring legal entities for a period of five years.

1.3 Basis of preparation and presentation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU"). 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 (German Commercial Code), the Company has chosen to prepare its consolidated financial statements under IFRS. These financial statements are the first consolidated financial statements in accordance with commercial law since the reorganization of the Group (see Note 1.2). Consolidated financial information for the comparative period was derived from combined financial statements that were voluntarily prepared based on a carve-out.

Presentation of reporting periods prior to the legal creation of the Schaeffler Group

For legal purposes, the Schaeffler Group was created upon the entry of the hive-down in the Commercial Register on June 28, 2010. As a result, both the comparative reporting period 2009 and part of the reporting period ending on December 31, 2010 occurred before the current structure of the Schaeffler Group legally existed.

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

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

Assets, liabilities, expenses and income were generally allocated to the Schaeffler Group based on the hive-down agreement dated May 25, 2010. The transfer to Schaeffler GmbH in connection with the hive-down included the interests in the subsidiaries and associated entities comprising the operating business of the IHO Group, the shares in Continental AG (42.17 % of the capital stock of Continental AG), the derivative financial instruments of the IHO Group, certain cash and cash equivalents as well as the obligations under the Senior Facility Agreement.

In addition, certain financial statement line items were allocated appropriately based on certain assumptions, estimates and the principle of substance over form. The assumptions and estimates made affect the recognition, measurement and presentation of assets and liabilities as well as the amounts and presentation of the corresponding items of income and expense. Schaeffler Group management considers the allocation methods applied to be appropriate and justifiable.

Legal and consulting fees incurred in connection with refinancing and reorganizing the IHO Group were allocated pro-rata to the Schaeffler Group based on an appropriate allocation formula.

As required by the hive-down agreement, the Schaeffler Group was allocated all financial debt and financial expenses related to the Senior Facility Agreement. The financial debt and the related expenses of the IHO Group prior to the refinancing on November 20, 2009 (Syndicated Loan Agreement) were allocated based on the proportion of the amount of the Senior Facility Agreement to the amount of the entire refinancing agreement.

All IHO Group interest rate hedging instruments were transferred to the Schaeffler Group in accordance with the hive-down agreement. The portion of the hedging reserve of the IHO Group that is related to hedges of interest rate risk which cannot reasonably be attributed to the Senior Facility Agreement is accounted for retrospectively as if it had arisen from stand-alone derivatives.

IHO Group cash and cash equivalents were also allocated in accordance with the hive-down agreement.

The liquidity requirements of IHO Group companies not consolidated by the Schaeffler Group have been recognized in a financial allocation account prior to the hive-down. For periods prior to the legal creation of the Schaeffler Group, the financial allocation account represents the liquidity requirements of these companies. Starting with a balance of zero at the legal date of the hive-down (June 28, 2010), the balance of the financial allocation account for each of the periods prior to the hive-down was derived using a retrograde calculation.

In the statement of financial position, the financial allocation account is included in other liabilities. In the statement of cash flows, the liquidity transfer arising from changes in the financial allocation account is shown under financing activities as "Payments to Schaeffler Verwaltungs GmbH / change in financial allocation account". Since the date Schaeffler GmbH was legally founded, the Schaeffler Group's shareholders' equity includes a share capital of EUR 25,000. The difference between this balance and the net assets and liabilities of the Schaeffler Group is presented as "other reserves" as at December 31, 2009. On the date the hive-down was entered in the Commercial Register, the Schaeffler Group's share capital increased to EUR 500,025,000.

The carrying amounts of accumulated other comprehensive income and non-controlling interests of the IHO Group, including any related carve-out adjustments, were transferred to the Schaeffler Group in accordance with the predecessor accounting approach.

Income taxes of Schaeffler GmbH and its subsidiaries for the carve-out period were determined based on allocated earnings (separate return approach). This approach included a notional re-calculation of income taxes on the basis of the historical legal structures and reflects an appropriate allocation of the relevant income and expenses.

Future taxable income may differ from taxable income arrived at under the separate return approach. It was possible to directly attribute deferred taxes on temporary differences and loss carry-forwards to the Schaeffler Group based on the hive-down agreement dated May 25, 2010.

New accounting pronouncements

In 2010, the following new Standards and Interpretations and amendments to Standards and Interpretations adopted by the EU as European law were required to be applied for the first time:

The revised Standards IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" were issued by the IASB in January 2008 and adopted as European law in June 2009. They contain significant changes to the accounting for business combinations and transactions with non-controlling shareholders.

The revised Standards are to be applied prospectively to business combinations for which the acquisition date falls within an annual reporting period beginning on or after July 1, 2009. IAS 27 is to be applied prospectively for annual reporting periods beginning on or after July 1, 2009. The Schaeffler Group has adopted revised IFRS 3 and IAS 27 effective January 1, 2010. There were no business combinations within the scope of IFRS 3 in 2010. The requirements of revised IAS 27 were applied to two acquisitions of non-controlling interests. The main amendments to IFRS 3 include:

- In accounting for non-controlling interests, the Standard provides the option to measure such interests either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This option is available for each separate business combination.
- For business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the time control is obtained, and the resulting gain or loss, if any, is recognized in earnings. For purposes of calculating goodwill, these interests are then treated as part of the consideration transferred.
- Contingent consideration is included in consideration transferred and measured at fair value at the acquisition date. It is classified as either equity or liability and subsequently remeasured in accordance with this classification. Goodwill is not adjusted for such subsequent remeasurement.
- Acquisition-related costs are expensed.

Revisions to IAS 27 include the following:

- Changes in ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.
- When an entity loses control of a subsidiary, any non-controlling interest retained is initially recognized at fair value. The resulting difference is recognized in earnings as part of the gain or loss on disposal.
- Non-controlling interests are allocated their proportionate share of losses, even if this results in the non-controlling interests having a deficit balance.

The revision of IFRS 3 and IAS 27 resulted in consequential amendments to IFRS 7, IAS 7, IAS 21, IAS 28 and IAS 31. These amendments are effective for annual reporting periods beginning on or after July 1, 2009. The Schaeffler Group has adopted them effective January 1, 2010.

In addition to the revised Standards IFRS 3 and IAS 27, the Schaeffler Group had to apply the following new or amended Standards and Interpretations for the first time for the 2010 fiscal year. This initial application had either no or no significant effect.

Standard / Interpretation	Effective date	Subject of Standard / Interpretation or amendment
IFRS 1	1/1/2010	Change in structure of Standard (IFRS 1 rev. 2008)
	1/1/2010	Additional exemptions regarding IFRS 6 and IFRIC 4
IFRS 2	1/1/2010	Accounting for group cash-settled share-based payment transactions
IAS 39	7/1/2009	Clarification: Eligible hedged items for hedge accounting purposes
IFRIC 12	3/29/2009	Service concession arrangements
IFRIC 15	1/1/2010	Agreements for the construction of real estate (scope of IAS 11, IAS 18)
IFRIC 16	7/1/2009	Hedges of a net investment in a foreign operation
IFRIC 17	11/1/2009	Distributions of non-cash assets to owners
IFRIC 18	11/1/2009	Transfers of assets from customers
Annual Improvements 2009		
IFRS 2	1/1/2010	Scope of IFRS 2 and revised IFRS 3
IFRS 5	1/1/2010	Disclosures on non-current assets held for sale and discontinued operations
IFRS 8	1/1/2010	Clarification of disclosure requirements for segment assets
IAS 1	1/1/2010	Classification of the liability component of a convertible instrument as current
IAS 7	1/1/2010	Conditions for presentation of expenditures as cash flows from investing activities
IAS 17	1/1/2010	Leases of real estate: Elimination of assumption that land element is classified as operating lease
IAS 36	1/1/2010	Definition of cash-generating unit for goodwill impairment tests
IAS 38	1/1/2010	Determining fair value in a business combination
IAS 39	1/1/2010	Scope issue regarding forward agreements that will result in a business combination; treating loan prepayment penalties as embedded derivatives; cash flow hedges
IFRIC 9	1/1/2010	Scope of IFRIC 9 in light of revised IFRS 3
IFRIC 16	1/1/2010	Elimination of the restriction that only the parent company can hold the hedging instrument in a hedge of a net investment in a foreign operation
Annual Improvements 2008		
IFRS 5	7/1/2009	Classification of assets and liabilities of a subsidiary as held for sale where a non-controlling interest is retained

The International Accounting Standards Board (IASB) and the IFRIC have issued the following Standards, Interpretations, and amendments of existing Standards which are not yet effective and are not applied early by the Schaeffler Group. Application of these IFRS is contingent on adoption by the EU under its IFRS endorsement process.

The following summary lists the Standards adopted by the EU as at the date these consolidated financial statements are authorized for issue by the Schaeffler Group executive management board. The Schaeffler Group will apply all of these Standards beginning in the 2011 fiscal year.

Standard / Interpretation	Effective date	Subject of Standard / Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1, IFRS 7	7/1/2011	Elimination of certain comparative IFRS 7 disclosures upon first-time adoption of IFRS	none
IAS 24	1/1/2011	Exemptions for entities controlled, jointly controlled, or significantly influenced by the state	none
IAS 32	2/1/2010	Rights issues in foreign currency	none
IFRIC 14	1/1/2011	Prepayments of a minimum funding requirement	none
IFRIC 19	7/1/2010	Extinguishing financial liabilities with equity instruments	none
Annual Improvements 2010			
IFRS 1	1/1/2011	Minor amendments	none
IFRS 3	7/1/2010	Amendment of revised IFRS 3 with respect to measuring non-controlling interests, share-based payment awards and contingent consideration	none
IFRS 7	1/1/2011	Amendments to various disclosures about risks arising from financial instruments	Minor changes to notes disclosures
IAS 1	1/1/2011	Clarification of statement of changes in equity	none
IAS 21, IAS 28, IAS 31	7/1/2010	Prospective application of amendments of revised IFRS 3	none
IAS 34	1/1/2011	Changed wording with respect to significant events and transactions	none
IFRIC 13	1/1/2011	Additional interpretive guidance (application guidance, basis for conclusions)	none

In addition, the IASB has issued new Standards and amendments of 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:

Standard / Interpretation	Effective date	Subject of Standard / Interpretation or amendment	Expected impact on the Schaeffler Group
IFRS 1	7/1/2011	Aspects of first-time adoption of IFRS with respect to financial instruments and hyperinflation	none
IFRS 7	7/1/2011	Disclosure requirements related to transfers of financial assets	More extensive disclosures on a case by case basis
IFRS 9	1/1/2013	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments
IAS 12	1/1/2012	Deferred taxes on investment property measured at fair value through profit or loss	none

Basis of preparation

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

Schaeffler classifies assets as current if they are expected to be realized within twelve months after the reporting period. Similarly, liabilities are classified as current if they are expected to be settled within twelve months after the reporting period.

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

Measurement bases

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

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

These instruments were measured at fair value.

Estimation uncertainty and management judgment

In the preparation of financial statements in accordance with IFRS, management exercises judgment in making appropriate estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.
Both estimates and the basis assumptions are made on 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 and determination of recoverable amount and the underlying assumptions (e.g. discount rate),
- accounting for employee benefits, including actuarial assumptions,
- recognition and measurement of other provisions, particularly restructuring provisions,
- assessment of the recoverability of deferred tax assets, and
- measurement of financial instruments with respect to assessing recoverability and determining fair values.

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

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

In 2010, there was no significant impact from adjustments of assumptions made in the past or the resolution of previously existing uncertainties related to the above issues.

1.4 Accounting policies

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

Consolidation principles

Subsidiaries are entities Schaeffler controls. Control exists if Schaeffler has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights that are currently exercisable are taken into account when assessing control. In accordance with SIC 12 "Consolidation – Special Purpose Entities", Schaeffler's consolidated financial statements also include companies that Schaeffler controls without holding a majority of the voting rights, e.g. where Schaeffler in substance retains the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities. Subsidiaries' financial statements are included in the consolidated financial statements from the date Schaeffler obtains control until the date Schaeffler loses control. Entities have an accounting policy choice regarding whether to consolidate entities over which they may have "de-facto-control", e.g. because they hold a majority of the votes represented at the annual general meeting. Such entities may either be fully consolidated as subsidiaries ("de facto control" concept) or accounted for using the equity method as associated companies ("power to govern" concept). Schaeffler applies the "power to govern" concept and, therefore, accounts for these entities using the equity method.

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

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

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

Foreign currency translation

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

Translation of foreign currency financial statements
The Schaeffler Group presents its financial statements in Euro, the functional currency of Schaeffler GmbH. 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 income statement items 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:

Currencies		Closing rate		Average rate	
1 € in		12/31/2010	12/31/2009	2010	2009
Brazil	BRL	2.22	2.51	2.33	2.77
Canada	CAD	1.33	1.51	1.37	1.59
Switzerland	CHF	1.25	1.48	1.38	1.51
China	CNY	8.82	9.84	8.98	9.51
United Kingdom	GBP	0.86	0.89	0.86	0.89
Hong Kong	HKD	10.39	11.17	10.31	10.80
Hungary	HUF	277.95	270.42	275.36	280.69
India	INR	59.76	67.04	60.61	67.35
Japan	JPY	108.65	133.16	116.46	130.22
South Korea	KRW	1,499.06	1,666.97	1,532.89	1,772.50
Mexico	MXN	16.55	18.92	16.75	18.79
Romania	RON	4.26	4.24	4.21	4.24
Sweden	SEK	8.97	10.25	9.55	10.62
Singapore	SGD	1.71	2.02	1.81	2.02
U.S.A.	USD	1.34	1.44	1.33	1.39
South Africa	ZAR	8.86	10.67	9.71	11.70

Revenue recognition

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

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

Product-related expenses

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

Costs incurred for advertising, sales promotion and other selling related activities are expensed as incurred. Warranty provisions are recognized on a case-by-case basis taking into account the related specific legal and contractual agreements.

Research and development expenses

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

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

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

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

Goodwill

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

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

Other intangible assets

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

Subsequent expenditures are only capitalized when they increase the future economic benefits of the asset to which they relate. All other expenditures, including expenditures for internally generated goodwill and brands, are expensed as incurred.

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

Property, plant and equipment

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

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

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

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

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

Leases

Leases that transfer substantially all risks and rewards of ownership to Schaeffler are classified as finance leases. The leased asset is initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A liability is recognized at the same amount. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. Finance cost is 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. 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 its fair value.

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

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

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

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

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

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

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

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

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

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

Financial instruments

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

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

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

Schaeffler classifies its financial instruments in one of the following categories set out in IAS 39:

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

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

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

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

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

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

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

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized directly in 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 other comprehensive income remains in equity until the forecast transaction occurs. 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 weighted average 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 taxes. Income taxes are recognized in profit or loss, except for income taxes relating to items recognized directly in equity or in accumulated other comprehensive income, which are also recognized in equity or in accumulated other comprehensive income.

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

Under IAS 12 "Income Taxes", deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets and liabilities are recognized on temporary differences that will result in taxable or deductible amounts in determining taxable profit of future periods, unless the differences are the result of the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has affected neither pre-tax profit or loss nor taxable profit (initial differences). IAS 12 also requires the recognition of deferred tax assets on tax loss carryforwards and tax credits.
Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that future taxable profit will be available.

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

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

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

Provisions for pensions and similar obligations

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

The Schaeffler Group's obligations under defined benefit plans are calculated annually using the projected unit credit method separately for each plan based on an estimate of the amount of future benefits that employees have earned in return for their service in current and prior periods. Estimating the obligations and costs related to pensions and accrued vested rights involves the use of assumptions based on market assessments regarding the 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 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 other comprehensive income. Interest expense on provisions for pensions and similar obligations and interest income on plan assets are included in interest income and interest expense.

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

Provisions

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

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

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

2. PRINCIPLES OF CONSOLIDATION

2.1 Scope of consolidation

In 2010, the Schaeffler Group includes, in addition to Schaeffler GmbH, 152 (prior year: 162) fully consolidated subsidiaries and special purpose entities; 50 (prior year: 57) companies are domiciled in Germany and 102 (prior year: 105) are foreign entities. Two newly founded companies were consolidated for the first time in 2010. Twelve entities were removed from the consolidation due to liquidations and mergers.

Two foreign subsidiaries (prior year: two) are consolidated because the Schaeffler Group 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, 2010, nine (prior year: nine) associated companies (including two joint ventures) are accounted for using the equity method. Except for the investment in Continental AG, over which the Schaeffler Group obtained significant influence at the end of 2008, the impact of associated companies on the overall presentation of the financial statements is not significant.

See Note 5.8 for details of the Schaeffler Group's investments.

2.2 Associated companies

As at December 31, 2009, Schaeffler Group held 84,333,986 shares or 49.90 % of the voting interest in Continental AG. In January 2010, Continental AG increased its capital and issued 31,000,000 new shares. The Schaeffler Group did not participate in this capital increase.

After completion of the capital increase, the Schaeffler Group's voting interest was diluted to 42.17 %. During the remainder of the reporting period and as at December 31, 2010, the Schaeffler Group holds 42.17 % of the voting interest in Continental AG.

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

In € millions	2010	2009
Assets (as of 12/31)	24,391	23,049
Liabilities (as of 12/31)	18,188	18,988
Revenue (1/1 – 12/31)	26,047	20,096
Net income (loss) (1/1 – 12/31)	646	-1,607

The associated companies have the same balance sheet date as the Schaeffler Group.

Purchase price allocation

In accordance with the equity method, the cost of the acquisition was allocated to the Schaeffler Group's interest in the fair value of the assets and liabilities of Continental AG.

Share of net income (loss) of associated companies

The share of net income (loss) of associated companies is mainly attributable to the shares directly held in Continental AG. The Schaeffler Group's pro-rata share of depreciation, amortization and impairments on fair value adjustments, the share of Continental AG's net income (loss), and the dilution loss arising on the capital increase which the Schaeffler Group did not participate in, net of offsetting deferred tax effects and after non-recurring items related to the purchase price allocation, have led to a loss of EUR 348 m. The effect on net income (loss) of the Schaeffler Group is as follows:

In € millions	2010	2009
Depreciation, amortization and impairments of fair value adjustments	-296	-432
Share of net income (loss) of Continental AG	246	-822
Goodwill impairment loss recognized by Continental AG	0	**437**
Dilution of ownership interest due to non-participation in Continental AG capital increase	-396	0
Effect on net income (loss) before income taxes	**-446**	**-817**
Deferred taxes	83	121
Effect on net income (loss) before non-recurring items [1]	**-363**	**-696**
Non-recurring items [1]		
- Reversal of step down of financial debt recognized at the time of the PPA	-5	0
- Reversal of cash flow hedges existing at the time of the PPA	12	0
- Recognition of Continental AG pension obligations at fair value	8	9
- Adjustment of impairment losses on investments in associated companies	0	42
- Adjustment of unrecognized deferred taxes related to change of shareholder [2]	0	54
Effect on net income (loss) after non-recurring items [1]	**-348**	**-591**

1) Realized through purchase price allocation.
2) According to section 8c KStG (German Corporate Tax Law).

Non-recurring items realized through purchase price allocation reflect adjustments to transactions that have since been realized by Continental AG.

Share of other comprehensive income (loss) from associated companies

The Schaeffler Group's share of other comprehensive income (loss) of Continental AG, which has not affected the income statement, amounts to EUR 181 m (prior year: EUR 58 m).

The adjustment to reflect the use of uniform methods in accounting for pension obligations of EUR 43 m (prior year: EUR 59 m) and the adjustment to cash flow hedges of EUR 12 m (prior year: nil) had an offsetting effect that did not impact the income statement.

In total, these items have increased other comprehensive income by EUR 126 m after tax (prior year: decrease of EUR 1 m) without affecting the income statement.

In addition, certain members of the management of Continental AG have exercised share options, which has directly increased retained earnings by EUR 6 m (prior year: EUR 8 m).

Nature and extent of significant restrictions

Debt covenants restrict Continental AG's ability to pay dividends. Continental AG paid a dividend of EUR 2 per share for 2007, representing a total dividend distribution of EUR 323 m. As its retained earnings were negative, Continental AG did not pay any dividends for 2008 and 2009.

Market capitalization

The fair value of the Continental AG shares held by the Schaeffler Group (42.17 %) on December 31, 2010 was EUR 4,988 m. On December 31, 2009, the fair value of the Continental AG shares held by the Schaeffler Group (49.90 %) was EUR 3,177 m.

3. NOTES TO THE CONSOLIDATED INCOME STATEMENT

3.1 Revenue

In € millions	2010	2009
Revenue from the sale of goods	9,223	7,153
Other revenue	272	183
Total	**9,495**	**7,336**

Revenue from the sale of goods consists of invoiced sales of goods to customers, net of early payment discounts. Other revenue includes revenue from the sale of tools, special machines, revenue from scrap sales and revenue from other services consisting mainly of research and development services totaling EUR 93.8 m (prior year: EUR 43.7 m).

3.2 Other income

In € millions	2010	2009
Exchange gains	308	386
Reversal of provisions	4	5
Reduction of allowances	8	7
Gains on disposal of assets	5	9
Miscellaneous income	50	51
Total	**375**	**458**

The decrease in exchange gains in 2010 compared to 2009 is primarily due to the increased proportion of derivative financial instruments accounted for using hedge accounting.

3.3 Other expenses

In € millions	2010	2009
Exchange losses	319	427
Increase in allowances	4	11
Losses on disposal of assets	3	7
Miscellaneous expenses	51	36
Total	**377**	**481**

In 2010, exchange losses include realized and unrealized losses of EUR 319 m (prior year: EUR 427 m). Similar to exchange gains presented in other income, exchange losses have decreased mainly due to the increased proportion of derivative financial instruments accounted for using hedge accounting.

3.4 Personnel expense and headcount

In 2010, the Schaeffler Group had an average of 65,041 employees (prior year: 62,355) and 488 temporary staff (prior year: 232).

Number of employees	2010	2009
Germany	27,457	27,327
Europe excluding Germany	19,016	17,547
North America	5,505	5,178
South America	4,368	4,288
Asia/Pacific	8,695	8,015
Total	**65,041**	**62,355**

Number of employees	2010	2009
Production	50,886	48,299
Research and development	4,902	4,875
Selling	5,366	5,197
General administration	3,887	3,984
Schaeffler Group	**65,041**	**62,355**

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

In € millions	2010	2009
Wages and salaries	2,264	1,861
Social security contributions	437	385
Pensions and similar benefit expenses	57	53
Total	**2,758**	**2,299**

The increase in personnel expense in 2010 is mainly due to the global economic recovery experienced since early 2010 and the related increase in staffing levels in all regions. Pensions and similar benefit expenses consist mainly of expenses related to defined benefit pension plans, contributions to defined contribution pension plans, expenses in connection with the “Pensionssicherungsverein” (German pension assurance association), and other employee benefits.

3.5 Financial result

In € millions	2010	2009
Interest income on pension plan assets	25	22
Interest income on financial assets	12	16
Miscellaneous financial income	14	1
Interest income	**51**	**39**
Interest expense on financial debt	-386	-602
Interest expense from compounding of pensions and other provisions	-84	-97
Interest expense on interest rate derivatives	-373	-247
Miscellaneous financial expense	-18	-4
Losses on securities	0	-18
Interest expense	**-861**	**-968**
Share of net income (loss) of associated companies	-349	-591
Financial result	**-1,159**	**-1,520**

The Schaeffler Group's financial result comprises interest income of EUR 51 m (prior year: EUR 39 m) and interest expense of EUR 861 m (prior year: EUR 968 m) as well as the share of net income (loss) of associated companies of EUR -349 m (prior year: EUR -591 m). The share of net income (loss) of associated companies consists mainly of Schaeffler's share of the net income (loss) of Continental AG, which is accounted for using the equity method. It includes a non-recurring dilution loss of EUR 396 m on the capital increase of Continental AG in January 2010, which the Schaeffler Group did not participate in. Excluding this dilution loss, share of net income (loss) of associated companies amounts to EUR 48 m.

Miscellaneous financial income includes primarily income from the reversal of impairment losses on financial assets in the class "other loans receivable".

Interest expense on financial debt of EUR 386 m (prior year: EUR 602 m) includes mainly interest payments for the Senior Facility Agreement of EUR 282 m (prior year: EUR 33 m) and expenses of EUR 30 m (prior year: EUR 4 m) relating to transaction costs amortized over the term of the financial debt.

Interest expense on interest rate derivatives includes EUR 30 m (prior year: EUR 2 m) related to non-cash unrealized fair value losses on interest rate hedging derivatives and EUR 252 m (prior year: EUR 245 m) in compensation payments on interest rate derivatives which are due primarily to the continued low interest rate levels. Since the date the refinancing arrangement was entered into in 2009, the interest rate hedging instruments no longer qualified for hedge accounting under IFRS. The reserve of EUR -286 m accumulated up to November 20, 2009 for cash flow hedge accounting is being amortized to profit or loss using the effective interest method. In 2010, this resulted in non-cash interest expense on interest rate derivatives of EUR 91 m (prior year: EUR 10 m).

3.6 Income taxes

Income taxes consist of the following:

In € millions	2010	2009
Current income taxes	314	146
Deferred income taxes	-37	-21
Income taxes	**277**	**125**

Income taxes of Schaeffler GmbH and its subsidiaries for the prior year were determined based on the separate return approach.

As a corporation, Schaeffler GmbH 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 2010 (prior year: 27.9 %). This tax rate consists of corporation tax and 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 2010, the current income tax expense related to prior years amounts to EUR 19 m (prior year: EUR 12 m) and mainly reflects the impact of tax audits. In addition, Schaeffler incurred deferred tax income of EUR 20 m related to prior years.

Deviations from the expected tax rate result primarily 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 reported income tax expense. The calculation for 2010 is based on a 28.0 % effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler GmbH.

In € millions	2010	2009
Net income before tax	**350**	**-1,074**
Expected tax expense / income	98	-302
Addition / reduction due to deviating local tax bases	4	-18
Foreign / domestic tax rate differences	-1	-22
Non-recognition of deferred tax assets	7	60
Change in tax rate and law	-5	-2
Non-deductible expenses	146	210
Non-taxable income	0	-15
Result from associated company accounted for at equity	54	166
Taxes for previous years	-1	12
Other	-25	36
Reported tax expense	**277**	**125**

The additional income tax on non-deductible expenses is almost entirely caused by non-deductible interest expense resulting from the interest deduction cap (German Zinsschranke). No deferred taxes were recognized on interest carryforwards.

Results from associated companies accounted for at equity relate primarily to the investment in Continental AG, Hanover.

4. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

4.1 Intangible assets

In € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as of January 1, 2009	473	996	208	0	1,677
Additions	10	5	35	1	51
Disposals	0	-8	-26	0	-34
Transfers	0	5	-5	0	0
Foreign currency translation	0	0	0	0	0
Balance as of December 31, 2009	483	998	212	1	1,694
Balance as of January 1, 2010	483	998	212	1	1,694
Additions	0	6	15	0	21
Disposals	0	-11	-17	-1	-29
Transfers	0	0	0	0	0
Foreign currency translation	0	4	1	0	5
Balance as of December 31, 2010	483	997	211	0	1,691
Accumulated amortization and impairment losses					
Balance as of January 1, 2009	0	933	65	0	998
Additions	0	43	43	0	86
Disposals	0	-8	0	0	-8
Transfers	0	0	0	0	0
Foreign currency translation	0	0	0	0	0
Balance as of December 31, 2009	0	968	108	0	1,076
Balance as of January 1, 2010	0	968	108	0	1,076
Additions	0	16	32	0	48
Disposals	0	-11	0	0	-11
Transfers	0	0	0	0	0
Foreign currency translation	0	3	0	0	3
Balance as of December 31, 2010	0	976	140	0	1,116
Net carrying amounts					
As of January 1, 2009	473	63	143	0	679
As of December 31, 2009	483	30	104	1	618
As of January 1, 2010	483	30	104	1	618
As of December 31, 2010	483	21	71	0	575

Additions to goodwill of EUR 10 m in 2009 represent mainly subsequent acquisition cost related to the acquisition of the Raybestos clutch lining business in 2008.

At the end of 2010, intangible assets purchased from third parties have a net carrying amount of EUR 21 m (prior year: EUR 30 m). Additions in 2010 totaled EUR 6 m (prior year: EUR 5 m).

At the end of 2010, internally generated intangible assets include EUR 45 m (prior year: EUR 72 m) in capitalized development costs. Additions in 2010 amounted to EUR 3 m (prior year: EUR 31 m) and amortization totaled EUR 13 m (prior year: EUR 19 m).

In addition, internally generated intangible assets include EUR 26 m (prior year: EUR 33 m) in internally generated software, mainly relating to the implementation of SAP. In 2010, additions of EUR 12 m (prior year: EUR 4 m) are offset by amortization of EUR 19 m (prior year: EUR 24 m).

In the consolidated income statement, amortization of intangible assets of EUR 48 m (prior year: EUR 86 m) is presented in cost of sales, research and development expenses and in selling and administrative expenses. Cost of sales includes no impairment losses (prior year: EUR 7 m) resulting from changes in the purchasing behavior of several customers.

Internally generated intangible assets with a carrying amount of EUR 13 m (prior year: EUR 30 m) are not subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 467 m (prior year: EUR 384 m) were recognized in the income statement in 2010.

At December 31, 2010, intangible assets with a carrying amount of EUR 88 m (prior year: EUR 112 m) have been pledged as collateral for bank loans.

Goodwill

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under “General Information” (Note 1.4 “Accounting policies”). To determine the recoverable amount, cash flows beyond the detailed forecast horizon are based on an annual growth rate of 0.5 % (prior year: 1.0 %) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 13.05 % (prior year: 13.8 %) as the weighted average cost of capital. This corresponds to a post-tax interest rate of 9.12 % for the Automotive segment (prior year: 9.9 %) and 9.18 % for the Industrial segment (prior year: 9.9 %). Valuation assumptions are normally identical across cash-generating units.

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

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

4.2 Property, plant and equipment

In € millions	Land and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as of January 1, 2009	1,866	5,189	845	392	8,292
Additions	28	158	18	70	274
Disposals	-7	-161	-54	-12	-234
Transfers	81	194	8	-283	0
Foreign currency translation	19	86	7	0	112
Balance as of December 31, 2009	1,987	5,466	824	167	8,444
Balance as of January 1, 2010	1,987	5,466	824	167	8,444
Additions	16	160	36	153	365
Disposals	-12	-188	-72	-10	-282
Transfers	5	92	4	-101	0
Foreign currency translation	57	167	18	6	248
Balance as of December 31, 2010	2,053	5,697	810	215	8,775
Accumulated depreciation and impairment losses					
Balance as of January 1, 2009	779	3,454	636	14	4,883
Depreciation	69	420	63	0	552
Impairment losses	5	6	0	7	18
Impairment reversals	0	-2	0	0	-2
Disposals	-5	-152	-50	-3	-210
Transfers	-1	1	0	0	0
Foreign currency translation	7	61	6	0	74
Balance as of December 31, 2009	854	3,788	655	18	5,315
Balance as of January 1, 2010	854	3,788	655	18	5,315
Depreciation	67	414	57	0	538
Impairment losses	0	2	0	0	2
Impairment reversals	0	0	0	-5	-5
Disposals	-10	-183	-69	0	-262
Transfers	0	-1	1	0	0
Foreign currency translation	18	113	15	0	146
Balance as of December 31, 2010	929	4,133	659	13	5,734
Net carrying amounts					
As of January 1, 2009	1,087	1,735	209	378	3,409
As of December 31, 2009	1,133	1,678	169	149	3,129
As of January 1, 2010	1,133	1,678	169	149	3,129
As of December 31, 2010	1,124	1,564	151	202	3,041

At EUR 365 m (prior year: EUR 274 m), the Schaeffler Group incurred significantly higher capital expenditures in 2010 than in 2009. Due to the world wide economic slump, capital expenditures focused mainly on replacement in 2009. In addition, various ongoing capital expenditure projects were continued or completed.

In 2010, the exceptionally positive market trend particularly in the Engine Systems and Transmissions sectors and the resulting increase in customer demand led to increased capital expenditures both for expanding existing production capacity and for establishing new production facilities.

In addition to Germany, capital expenditures focused on the production facilities in China and Korea.

At December 31, 2010, property, plant and equipment with a carrying amount of EUR 1,627 m (prior year: EUR 1,581 m) has been pledged as collateral for bank loans.

In 2010, impairment losses of EUR 2 m (prior year: EUR 18 m) have been recognized in cost of sales. Impairment losses were incurred mainly on technical equipment and machinery in Romania and China. The recoverable amount of these assets is their fair value less costs to sell. Impairment losses of EUR 5 m on assets under construction in Brazil were reversed in 2010 due to the positive market trend. The reversal is shown in other income.

4.3 Investments in associated companies

In € millions	12/31/2010	12/31/2009
Continental AG	5,248	5,468
Other	4	4
Total	**5,252**	**5,472**

Please refer to the discussion in Note 2.2 for details of changes in investments in associated companies.

4.4 Deferred tax assets and liabilities

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

In € millions	12/31/2010	12/31/2009
Intangible assets	-19	-27
Property, plant and equipment	-92	-74
Financial assets	-1	4
Inventories	17	16
Trade receivables and other assets	-57	57
Provisions for pensions and similar obligations	106	84
Other provisions and other liabilities	173	120
Loss carryforwards	25	40
Other	21	-47
Deferred taxes, net	**173**	**173**
Deferred tax assets	289	248
Deferred tax liabilities	-116	-75

In the prior year financial statements, unrecognized deferred taxes were not allocated to the related balance sheet line items and loss carryforwards.

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 2010, 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 2010, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 19 m (prior year: EUR 41 m). Recovery of these net deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2010, gross loss carryforwards for corporation tax and trade tax amount to EUR 192 m (prior year: EUR 423 m), including EUR 70 m (prior year: EUR 203 m) on which no deferred taxes have been recognized. In addition, the Group had carryforwards under the interest deduction cap amounting to EUR 429 m (prior year: EUR 126 m) at the end of the reporting period, on which deferred taxes have not been recognized. The majority of the unrecognized loss carryforwards and the interest carryforwards can be utilized indefinitely.

At December 31, 2010, the accumulated amount of deferred taxes recognized in accumulated other comprehensive income (loss) is EUR 38 m (prior year: EUR 79 m) and mainly relates to derivatives, pensions and similar obligations.

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

4.5 Inventories

In € millions	12/31/2010	12/31/2009
Raw materials and supplies	283	220
Work in progress	401	302
Finished goods and merchandise	792	637
Advance payments	6	3
Total	**1,482**	**1,162**

In 2010, Schaeffler recognized a valuation allowance of EUR 200 m (prior year: EUR 203 m) on inventories. The allowance includes a provision for slow-moving and obsolete items as well as all evident storage and inventory risks. Inventories of EUR 6,423 m (prior year: EUR 5,465 m) were recognized as an expense in the consolidated income statement during the reporting period.

Inventories of EUR 1,035 m (prior year: EUR 790 m) have been pledged as collateral for liabilities.

4.6 Trade receivables

In € millions	12/31/2010	12/31/2009
Trade receivables	1,443	1,144

All trade receivables are current.

At December 31, 2010, trade receivables of EUR 795 m (prior year: EUR 554 m) have been pledged as collateral for liabilities.

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

In € millions	2010	2009
Impairment allowances as of January 1	**25**	**26**
Additions	3	11
Allowances used to cover write-offs	-2	-5
Reversals	-4	-7
Impairment allowances as of December 31	**22**	**25**

Trade receivables past due are summarized as follows:

In € millions		12/31/2010	12/31/2009
Carrying amount		**1,443**	**1,144**
Not past due		**1,355**	**1,052**
Past due	up to 60 days	81	85
	61 – 120 days	5	5
	121 – 180 days	0	2
	181 – 360 days	1	0
	more than one year	1	0

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

In € millions	Past due up to 60 days	61–120 days	121–180 days	181–360 days	more than one year
December 31, 2010					
Gross	81	8	1	3	10
Impairment allowance	0	3	1	2	9
Net	**81**	**5**	**0**	**1**	**1**
December 31, 2009					
Gross	89	7	3	5	8
Impairment allowance	4	2	1	5	8
Net	**85**	**5**	**2**	**0**	**0**

Please refer to Note 5.5 for related party receivables.

4.7 Other assets and income tax receivables

In € millions	12/31/2010 Non-current	Cur-rent	Total	12/31/2009 Non-current	Cur-rent	Total
Pension asset	46	0	46	29	0	29
Marketable securities	3	0	3	2	0	2
Loans receivable and financial receivables	22	0	22	23	1	24
Tax receivables	21	112	133	27	67	94
Derivative financial assets	43	77	120	149	32	181
Miscellaneous assets	31	68	99	25	83	108
Total	**166**	**257**	**423**	**255**	**183**	**438**

Changes in derivative financial assets are primarily due to changes in the fair value of derivative financial instruments used to economically hedge the Schaeffler Group's interest rate and currency risk. They consist of an interest rate hedging instrument of EUR 43 m (prior year: EUR 148 m) and positive fair values of currency hedging instruments.

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

At December 31, 2010, other assets and income tax receivables of EUR 52 m (prior year: EUR 43 m) have been pledged as collateral for liabilities.

Income tax receivables of EUR 98 m have increased by EUR 59 m compared to December 31, 2009 and are entirely current.

4.8 Cash and cash equivalents

At December 31, 2010, cash and cash equivalents amount to EUR 733 m (prior year: EUR 350 m) and consist primarily of bank balances.

At December 31, 2010, cash and cash equivalents of EUR 531 m (prior year: EUR 208 m) have been pledged as collateral for liabilities.

4.9 Shareholders' equity

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

In € millions	12/31/2010	12/31/2009
Share capital [1)]	500	0
Other reserves	2,801	3,239
Accumulated other comprehensive income (loss)	-7	-421
Equity attributable to shareholders of the parent company	**3,294**	**2,818**
Non-controlling interests	47	34
Total shareholders' equity	**3,341**	**2,852**

1) As of December 31, 2009, Schaeffler GmbH (at that time named Schaeffler Verwaltung Zwei GmbH) had a share capital of EUR 25,000.

Schaeffler GmbH was founded on September 29, 2009 with share a capital of EUR 25,000. All of the shares in Schaeffler GmbH are held by Schaeffler Verwaltungs GmbH.

The Schaeffler Group's equity prior to the founding of Schaeffler GmbH on September 29, 2009 is shown as the net amount of assets and liabilities of the Schaeffler Group and, after deducting accumulated other comprehensive income, is presented as "partners' interests". Since the date Schaeffler GmbH was legally founded, the Schaeffler Group's shareholders' equity includes share capital of EUR 25,000. The difference between this balance and the net assets and liabilities of the Schaeffler Group is presented as "other reserves".

As of the date the capital increase related to the hive-down was entered in the Commercial Register, the Schaeffler Group's share capital increased to EUR 500,025,000.

In December 2010, an advance dividend of EUR 400 m payable to Schaeffler Verwaltungs GmbH, the shareholder of Schaeffler GmbH, was declared. No liability due to the shareholder was recognized for this dividend as at December 31, 2010. The dividend was paid in January 2011.

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

- Translation reserve
  The translation reserve comprises all foreign currency differences arising on translation of the financial statements of foreign operations.

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

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

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

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

4.10 Current / Non-current financial debt

	12/31/2010			12/31/2009		
In € millions	Total	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year
Financial debt	6,477	64	6,413	6,481	61	6,420

At December 31, 2010, the Schaeffler Group had financial debt of EUR 6,477 m (prior year: EUR 6,481 m), consisting of EUR 6,413 m (prior year: EUR 6,420 m) in non-current bank debt and EUR 64 m (prior year: EUR 61 m) in current bank debt, both accounted for at amortized cost.

As part of the efforts to rearrange the debt financing, the loan agreements to refinance the financing of the acquisition of Continental AG shares were signed on November 20, 2009. The resulting Senior Facility Agreement (SFA) is included in Schaeffler GmbH's financial debt.

The SFA principal amount of EUR 7,143 m consists of a term loan of EUR 6,350 m and a revolver of EUR 793 m. They are due on June 30, 2013 and bear interest at EURIBOR plus 425 basis points. The carrying amount of EUR 6,271 m (prior year: EUR 6,241 m) as at December 31, 2010 differs from the principal amount due to unamortized transaction costs of EUR 79 m (prior year: EUR 109 m) and because the revolver has not been utilized. In addition, Schaeffler obtained an annuity loan to finance the purchase of an interest rate hedging instrument. At year-end, the loan has a carrying amount of EUR 140 m (prior year: EUR 174 m). Financial debt due in up to one year includes primarily accrued interest related to the SFA.

The SFA contains certain constraints including a requirement to meet certain financial covenants relating to debt leverage, interest cover, cash flow cover and capital expenditures. Under the SFA, the creditors have the right to call the debt before maturity if the covenants are not met and also for certain other reasons. If the debt is called, it becomes due immediately.

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

4.11 Provisions for pensions and similar obligations

Employee benefits include defined benefit plans, both funded and unfunded, and defined contribution plans. 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:

In € millions	12/31/2010	12/31/2009
Provisions for pensions (liabilities net of related plan assets)	1,110	1,118
Provisions for obligations similar to pensions	2	2
Provisions for pensions and similar obligations	**1,112**	**1,120**
Pension asset (plan assets net of related liabilities)	46	29
Net defined benefit obligation	**1,066**	**1,091**

These amounts reconcile to the defined benefit obligation and plan assets as follows:

In € millions	12/31/2010	12/31/2009
Present value of unfunded obligations	1,041	1,118
Present value of funded obligations	501	356
Present value of defined benefit obligations (total)	**1,542**	**1,474**
Fair value of plan assets	478	385
Net pension obligation recognized in the statement of financial position	**1,064**	**1,089**
Other employee benefits similar to pensions	2	2
Net defined benefit obligation	**1,066**	**1,091**

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

In addition to the German pension plans, the most significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. In these countries, the Schaeffler Group's pension obligations are financed by separate pension funds. At the end of 2010, approximately 90 % (prior year: 81 %) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

Plan assets consist of the following:

In € millions	12/31/2010	12/31/2009
Equity instruments	172	134
Debt instruments	183	147
Real estate	14	12
Cash	2	1
Other (incl. reimbursement insurance)	107	91
Total	**478**	**385**

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:

In € millions	2010	2009
Defined benefit obligation as of January 1	**1,474**	**1,292**
Benefits paid	-81	-81
Current service cost	25	23
Interest cost	77	76
Contributions by plan participants	9	8
Transfers in / out	-1	8
Curtailments	0	-5
Past service cost – vested	4	0
Past service cost – non-vested	1	0
Actuarial gains and losses recognized in other comprehensive income / loss	8	143
Foreign currency translation	26	10
Defined benefit obligation as of December 31	**1,542**	**1,474**

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

In € millions	2010	2009
Fair value of plan assets as of January 1	**385**	**329**
Contributions by employer / employee	52	24
- Employer contribution	44	16
- Employee contribution	8	8
Benefits paid	-20	-22
Expected return on plan assets	25	22
Transfers in / out	-1	-1
Actuarial gains and losses recognized in other comprehensive income / loss	16	22
Foreign currency translation	21	11
Fair value of plan assets as of December 31	**478**	**385**

The actual return on plan assets for 2010 amounted to EUR 41 m (prior year: EUR 44 m).

For 2011, Schaeffler expects to make contributions to plan assets totaling EUR 29 m.

The following amounts were recognized in profit or loss:

In € millions	2010	2009
Current service cost	25	23
Interest cost	77	76
Expected return on plan assets	-25	-22
Curtailment gains	0	-5
Amortization of past service cost	4	0
Net pension cost	**81**	**72**

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

In € millions	2010	2009
Cost of sales	18	10
Research and development expenses	4	3
Selling expenses	3	3
Administrative expenses	4	2
Included in EBIT	**29**	**18**
Interest cost	77	76
Expected return on plan assets	-25	-22
Included in financial result	**52**	**54**
Total	**81**	**72**

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

In € millions	2010	2009
Expenses related to defined benefit plans	29	18
Contributions to defined contribution plans	12	13
Total	**41**	**31**

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

In € millions	2010	2009
Accumulated balance as of January 1	**-34**	**-152**
Gains / losses on defined benefit obligations, current year	8	139
Gains / losses on plan assets, current year	-17	-21
Accumulated balance as of December 31	**-43**	**-34**

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

The weighted averages of the principal actuarial assumptions for the Schaeffler Group as a whole are as follows:

	2010	2009
Discount rate as of December 31	5.3 %	5.4 %
Expected return on plan assets	6.0 %	6.6 %
Future salary increases	3.3 %	3.1 %
Future pension increases	1.7 %	1.7 %

The actuarial assumptions for the major countries are as follows:

Germany	2010	2009
Discount rate as of December 31	5.3 %	5.3 %
Expected return on plan assets	4.2 %	4.5 %
Future salary increases	3.3 %	3.3 %
Future pension increases	1.5 %	1.5 %

U.S.A.	2010	2009
Discount rate as of December 31	5.5 %	5.8 %
Expected return on plan assets	8.2 %	8.1 %
Future salary increases	n.a.	n.a.
Future pension increases	n.a.	n.a.

United Kingdom	2010	2009
Discount rate as of December 31	5.5 %	5.8 %
Expected return on plan assets	6.2 %	6.9 %
Future salary increases	n.a.	0.0 %
Future pension increases	3.0 %	3.3 %

The expected total long-term return on plan assets amounts to 6.0 % (prior year: 6.6 %) and is based on the return on the portfolio as a whole and not on the sum of the returns on individual asset categories. It has been determined on the basis of historical returns without adjustments.

Mortality assumptions are based on published statistics and country-specific mortality tables.

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

In € millions	12/31/2010	12/31/2009	12/31/2008	12/31/2007 [1]	12/31/2006 [1]
Present value of defined benefit obligation	1,542	1,474	1,292	1,403	1,523
Fair value of plan assets	478	385	329	405	415
Net unfunded benefit obligation	**1,064**	**1,089**	**963**	**998**	**1,108**
Experience adjustments arising on plan liabilities	7	14	10	-13	-7
Experience adjustments arising on plan assets	15	20	-74	-5	6

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

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

4.12 Provisions

In € millions	Employee benefits	Restructuring	Sales market risks	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as of January 1, 2010	**212**	**39**	**57**	**47**	**9**	**17**	**60**	**441**
Additions	74	1	69	36	28	11	41	260
Utilization	-86	-13	-50	-14	-2	-7	-28	-200
Changes in scope of consolidation	0	0	0	0	0	-1	-2	-3
Reversals	-9	-21	-7	-20	0	-3	-9	-69
Interest	4	0	0	0	0	0	1	5
Foreign currency translation	2	1	1	1	1	1	3	10
Balance as of December 31, 2010	**197**	**7**	**70**	**50**	**36**	**18**	**66**	**444**

Provisions have the following current and non-current portions:

	12/31/2010			12/31/2009		
In € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	117	80	197	120	92	212
Restructuring	0	7	7	2	37	39
Sales market risks	0	70	70	0	57	57
Warranties	0	50	50	0	47	47
Other taxes	0	36	36	0	9	9
Liability and litigation risks	0	18	18	0	17	17
Other	10	56	66	13	47	60
Total	**127**	**317**	**444**	**135**	**306**	**441**

Employee benefits and restructuring
Provisions for employee benefits include provisions for partial retirement, net of the related plan assets, of EUR 100 m (prior year: EUR 103 m). The obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are determined using the mortality tables "Richttafeln 2005 G" by Klaus Heubeck. The discount rate is 2.75 % at December 31, 2010, and future salary increases were assumed to be 3.25 %. The provision for employee benefits also includes obligations arising from the adjustment funds (German Entgeltrahmenabkommen, ERA) based on a collective bargaining agreement with the metalworking and electrical engineering industry in Germany, long-time service awards, as well as other personnel and payroll-related provisions, particularly for early retirement, death and temporary assistance benefits.

At December 31, 2010, restructuring provisions of EUR 7 m (prior year: EUR 39 m) have been recognized primarily for expenses expected in connection with human resources measures. In the prior year, extensive restructuring provisions had been recognized as a result of the global economic downturn.

Sales market risks
The provisions for sales market risks consist of provisions for selling costs (particularly customer bonuses, early-payment discounts and rebates).

Warranties
Warranty provisions are recognized on a case-by-case basis for each sales transaction.

Other taxes
Tax provisions have been recognized for current and prior year taxes other than income taxes. Additions during the reporting period mainly relate to provisions for land transfer tax incurred in connection with the restructuring of the Group in 2010.

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

Other
Other provisions include provisions for environmental risks, the audit of the consolidated and separate financial statements, document retention and other items to be provided for.

4.13 Trade payables

At December 31, 2010, the Schaeffler Group has trade payables of EUR 729 m (prior year: EUR 425 m), all of which are current. At December 31, 2010, the amount includes EUR 25 m (prior year: EUR 14 m) in notes payable.

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

4.14 Other liabilities and income tax payables

In € millions	12/31/2010	12/31/2009
Other liabilities	909	1,088
Income tax payables	217	126

At December 31, 2010, income tax payables amount to EUR 217 m (prior year: EUR 126 m), including non-current balances of EUR 102 m (prior year: EUR 24 m).

Other liabilities consist of the following:

	12/31/2010			12/31/2009		
In € millions	Non-current	Current	Total	Non-current	Current	Total
Financial allocation account	0	0	0	0	135	135
Amounts payable to staff	0	272	272	0	155	155
Social security contributions payable	8	28	36	9	30	39
Advance payments received	0	20	20	0	21	21
Other tax payables	0	74	74	6	63	69
Derivative financial liabilities	409	35	444	455	59	514
Miscellaneous liabilities	6	57	63	3	152	155
Total	**423**	**486**	**909**	**473**	**615**	**1,088**

The change of EUR 179 m in 2010 to EUR 909 m (prior year: EUR 1,088 m) is primarily due to changes in derivative financial instruments, amounts payable to staff, and the financial allocation account.

Derivative financial instruments include in particular forward exchange contracts, currency options and interest rate hedging instruments used to economically hedge the Schaeffler Group's currency and interest rate risk. The financial allocation account referred to above represents the liquidity requirements up to the date of the legal hive-down (see Note 1.2) of companies not included in the Schaeffler Group consolidated financial statements. Amounts payable to staff comprise overtime accounts, accrued vacation as well as profit sharing accruals. The increase in this balance is mainly the result of an increase in profit sharing accruals.

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.

		12/31/2010		12/31/2009	
In € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,443	1,443	1,144	1,144
Other investments [1]	AfS	8	-	8	-
Other assets					
- Marketable securities	AfS	3	3	2	2
- Other loans receivable [2]	LaR	107	107	109	109
- Derivatives designated as hedging instruments	n.a.	43	43	13	13
- Derivatives not designated as hedging instruments	HfT	77	77	168	168
Cash and cash equivalents	LaR	733	733	350	350
Financial liabilities, by class					
Financial debt	FLAC	6,477	6,555	6,481	6,481
Trade payables	FLAC	729	729	425	425
Other liabilities					
- Derivatives designated as hedging instruments	n.a	4	4	5	5
- Derivatives not designated as hedging instruments	HfT	440	440	509	509
- Other liabilities [2]	FLAC	83	83	306	306
Summary by category					
Available-for-sale financial assets (AfS)		11	-	10	-
Financial assets held for trading (HfT)		77	-	168	-
Loans and receivables (LaR)		2,283	-	1,603	-
Financial liabilities at amortized cost (FLAC)		7,289	-	7,212	-
Financial liabilities held for trading (HfT)		440	-	509	-

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

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in limited liability companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2010, and no (partial) disposals are planned for the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of shares in investment funds mostly investing in government bonds.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. Hedging instruments used are forward exchange contracts, options and swaps. Interest rate risk is hedged using interest rate options and swaps. However, hedge accounting is not applied to these instruments. The fair values of derivatives are shown in the table above and are calculated using valuation models with all significant inputs observable in the market.

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

Please refer to the notes on the various balance sheet line items for details of the amount of financial assets pledged as collateral.

Financial 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, where the fair value can be derived from the exchange-quoted price of the investment funds at the end of the reporting period.
- Level 2: Based on a valuation method for which all significant inputs are based on observable market data. This level includes existing forward exchange contracts and currency options as well as interest rate hedging instruments, i.e. interest rate swaps, caps and collars, which are measured using valuation models based on input variables observable in the market.
- Level 3: Based on 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.

In € millions	Level 1	Level 2	Level 3	Total
December 31, 2010				
Marketable securities	3			3
Derivatives designated as hedging instruments		43		43
Derivatives not designated as hedging instruments		77		77
Total financial assets	**3**	**120**	**0**	**123**
Derivatives designated as hedging instruments		4		4
Derivatives not designated as hedging instruments		440		440
Total financial liabilities	**0**	**444**	**0**	**444**
December 31, 2009				
Marketable securities	2			2
Derivatives designated as hedging instruments		13		13
Derivatives not designated as hedging instruments		168		168
Total financial assets	**2**	**181**	**0**	**183**
Derivatives designated as hedging instruments		5		5
Derivatives not designated as hedging instruments		509		509
Total financial liabilities	**0**	**514**	**0**	**514**

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:

In € millions	Interest and dividends	Subsequent measurement at fair value	Subsequent measurement impairment loss	Net income (loss) 2010	Net income (loss) 2009
Available-for-sale financial assets	1	0	0	1	1
Financial assets and liabilities held for trading	-252	-68	0	-320	-263
Loans and receivables	12	0	16	28	-6
Financial liabilities at amortized cost	-386	0	0	-386	-614
Total	**-625**	**-68**	**16**	**-677**	**-882**

As shown above, net gains and losses include interest, dividends, impairment losses and impairment reversals as well as changes in fair value recognized in profit or loss. Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and interest expense on financial debt, respectively (see Note 3.5). The net loss on financial assets and liabilities held for trading relates almost entirely to derivatives. EUR 282 m (prior year: EUR 247 m) (including EUR 30 m from fair value changes (prior year: EUR 2 m), EUR 252 m in compensation payments (prior year: EUR 245 m)) of this amount is included in interest expense on interest rate derivatives, while EUR 38 m (prior year: EUR 16 m) has been recognized in other comprehensive income.

In 2010, Schaeffler incurred net foreign exchange gains of EUR 27 m (prior year: net foreign exchange losses of EUR 26 m) on loans and receivables and financial liabilities accounted for at amortized cost. The net reversal of impairment losses of EUR 16 m (prior year: net impairment loss EUR 22 m) on financial assets classified as loans and receivables relates to the classes trade receivables (EUR 4 m impairment loss, EUR 8 m reversal) and other loans receivable (EUR 12 m reversal).

Financial risk management

Overview

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

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

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

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

See the discussion in section 7.4 of the management report for further details on financial risk management.

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

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

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

	Carrying amount	
In € millions	12/31/2010	12/31/2009
Trade receivables	1,443	1,144
Other investments	8	8
Other assets		
- Marketable securities	3	2
- Other loans receivable	107	109
- Derivatives designated as hedging instruments	43	13
- Derivatives not designated as hedging instruments	77	168
Cash and cash equivalents	733	350
Total financial assets	**2,414**	**1,794**

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

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

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

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

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

In € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2010					
Non-derivative financial liabilities	**7,289**	**8,820**	**1,269**	**7,547**	**4**
- Financial debt	6,477	7,993	456	7,537	0
- Trade payables	729	744	737	3	4
- Other liabilities	83	83	76	7	0
Derivative financial liabilities	**444**	**433**	**218**	**215**	**0**
Total	**7,733**	**9,253**	**1,487**	**7,762**	**4**
December 31, 2009					
Non-derivative financial liabilities	**7,212**	**9,132**	**1,216**	**7,912**	**4**
- Financial debt	6,481	8,330	436	7,893	1
- Trade payables	425	495	475	17	3
- Other liabilities	306	307	305	2	0
Derivative financial liabilities	**514**	**812**	**279**	**533**	**0**
Total	**7,726**	**9,944**	**1,495**	**8,445**	**4**

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

(3) Market risk

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

In order to manage market risk, the Schaeffler Group purchases and sells derivatives and incurs financial liabilities. All such transactions are carried out within the risk management strategy approved by the executive management board. The Finance Organization closely monitors, actively manages, and reports market risk to the CFO.

Currency risk

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

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

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

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

In € millions	USD	RON	JPY	HUF
December 31, 2010				
Estimated operating exposure	852	-198	98	-84
Forward exchange contracts	-599	157	-78	67
Currency options	-225	0	0	0
Net exposure	**28**	**-41**	**20**	**-17**
December 31, 2009				
Estimated operating exposure	568	-59	108	-83
Forward exchange contracts	-271	47	-54	64
Currency options	-167	0	-30	0
Net exposure	**130**	**-12**	**24**	**-19**

The estimated operating exposure represents the forecast net exposure from operations and from investment activities within twelve months after the end of each reporting period. The net exposure above shows the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's Finance Organization. Thus, the net exposure shown represents the difference between hedged items in the form of expected future foreign currency cash flows that have not yet been recognized and hedging instruments that have been recognized in the statement of financial position. Currency risk in countries with foreign exchange restrictions (e.g. China, Brazil) is monitored by Schaeffler's Finance Organization. The most significant currency risk in these countries arises on the USD with an estimated net exposure of EUR 227 m in 2010 (prior year: EUR -254 m).

Forward exchange contracts in certain currencies are accounted for as hedging instruments in cash flow hedges with nearly perfect effectiveness. Changes in the fair value of these derivatives are recognized directly in other comprehensive income. Gains and losses on hedging instruments are reclassified to other income or other expense in 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 changed as follows:

In € millions	2010	2009
Balance as of January 1	**8**	**0**
Additions	48	15
Reclassified to income statement		
- to other income	21	15
- to other expenses	-39	-22
Balance as of December 31	**38**	**8**

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

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

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

In € millions	12/31/2010 Profit / Loss for the period	12/31/2010 Shareholders' equity	12/31/2009 Loss for the period	12/31/2009 Shareholders' equity
USD	-23	-4	-13	-11
JPY	-1	0	-3	-2
HUF	0	0	0	0
RON	1	0	1	0

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

Interest rate risk

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

In € millions	Carrying amount 12/31/2010	Carrying amount 12/31/2009
Variable interest instruments	**6,304**	**6,301**
Financial debt	6,304	6,301
Fixed interest instruments	**173**	**180**
Financial debt	173	180

The Schaeffler Group enters into interest rate swaps, caps and collars to minimize its exposure to changes in interest rates on variable interest debt, which arises mainly from the refinancing arrangement entered into on November 20, 2009.

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.

Since cash flow hedge accounting for interest rate risk was terminated as at November 20, 2009, the date the Schaeffler Group entered into its new financing arrangement, fair value changes of interest rate derivatives are recognized entirely in profit or loss. The equity reserve of EUR -268 m accumulated up to November 20, 2009 for cash flow hedge accounting is being amortized to profit or loss using the effective interest method. In 2010, this resulted in an interest expense of EUR 91 m (prior year: EUR 10 m).
With regard to variable interest instruments a change in the relevant reference rates (1-month-Euribor) by 100 basis points (Bp) as at December 31, 2010 would have affected (increased/decreased) net income (loss) by the following amounts. This analysis assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0%.

In € millions	(Loss) / profit for the period Plus 100 Bp	(Loss) / profit for the period Minus 100 Bp
As of December 31, 2010		
Variable interest instruments	-65	36
Interest rate derivatives not designated as hedging instruments	260	-213
Total	**195**	**-177**
As of December 31, 2009		
Variable interest instruments	-64	28
Interest rate derivatives not designated as hedging instruments	327	-323
Total	**263**	**-295**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income (loss) from interest rate derivatives not designated as hedging instruments consists of both fair value changes of EUR 191 m (prior year: EUR 320 m) and EUR -178 m (prior year: EUR -320 m), respectively, and an increase and decrease in interest of EUR 69 m (prior year: EUR 7 m) and EUR -35 m (prior year: EUR -3 m), respectively.

Other price risk

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

Other price risk required to be disclosed under IFRS 7 normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IAS 39, which is not the case for the Schaeffler Group. Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses. Derivative financial instruments are not used in this context.
Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group’s holdings of such financial instruments, the price risk related to these items is considered insignificant.

4.16 Capital management

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

In € millions	12/31/2010	12/31/2009
Equity attributable to shareholders of the parent company	3,294	2,818
- in % of total capital	33.7	30.3
Non-current financial debt	6,413	6,420
Current financial debt	64	61
- in % of total capital	66.3	69.7
Total capital	**9,771**	**9,299**

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

This financing agreement subjects the Schaeffler Group to certain financial covenants (see Note 4.10). Compliance with these covenants is continually monitored at Group level. The definition of the covenants was amended in 2010 compared to 2009 to reflect the changes in the Schaeffler Group’s net assets, financial position and results of operations. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from the consolidated financial statements.

The Schaeffler Group has complied with the agreed financial covenants both in 2010 and in 2009. Based on the current forecast, the Schaeffler Group also expects to comply with the financial covenants in 2011, 2012 and 2013.

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

In € millions	12/31/2010	12/31/2009
Current financial debt	64	61
Non-current financial debt	6,413	6,420
Total debt	**6,477**	**6,481**
Cash and cash equivalents	733	350
Total liquidity	**733**	**350**
Total net debt	**5,744**	**6,131**
EBITDA	**2,097**	**1,103**
Net debt to EBITDA ratio	**2.7**	**5.6**

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:

In € millions	12/31/2010	12/31/2009
Less than one year	34	46
Between one and five years	50	39
More than five years	4	5
Total	**88**	**90**

In 2010, expenses of EUR 50 m (prior year: EUR 48 m) related to operating rental and lease agreements were recognized in the income statement.

The Schaeffler Group's obligations under rental and lease agreements consist primarily of rental payments for real estate, leases for company vehicles, and an IT service contract that includes monthly payments for operations, services charged for based on hourly rates, IT projects and a user helpdesk.

5. OTHER DISCLOSURES

5.1 Capital commitments

At December 31, 2010, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 101 m (prior year: EUR 65 m). These commitments are expected to be settled as follows:

In € millions	12/31/2010	12/31/2009
Less than one year	101	63
Between one and five years	0	2
More than five years	0	0
Total	**101**	**65**

5.2 Contingent liabilities

In € millions	12/31/2010	12/31/2009
Obligations under guaranties and warranties	11	17
Security pledged to third parties	1	3
Other	18	18
Total	**30**	**38**

As at December 31, 2010, contingent liabilities for guaranties and warranties include primarily guarantees provided in connection with legal cases and loan collateralizations.
Other contingent liabilities consist primarily of claims raised by current and former employees as well as reassessments issued by taxation authorities. These issues relate to the Schaeffler Group's Indian entities. Due to the remote probability of an outflow of resources in each of these cases, they do not meet the conditions to be recognized as provisions.
Please see the discussion of shareholders' equity (Note 4.9) for the advance dividend declared in December 2010.

5.3 Additional disclosures on the consolidated statement of cash flows

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

In € millions	2010	2009
Interest received	10	8
Interest paid	-644	-686
Income taxes paid	-298	-161

Free cash flow for 2010 amounts to EUR 566 m (prior year: EUR -1,400 m). When comparing to the prior year, it should be noted that the improvement in free cash flow is due in particular to cash paid in 2009 to acquire shares in Continental AG: There were no comparable cash outflows in 2010. In 2009, cash used in investing activities before M&A activities was EUR 211 m.

Cash flows from operating activities were EUR 890 m (prior year: EUR 597 m). This inflow results primarily from improved earnings in 2010 as reflected in EBIT of EUR 1,509 m (prior year: EUR 446 m).

In 2010, cash totaling EUR 324 m was used in investing activities (prior year: EUR 1,997 m). Cash paid for property, plant and equipment and intangible assets totals EUR 361 m, compared to EUR 321 m in the prior year.

At December 31, 2010, cash and cash equivalents amount to EUR 733 m (prior year: EUR 350 m), including EUR 168 m (prior year: EUR 88 m) held by subsidiaries in Argentina, Brazil, China, Colombia, India, Indonesia, South Korea, South Africa, Taiwan, the Philippines, Venezuela and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to the parent entity is restricted.

5.4 Segment reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler Group executive management 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 management board and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

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

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

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

Significant customers
In 2010, Schaeffler generated revenue from one key customer totaling EUR 991 m (prior year: EUR 776 m), representing approximately 10.4 % (prior year: 10.6 %) of total Schaeffler Group revenue and approximately 15.6 % (prior year: 16.4 %) of the Automotive segment revenue.

Reconciling items: 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. Specifically, the following items are not allocated to the segments:

- Revenue: Sales of scrap steel are not included here as these sales are treated as a reduction of cost of materials, resulting in the correct allocation of earnings to the segments. Also, revenue from transactions in connection with materials provided to external service providers (subcontracting) is not allocated to the segments.

- Inventories: Segment inventories are shown at gross amounts based on Group production cost which differ from IFRS carrying amounts. Goods in transit, advance payments on inventories and valuation allowances are not included in segment inventories. Inventories are allocated to one or the other of the segments based on the primary character of the related product lines.

- Sales of these products, however, may have been made in the same or in the other segment, depending on the customer group.

- Trade receivables: Trade receivables are shown gross for segment reporting purposes. This presentation differs from measurement under IFRS, which also reflects impairment allowances and sales of receivables to third parties under asset backed securities programs. Smaller entities are not part of the segment reporting.

- Property, plant and equipment and capital expenditures: The difference between the information for segment reporting purposes and the amounts shown in the statement of financial position in accordance with IFRS is due to production facilities which exclusively produce components for use by other Group entities. These production facilities are internally referred to as “Operations”. In addition, capital expenditures in the functional areas research and development, selling, and administration are not included in segment capital expenditures. Property, plant and equipment and the related depreciation and impairments are fully allocated to one or the other of the segments based on their main production activities. Revenue and earnings from goods produced using property, plant and equipment allocated in this way may, however, have been generated in the same or in the other segment, depending on the customer group.

Information on the operating activities of each reportable segment is included below. Performance is measured based on EBIT as the executive management 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. Financial information on segment assets, i.e. total reportable assets and depreciation, amortization and impairment losses as well as capital expenditures is allocated based on the products typically manufactured by each segment. These financial indicators and the related operating activities are managed on a product by product basis.

Therefore, revenue and EBIT are reported based on an allocation of customers to segments, while segment assets are reported based on an allocation of products to segments. Gains on transactions between operating segments are not included.

The allocation of customers and products 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 and product structure.

The allocation of customers and products 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 and product structure.

	Automotive		Industrial		Other		Total	
	1/1 – 12/31		1/1 – 12/31		1/1 – 12/31		1/1 – 12/31	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Revenue	6,341	4,743	3,012	2,513	142 [1)]	80 [1)]	9,495	7,336
Cost of sales	4,499	3,685	1,865	1,787	142	80	6,506	5,552
Gross profit	1,842	1,058	1,147	726	0	0	2,989	1,784
EBIT	1,005	283	504	163	0	0	1,509	446
- in % of revenue	15.8	6.0	16.7	6.5	0.0	0.0	15.9	6.1
Depreciation, amortization and impairments	347	424	241	233	0	0	588	657
Inventories [6)]	687	529	715	613	80 [2)]	20 [2)]	1,482	1,162
Trade receivables [6)]	980	796	461	362	2 [3)]	-14 [3)]	1,443	1,144
Property, plant and equipment [6)]	1,446	1,500	1,335	1,341	260 [4)]	288 [4)]	3,041	3,129
Capital expenditures	156	88	104	125	126 [5)]	112 [5)]	386	325

1) The amount consists mainly of scrap sales and materials provided to subcontractors.
2) The amount includes primarily advance payments, valuation allowances and goods in transit as well as inventories not allocated to segments (Operations).
3) The amount comprises mainly impairment allowances.
4) This amount is exclusively made up of property, plant and equipment not allocated to segments as it is used to produce components for both segments (Operations).
5) The amount consists entirely of capital expenditures not allocated to segments, mainly in the Operations and in the non-production areas. In addition, eliminations of intercompany transfers are also included here.
6) Amounts as of December 31.

Reconciliation to earnings before income taxes	2010	2009
EBIT Automotive	1,005	283
EBIT Industrial	504	163
EBIT	**1,509**	**446**
Financial result	-1,159	-1,520
Earnings before income taxes	**350**	**-1,074**

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

For purposes of reporting segment 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.

Information about geographical areas

	Revenue 1)		Non-current assets 2)	
In € millions	2010	2009	12/31/2010	12/31/2009
Germany	2,565	2,080	1,415	1,592
Europe excluding Germany	3,049	2,552	1,064	1,116
North America	1,254	920	363	349
South America	599	452	220	204
Asia/Pacific	2,028	1,332	554	486
Total	**9,495**	**7,336**	**3,616**	**3,747**

1) Revenue by customer location; presentation changed compared to prior year financial statements (by production location). Prior year amounts have been adjusted to correspond with current year presentation.
2) Non-current assets by production location. Non-current assets consist of property, plant and equipment and intangible 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 also include the members of the executive management board of Schaeffler GmbH Dr. Juergen M. Geissinger, Prof. Dr. Peter Gutzmer, Rainer Hundsdoerfer, Norbert Indlekofer, Oliver Jung, Kurt Mirlach, Dr. Peter Pleus, Klaus Rosenfeld, Dr. Gerhard Schuff, and Robert Schullan.

Furthermore, the Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler GmbH, which, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: 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, Stefanie Schmidt, Dirk Spindler, Robin Stalker, Juergen Stolz, 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 GmbH as well as other companies controlled by these parent companies. These related companies are referred to as "parent IHO companies" below.

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

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

	Receivables		Payables	
In € millions	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Parent IHO companies	0	0	33	152
Continental Group companies	12	9	3	1

	Expenses		Income	
In € millions	2010	2009	2010	2009
Parent IHO companies	5	1	1	1
Continental Group companies	19	16	72	52

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

In 2010 and 2009, Schaeffler Group companies had various business relationships with the parent IHO companies in addition to the transactions related to the reorganization of the Group (see Note 1.2). These include financing obtained from a parent IHO company, fees for bank guarantees of bills of exchange recharged to the Schaeffler Group, and various services.

At December 31, 2009, liabilities due to parent IHO companies include the balance in the financial allocation account (see Note 4.14). The above summary does not include the acquisition of real estate from a parent IHO company for EUR 5 m in 2010.

Business relationships with the Schaeffler Group's associated companies exist mainly with Continental Group companies in the form of the supply of vehicle components, the rendering of development services, and the lease of commercial real estate.

In addition, the Schaeffler Group entered into an investor agreement with Continental AG on August 20, 2008 which is non-cancellable until the close of the annual general meeting of Continental AG in 2014. The agreement stipulates, among other things, that Schaeffler GmbH commits 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 connection with this obligation, Schaeffler made a voluntary contribution of EUR 20 m to Continental AG's capital reserve in 2009. A further voluntary contribution of EUR 4 m to Continental AG's capital reserve was made in 2009 in accordance with section 272 (2)(4) HGB.

In 2010, Schaeffler GmbH acquired a non-controlling interest in Schaeffler Immobilien GmbH & Co., KG consisting of 5.1 % of the limited partners' shares from Georg F. W. Schaeffler for a purchase price of EUR 13 m. The Schaeffler Group does not have any other significant direct business relations with Maria-Elisabeth and Georg F. W. Schaeffler.

In 2010, short-term employee benefits of EUR 16 m (prior year: EUR 11 m) and post-employment benefits of EUR 1 m (prior year: EUR 2 m) were paid to members of the Schaeffler Group executive management board. Termination benefits of EUR 4 m (prior year: nil) were expensed in 2010.

No advances or loans were granted to members of the Schaeffler GmbH executive management board or supervisory board. The composition of the executive management board has changed 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 the Schaeffler Group's supervisory board amounted to EUR 0.4 m in 2010.

In 2010, former members of the Schaeffler Group executive management board and their surviving dependants received payments of EUR 1 m (prior year: EUR 1 m).

Provisions for pension obligations, net of related plan assets, for former members of the executive management board of the Schaeffler Group and the predecessor companies of Schaeffler GmbH as well as for their surviving dependants amount to EUR 6 m in 2010 (prior year: EUR 6 m).

5.6 Auditors’ fees

Fees paid to the Group auditors and their related companies for services rendered in 2010 and required to be disclosed by section 314 (1)(9) HGB total EUR 3,504 k and consist of EUR 1,613 k for financial statement audit services, EUR 763 k for tax advisory services, and EUR 1,128 k for other services.

5.7 Events after the reporting period

Dividend paid to shareholder Schaeffler Verwaltungs GmbH
On January 5, 2011, the dividend of EUR 400 m declared as an advance dividend in December 2010 was paid to Schaeffler Verwaltungs GmbH, the company’s shareholder.

There were no other material events after December 31, 2010 that would have had a significant impact on the company’s net assets, financial position and results of operations.

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

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

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (50)			
AFT Atlas Fahrzeugtechnik GmbH	Werdohl	DE	100.00
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungs-gesellschaft mbH	Buehl	DE	100.00

Entity	Location	Country code	Group ownership interest in %
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics GmbH & Co. oHG	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	Herzogenaurach	DE	100.00
KWK Kraftfahrzeug-Werkstatt-Konzept Verwaltungsgesell-schaft mbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00
LuK Vermoegensverwaltungsge-sellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwal-tungs-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

Entity	Location	Country code	Group ownership interest in %
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen GmbH & Co. OHG	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 GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Technologies GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
II. Foreign (102)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf – St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
FAG Servicos Industriais Ltda.	Sao Paulo	BR	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
HYDREL GmbH	Romanshorn	CH	100.00
INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (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.	Bogota	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

Entity	Location	Country code	Group ownership interest in %
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
FAG (UK) Ltd.	Sutton Coldfield	GB	100.00
LuK (Hereford) Limited	Hereford	GB	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Aftermarket-Service Limited	Hereford	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LUK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
FAG Bearings India Ltd.	Baroda	IN	51.33
FAG Roller Bearings Private Ltd.	Baroda	IN	87.83

Entity	Location	Country code	Group ownership interest in %
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 Aftermarket Service, S.A. de C.V.	Puebla	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 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 Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00

Entity	Location	Country code	Group ownership interest in %
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 Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	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
LuK Africa (Proprietary) Limited	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

Entity	Location	Country code	Group ownership interest in %
B. Associated companies / Joint ventures			
I. Germany (5)			
Continental AG	Hanover	DE	42.17
Contitech-INA Beteiligungs-gesellschaft mbH [1]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [1]	Hanover	DE	50.00
IFT Ingenieurgesellschaft fuer Triebwerkstechnik mbh	Clausthal-Zellerfeld	DE	49.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
II. Foreign (4)			
Eurings Rt.	Debrecen	HU	37.00
Endorsia International AB	Gothenburg	SE	30.00
Colinx, LLC	Greenville	US	25.00
Roland Corporate Housing LLC	Cheraw	US	49.00

1) Joint ventures accounted for using the equity method.

Entity	Location	Country code	Group ownership interest in %
C. Entities not consolidated and investments			
I. Germany (10)			
Bauverein Schweinfurt eG	Schweinfurt	DE	0.05
GKS-Gemeinschaftskraftwerk Schweinfurt GmbH	Schweinfurt	DE	10.31
GSB – Sonderabfall-Entsorgung Bayern GmbH	Baar-Ebenhausen	DE	0.18
GURAS Beteiligungs GmbH	Pullach	DE	1.00
PARTSLIFE Recycling Systems GmbH	Neu-Isenburg	DE	9.68
SupplyOn AG	Hallbergmoos	DE	15.25
TECCOM GmbH	Ismaning	DE	1.70
TECDOC Informations System GmbH	Cologne	DE	3.03
twin-gears AG [2]	Schweinfurt	DE	100.00
Wohnungsbaugenossenschaft Hammelburg eG	Hammelburg	DE	3.00
II. Foreign (4)			
FAG Export s.r.o. [2]	Boskovice	CZ	100.00
ICSA Industria Cuscinetti S.p.A.	San Beningo	IT	9.52
Schaeffler Ukraine GmbH [2]	Kiev	UA	100.00
Consolidated Bearings Co. Ltd.	Cedar Knolls	US	10.00

2) Further details omitted in accordance with section 313 (1)(4)(3) HGB.

5.9 Preparation of consolidated financial statements

These financial statements were prepared and authorized for issue by the executive management board of Schaeffler GmbH.

Herzogenaurach, March 17, 2011

Executive management board

MEMBERS OF THE SUPERVISORY BOARD

Georg F. W. Schaeffler
Chairperson of the supervisory board
Shareholder of the Schaeffler Group
Herzogenaurach

Maria-Elisabeth Schaeffler
Vice chairperson of the supervisory board
Shareholder of the Schaeffler Group
Herzogenaurach

Juergen Wechsler
Vice chairperson of the supervisory board
District Manager of IG Metall Bayern
Schwanstetten

Prof. Dr. Hans-Joerg Bullinger
President of the Fraunhofer
Gesellschaft, Corporate Policy
Munich

Dr. Eckhard Cordes
Chairman of the Management Board
and CHRO METRO AG
Duesseldorf

Dr. Hubertus Erlen
Member of Supervisory and Advisory Boards
Berlin

Prof. Dr. Bernd Gottschalk
Acting Partner of AutoValue GmbH
Esslingen

Jochen Homburg
Lawyer and department head IG Metall
executive management board
Dreieich

Franz-Josef Kortuem
Chairman of the Management Board
of Webasto AG
Stockdorf

Norbert Lenhard
Chairman of the Central Works Council
& Chairman of the Works Council Schweinfurt Location
Schweinfurt

Dr. Siegfried Luther
Managing Director
Reinhard Mohn Verwaltungs GmbH
Guetersloh

Thomas Moelkner
Chairman European Works Council Schaeffler Group & Chairman Works Council Herzogenaurach Location
Vice Chairman of the Central Works Council
Schaeffler Technologies GmbH & Co. KG
Herzogenaurach

Wolfgang Mueller
Trade Union Secretary IG Metall
for the District Bavaria
Munich

Stefanie Schmidt
Chairman of the Works Council
Wuppertal Location of
Schaeffler Technologies GmbH & Co. KG
Wuppertal

Dirk Spindler
Senior Vice President
Corporate Development
Schaeffler Technologies GmbH & Co. KG
Herzogenaurach

Robin Stalker
Executive Board Member for adidas AG
responsibel for Finance
Herzogenaurach

Juergen Stolz
Vice President Works Council Buehl Location
Schaeffler GmbH
Buehl

Salvatore Vicari
Chairman of the Works Council for Homburg / Saar
Schaeffler Technologies GmbH & Co. KG
Homburg / Saar

Dr. Otto Wiesheu
Lawyer
Zolling

Juergen Worrich
Chairman of Corporate Works Council
Schaeffler GmbH Herzogenaurach
Herzogenaurach

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the Schaeffler GmbH, Herzogenaurach, comprising consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and notes, together with the group management report for the business year from January 1 until December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch „German Commercial Code"] are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework 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 IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and 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 17, 2011

KPMG AG
Wirtschaftspruefungsgesellschaft

Kozikowski
Wirtschaftspruefer

Sailer
Wirtschaftspruefer

GLOSSARY

A

AfS: Available for sale.

Automotive: Business with customers in the automotive sector. This division includes manufacturers of passenger vehicles and their suppliers as well as companies focusing on spare parts for passenger vehicles and commercial vehicles.

B

BRIC: BRIC is an abbreviation representing the initials of the four countries Brazil, Russia, India and China.

C

CO_2ncept -10 %: CO_2ncept -10% is a joint advance development project implemented by Porsche and the Schaeffler Group that achieved a total reduction in fuel consumption and CO_2 emissions of 10 % by using new and optimized components.

Cost of capital: The cost of capital is derived from the return investors require for providing capital to the company.

Covenants: Financial ratios used to monitor compliance with the loan agreements. If the agreed upon financial ratios are not met, the creditors can call the corresponding loan.

Currency swap: Exchange of amounts of principal denominated in different currencies.

CVT: Chain drive transmission with a continuously variable gear ratio that is used in the Transmission Systems sector.

D

Debt to EBITDA ratio: Ratio of net financial debt to operating earnings before interest, taxes, depreciation, amortization and impairment losses (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 future 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 taxes, non-controlling interests and financial result.

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.

EMAS: EU environmental audit regulation according to which the Schaeffler Group locations have been validated.

Equity method: Method of accounting for investments in associated companies and in joint ventures not accounted for using proportionate consolidation.

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: Financial liability at amortized cost.

Free cash flow: Total of cash flows from operating activities and cash flow from investing activities

G

Global Compact: The Schaeffler Group Code of Conduct.

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. Prerequisites for reflecting hedging relationships in the financial statements are both effectiveness and documentation of the hedging relationship.

HfT: 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".

Industrial: Division of the Schaeffler Group that comprises the business with customers in the agricultural engineering, railway, wind power and aerospace sectors.

ISO 14001: An established international standard for environmental management systems.

L

LaR: Loans and receivables.

M

MOVE: (“Mehr ohne Verschwendung” – more without waste): Program for improving processes and quality in research and development that is predominantly aimed at preventing waste in order to increase the development service provided by each employee.

O

OHSAS 18001: OHSAS is the abbreviation for „Occupational Health and Safety Assessment Series“. OHSAS 18008 is a standard for occupational safety management systems.

P

Purchase price allocation (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, prepared by rating agencies.

Related party relationships: IAS 24 requires companies to disclose information about related parties in the notes to the financial statements. Related companies include companies over which the Schaeffler Group can exercise significant influence as well as joint ventures and associated companies. Related persons are individuals who can exercise significant influence over the Schaeffler Group as well as members of key management personnel.

S

Scope of consolidation: The scope of consolidation refers to the total of all companies included in the consolidated financial statements.

SIC: Abbreviation for “Standing Interpretations Committee”.

Sustainability: Sustainability means to make use of natural resources while taking economic, ecological and social framework conditions into account without ignoring the interests of future generations.

Swap: A financial contract in which two parties agree to exchange goods or cash flows at a future date.

U

UniAir-System: Fully-variable valve control system that is the subject of the collaboration between ABB Turbo Systems and the Schaeffler Group for the further development of assemblies for marine, machine and stationary operation.

FINANCIAL CALENDAR 2011*

The Schaeffler Group's fiscal year is the calendar year.

March 29, 2011
Results for the year 2010

May 17, 2011
Results for the first quarter of 2011

August 30, 2011
Results for the second quarter of 2011

November 22, 2011
Results for the third quarter of 2011

* All information subject to corrections and changes on short notice.

Additional Information

Summary – 1st quarter 2009 to 4th quarter 2010

In € millions	2009 1st quarter	2009 2nd quarter	2009 3rd quarter	2009 4th quarter	2010 1st quarter	2010 2nd quarter	2010 3rd quarter	2010 4th quarter
Income Statement								
Revenue	1,721	1,768	1,876	1,971	2,160	2,402	2,452	2,481
- Revenue Automotive	1,008	1,130	1,254	1,351	1,494	1,612	1,603	1,632
- Revenue Industrial	703	623	600	587	642	750	814	806
EBITDA	206	233	347	317	484	553	545	515
- in % of revenue	12.0	13.2	18.5	16.1	22.4	23.0	22.2	20.8
EBIT	37	71	187	151	335	404	398	372
- in % of revenue	2.1	4.0	10.0	7.7	15.5	16.8	16.2	15.0
Net income (loss) 1)	**-422**	**-203**	**-235**	**-344**	**-357**	**97**	**147**	**176**
Statement of Financial Position								
Total assets	13,765	13,178	13,063	12,608	12,828	13,282	13,304	13,344
Shareholders' equity 2)	3,554	3,500	3,162	2,852	2,755	3,023	3,022	3,341
- in % of total assets	25.8	26.6	24.2	22.6	21.5	22.8	22.7	25.0
Net financial debt	6,104	6,098	5,897	6,131	6,020	5,930	5,763	5,744
- in % of shareholders' equity	171.8	174.2	186.5	215.0	218.5	196.2	190.7	171.9
Capital expenditures 3)	**113**	**66**	**39**	**107**	**57**	**75**	**70**	**184**
Statement of cash flows								
Free cash flow 4)	-2,019	184	331	104	127	209	190	40
Employees								
Headcount (at end of reporting period)	64,196	61,942	61,744	61,536	62,626	63,950	66,079	67,509

1) Attributable to shareholders of the parent company.
2) Incl. non-controlling interests.
3) Capital Expenditures for the quarter.
4) Free cash flow for the quarter.

Additional Information

Multi-Year Comparison

In € millions	2006 [1]	2007 [1]	2008	2009	2010
Income Statement					
Revenue	8,313	9,013	8,905	7,336	9,495
- Revenue Automotive	5,298	5,720	5,476	4,743	6,341
- Revenue Industrial	2,747	3,021	3,295	2,513	3,012
EBITDA	1,657	1,746	1,731	1,103	2,097
- in % of revenue	19.9	19.4	19.4	15.0	22.1
EBIT	1,073	1,139	1,040	446	1,509
- in % of revenue	12.9	12.6	11.7	6.1	15.9
Net income (loss) [2]	**812**	**671**	**424**	**-1,204**	**63**
Statement of Financial Position					
Total assets	7,657	8,021	12,688	12,608	13,344
Shareholders' equity [3]	4,086	4,390	4,076	2,852	3,341
- in % of total assets	53.4	54.7	32.1	22.6	25.0
Net financial debt	184	316	3,778	6,131	5,744
- in % of shareholders' equity	4.5	7.2	92.7	215.0	171.9
Capital expenditures	**931**	**919**	**949**	**325**	**386**
Statement of cash flows					
Free cash flow	482	246	-3,802	-1,400	566
Employees					
Headcount (at end of reporting period)	**62,449**	**66,286**	**66,034**	**61,536**	**67,509**

1) IHO figures.
2) Attributable to shareholders of the parent company.
3) Including non-controlling interests.

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