SCHAEFFLER

Annual Report 2013 | Mobility for tomorrow

Key figures

No. 001

in € millions	2013	2012		Change
Income statement				
Revenue	11,205	11,125	0.7	%
EBITDA	1,634	2,031	-19.5	%
• in % of revenue	14.6	18.3	-3.7	%-pts.
Adjusted EBITDA [1]	2,062	2,031	1.5	%
• in % of revenue	18.4	18.3	0.1	%-pts.
EBIT [1]	982	1,413	-30.5	%
• in % of revenue	8.8	12.7	-3.9	%-pts.
Adjusted EBIT [2]	1,410	1,413	-0.2	%
• in % of revenue	12.6	12.7	-0.1	%-pts.
Net income [3]	865	870	-5	€ millions

in € millions	12/31/2013	12/31/2012		Change
Statement of financial position				
Total assets	13,427	13,546	-0.9	%
Shareholders' equity [4]	2,491	2,108	383	€ millions
• in % of total assets	18.6	15.6	3.0	%-pts.
Net financial debt [5]	5,447	6,505	-16.3	%
• Financial debt to EBITDA ratio [6]	2.6	3.2		
Additions to intangible assets and property, plant and equipment [7]	573	827	-254	€ millions

in € millions	2013	2012		Change
Statement of cash flows				
Cash flow from operating activities	1,183	1,213	-30	€ millions
Free cash flow	629	381	248	€ millions

Employees				
Number of employees	78,559	76,099	3.2	%

[1] Adjusted EBITDA – excluding special items (provision for EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m).
[2] Adjusted EBIT – excluding special items (see footnote 1).
[3] Attributable to shareholders of the parent company; prior year amount restated for initial application of net interest approach required by IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.
[4] Including non-controlling interests; prior year amount restated for initial application of net interest approach required by IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.
[5] Excluding shareholder loans.
[6] Financial debt to adjusted EBITDA ratio 2013 – excluding special items (see footnote 1). Financial debt to unadjusted EBITDA ratio is 3.3.
[7] Additions to intangible assets and property, plant and equipment.

Automotive

in € millions	2013	2012		Change
Revenue	8,165	7,658	6.6	%
EBIT	736	997	-26.2	%
• in % of revenue	9.0	13.0	-4.0	%-pts.
Adjusted EBIT [8]	1,131	997	13.4	%
• in % of revenue	13.9	13.0	0.9	%-pts.

Prior year information based on 2013 segment structure.
[8] Adjusted EBIT – excluding special items (provision for EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 14,7 m).

Industrial

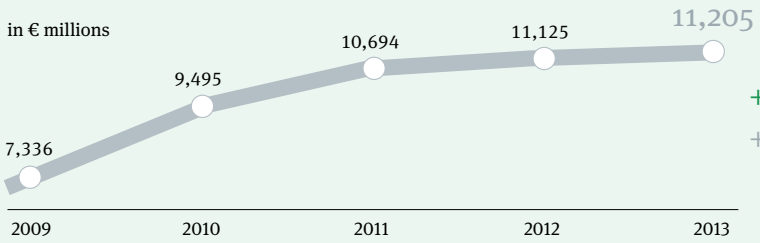
in € millions	2013	2012		Change
Revenue	3,040	3,406	-10.7	%
EBIT	246	416	-40.9	%
• in % of revenue	8.1	12.2	-4.1	%-pts.
Adjusted EBIT [9]	280	416	-32.8	%
• in % of revenue	9.2	12.2	-3.0	%-pts.

Prior year information based on 2013 segment structure.
[9] Adjusted EBIT – excluding special items (personnel-related structural measures of EUR 35.5 m).

2013 in numbers

Revenue

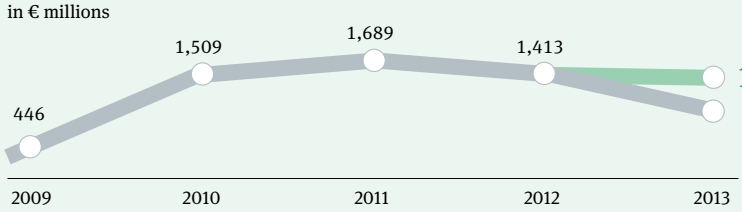
in € millions



+2.9 % at constant currency
+0.7 % growth in revenue

Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)

in € millions

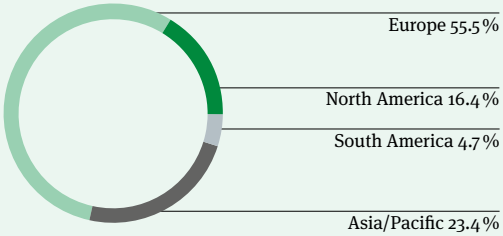


Adjusted EBIT (excluding special items)

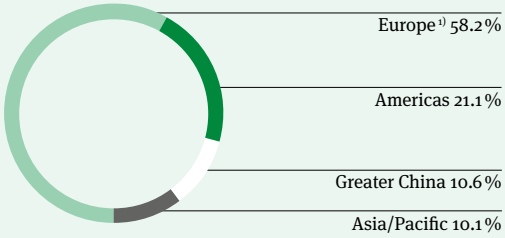
Revenue by region

in percent by market view

Structure in effect until December 31, 2013



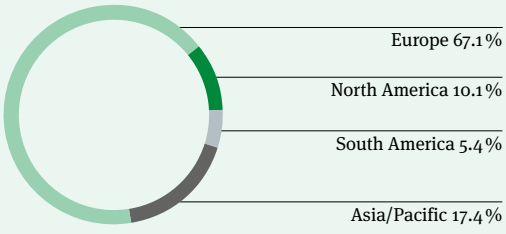
Structure in effect since January 01, 2014



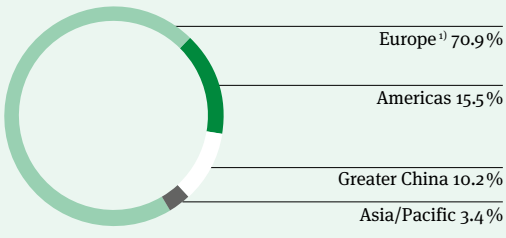
Headcount 2013 by region

Figures as at December 31

Structure in effect until December 31, 2013



Structure in effect since January 01, 2014



[1] incl. Germany, Middle East, Africa, Russia and India

Schaeffler at a glance

Highlights 2013

Growth strategy continued:

Revenue at constant currency +**2.9 %** from prior year

Earnings quality maintained:

Adjusted EBIT margin at **12.6 %** of revenue (prior year: 12.7 %)

Strong free cash flow:

2013 free cash flow at **EUR 629 m** following EUR 381 m in the prior year

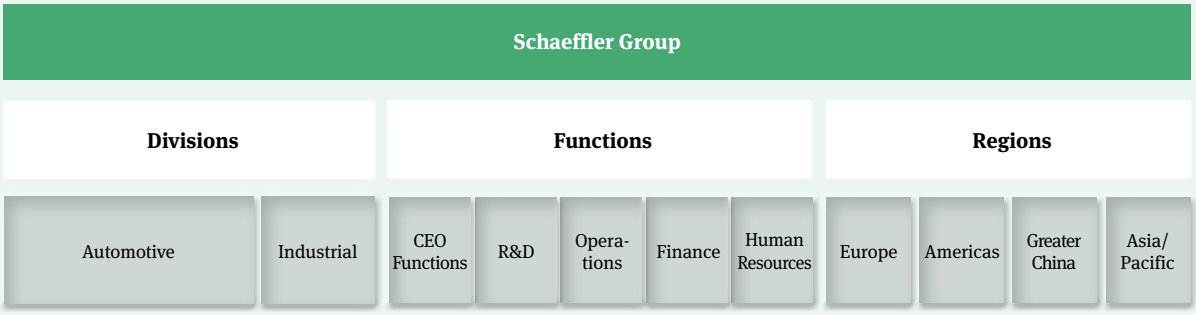
Capital structure improved:

Gross debt reduced by **EUR 1.1 bn** to EUR 6.2 bn

Company profile

The Schaeffler Group is a leading global provider of technologically advanced components and systems that offer significant added value to its customers. The company distributes its products and services to numerous automotive manufacturers and industrial customers. Schaeffler stands for global customer proximity, outstanding innovative ability, and maximum quality in all processes and products.

The Schaeffler Group manages its business using a multi-dimensional matrix consisting of two divisions, various functions and four regions.



New structure effective January 01, 2014; simplified presentation for illustration purposes.

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

Annual Report 2013

Schaeffler AG

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Concepts for the automotive future
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Advanced solutions ensuring the mobility of tomorrow
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Experts on the energy of the future
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Contents

Important events in 2013

Q1

January – Detroit, United States

Shaping a more efficient future – Schaeffler at the NAIAS 2013

Schaeffler participated in the North American International Auto Show (NAIAS) in Detroit as a sponsor and exhibitor for the eighth consecutive year. Schaeffler presented various components and systems brought together in the "mobile development platform" and demonstration vehicle Efficient Future Mobility North America. The solutions shown reflected customer needs and requirements specific to the North American market such as automatic transmissions with torque converters.

February – Herzogenaurach, Germany

Schaeffler reprices debt

On February 21, 2013, Schaeffler AG announced plans to seek a repricing of tranches B2 EUR and B2 USD by repaying them in full and obtaining new loan tranches. Favorable market conditions and encouraging sustainable operating results permitted Schaeffler to significantly improve the terms of new tranches C EUR and C USD. In addition, tranches C EUR and C USD were increased compared to the previous loan tranches B2 EUR and B2 USD and the resulting additional funds of approximately EUR 253 m were used to partially prepay tranche A, which has a shorter maturity.

March – Schweinfurt, Germany

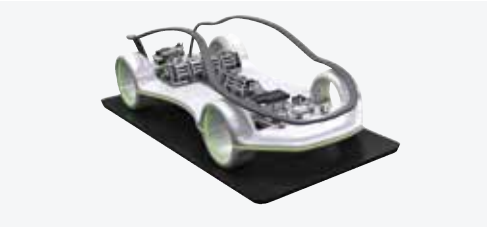
Global Distribution Partner Concept – more expertise and security for Schaeffler customers

Schaeffler continued to develop its network of distributors by introducing the Distribution Partner Concept. By focusing on selected distributors, the company is able to support its end customers around the world with the same high level of expertise and a first-rate supply strategy. At the same time, this step also counteracted the worldwide trade in counterfeit products, thus ensuring that end customers obtain original products only through authorized distribution channels.

Q2

April – Shanghai, China

Innovative technologies for modern mobility in China



From April 21 to 29, 2013, the automotive world focused its attention on Auto Shanghai in China. For Schaeffler, this motor show is an important marketplace in Asia: The company not only showed successful technologies and products, but also demonstrated how Schaeffler engineers are shaping the automotive future and why Schaeffler is a global supplier of expertise for efficient future mobility.

April – Hanover, Germany

HMI 2013 – Innovative bearing components, modules, and systems

Efficient high-performance rolling and plain bearing components, innovative modules and comprehensive bearing support and linear guidance systems were at the core of Schaeffler's presentation at the 2013 Hannover Messe. Always in focus: Improving energy efficiency while increasing power density and cost-effectiveness.

April – Herzogenaurach, Germany

Schaeffler AG places senior secured notes of approximately EUR 1.25 bn

On April 23, Schaeffler AG successfully placed EUR 1.25 bn in senior secured bonds. The bonds were oversubscribed several times. The offer was increased by approximately EUR 250 m from the initial volume of EUR 1 bn. The issue consisted of one Euro and one U.S. Dollar tranche.

Q3

July – Herzogenaurach, Germany

Schaeffler Academy opened in Herzogenaurach

Schaeffler officially opened Schaeffler Academy, a new advanced training center to house its range of in-house training courses. With its nearly 1,300 square meters of floor space, Schaeffler Academy can accommodate around 200 training participants per day.

September – Frankfurt, Germany

IAA 2013 – The drive for the city car of tomorrow

One of the highlights of Schaeffler's trade show booth at the International Motor Show (IAA) in Frankfurt was the Schaeffler E-Wheel Drive electric wheel hub drive. The innovative electric drive was on display in a development vehicle created in cooperation with Ford that is based on a Ford Fiesta, a typical B-segment vehicle.

September – Herzogenaurach, Germany

Schaeffler reduces debt

Schaeffler successfully completed the placement of 1.95 % of Continental AG shares on September 17. The company combined the proceeds of EUR 476 m with a prepayment of EUR 325 m from excess free cash flow to reduce its debt by EUR 801 m.

Q4

October – Hockenheim, Germany

Schaeffler-Audi wins its second DTM championship

His 142 points made Mike Rockenfeller the DTM champion 2013, his second title following his first championship win in 2011. Schaeffler has been involved with the Deutsche Tourenwagen Meisterschaft (DTM) for many years, cooperating on a specifically styled yellow-green DTM-Audi with the Phoenix team for the last three.

October – Herzogenaurach, Germany

Change in leadership at Schaeffler

At its meeting the Schaeffler AG supervisory board decided on a change in leadership. CEO Dr Juergen M. Geissinger left the company on October 04. CFO Klaus Rosenfeld took over as acting CEO on an interim basis in addition to his current role until the appointment of a successor.

November – Tokyo, Japan

Schaeffler at the Tokyo Motor Show

Schaeffler participated in the Tokyo Motor Show with a wide range of technologies for optimizing internal combustion engine based drive trains as well as hybrid solutions and products for fully electric mobility. The highlights among the exhibits at Schaeffler's booth were the electromechanical UniAir phasing system for valve trains, the Honda i-DCD hybrid system equipped with Schaeffler's double clutch technology, and the 48 volt system for entry-level hybridization.

Message from the shareholders

Georg F. W. Schaeffler | Maria-Elisabeth Schaeffler

Ladies and Gentlemen,

Despite considerable global economic challenges, Schaeffler AG has managed to maintain its profit margin before taxes and special items at just under 13 % in 2013. This figure is slightly higher than our average over the last ten years, and is an excellent result given the challenging market environment we are facing.

While our Automotive business generated clearly above-average revenue growth in 2013, as it did in past years, our Industrial business did not meet our expectations regarding revenue because of world-wide restraint with respect to capital expenditures, aerospace being the exception.

We have made significant progress in reducing the Schaeffler Group's debt in 2013. The bond issue completed in April and the sale of further shares in Continental AG have considerably lowered our debt level and allowed us to further improve our financing terms, particularly with respect to interest and maturities. With our 46 % interest, we still remain Continental AG's largest anchor shareholder.

Led by Klaus Rosenfeld, who took on the role of CEO on an interim basis in October, we have realigned Schaeffler AG's organizational and management structure for the future. The cultural change in terms of leadership and communications he initiated will be continued under Klaus Deller, who will take on the role of CEO effective July 01, 2014. In addition, we will further expand our technological leadership in automotive and industrial applications and continue along our growth path with additional capital expenditures.

A visible sign of the how we are consistently pressing forward with the globalization strategy we have been pursuing for 60 years is the new manufacturing location we started building in Russia in 2013. Starting out in Europe in the early fifties, the international expansion strategy adopted by Schaeffler AG resulted in a manufacturing location in Brazil as early as 1958, followed by further plants in the U.S. and India, and finally in China in 1995.

In the coming years, we want to satisfy even more customers around the world with our products and solutions as well as our supply reliability and quality. Despite the cautiously optimistic growth expectations and the structural differences in the markets in which we operate, we are convinced that we will succeed.

Recognizing market trends and customer needs even earlier will be essential to better responding to fluctuations in demand in the future. We know we can rely on the outstanding performance of every single one of our dedicated and motivated employees. It is the sum total of these efforts that make up our success, and for that, we would like to express our sincere gratitude to our employees.

As a technology company that is characterized by innovation and operating excellence, it is our ambition to continue to grow more rapidly than the market and to contribute to worldwide progress and prosperity with our products and high-quality jobs. Our common goal must be to rank even higher within the top league of the largest and most successful suppliers.

We look forward to a successful future together.

Sincerely yours,

Maria-Elisabeth Schaeffler

Georg F. W. Schaeffler

Introduction by the Chief Executive Officer

Klaus Rosenfeld

2013 was an eventful year for the Schaeffler Group. Thanks to the quality of our products and services, our strong position in the market, and our leadership in innovation and technology, we were able to stay our course despite the challenging global economic environment. We have again expanded our business, grown profitably and generated a solid operating result before taking into account special items.

Growth strategy continued – Earnings quality maintained

More importantly, we have continued to consistently pursue our growth strategy in 2013. While our Automotive business grew considerably faster than the market, increasing its revenue by 8.6 % before the impact of currency translation, Industrial division revenue declined by 8.1 % before the impact of currency translation. Based on these trends, the Schaeffler Group generated an organic revenue growth of 2.9 % p.a. Including the adverse impact of currency translation, revenue grew by 0.7 % p.a. On that basis Schaeffler achieved an EBIT before special items of EUR 1,410 m. This amount excludes the provisions for personnel-related structural measures of EUR 48 m announced in the third quarter of 2013 and provisions for an impending penalty of approximately EUR 380 m in connection with ongoing antitrust proceedings of the European Commission.

Given moderate additions to intangible assets and property, plant and equipment, free cash flow amounted to EUR 629 m, significantly higher than in the prior year. Furthermore, we were able to reduce our net external debt by approximately EUR 1 bn to currently EUR 5.9 bn, primarily using the proceeds on the disposal of an approximately 2 % interest in Continental AG in September 2013, and brought down our net debt to EBITDA ratio to approximately 2.6 times EBITDA before special items as at December 31, 2013, compared to 3.2 in 2012. Although we are certainly not yet where we want to be in reducing our indebtedness, this year's reduction demonstrates that our capital structure has further improved.

Change in leadership – Organizational and leadership structure aligned

In 2013 the Schaeffler Group not only faced a challenging business environment, it also had to cope with a change in leadership following the departure of Dr Juergen M. Geissinger, who had been the CEO of Schaeffler AG for many years. The executive board made use of this turning point to review and align the Schaeffler Group's organizational and leadership structure. The alignment is based on the firm belief that Schaeffler Group being a technology company with operations around the world and above-average growth rates, should not only establish a more decentralized organizational structure that is less focused on Germany, but also needs to harmonize and to integrate its structure on a global basis.

Building on the preliminary results of the "Consistently Global" project started in early 2012, the executive board developed and approved a set of targets based on a multi-dimensional matrix organization over the course of 2013. This matrix organization consists of three dimensions: Divisions, functions, and regions. It is primarily managed along divisional lines, with divisions operated as profit centers and consisting of various business divisions and business areas.

The matrix organization is based on the belief that the Schaeffler Group's business model can only be managed with strong regions and extensive localization because of its highly-integrated network of manufacturing plants and facilities.

An organizational structure reflecting three dimensions no doubt is more complex and challenging than a purely divisional structure. However, the Schaeffler executive board believes that this structure is the best fit for the Schaeffler Group's strategic direction and needs. The complexity inherent in the structure is rendered manageable by the creation of a homogeneous organizational structure that follows the same standards worldwide within each of the divisions, functions, and regions, allowing for clear assignment of

responsibilities. At the same time, the structure requires a leadership model that is based on transparency, trust, and teamwork across geographical and organizational boundaries and, as has been successfully practiced within the Schaeffler Group for years, building on an intact common company culture as a unifying element.

As a result, we began working all out to implement the planned structure following the change in leadership in early October 2013. One essential prerequisite, along with the changes the supervisory board made to the executive board and its responsibilities, was the realignment and harmonization of the Schaeffler Group's regional structure. This process involved first establishing a region "Greater China" to reflect the market position and high potential for growth in China, one of the Schaeffler Group's most important future markets. In addition, the regions "North America" and "South America" were combined into one new region "Americas", while Korea, Japan, and the countries in Southeast Asia make up the new region "Asia/Pacific". Germany, Western Europe and EMEA were combined into one region named "Europe", which also includes India. All four regions will be headed up by regional CEOs who are members of the Schaeffer Group's extended executive board and report to Schaeffler's CEO.

"One Schaeffler" program established – Transparency, Trust, and teamwork

In addition to the structural changes, the executive board started the "One Schaeffler" program in November 2013, which consists of the 20 most important improvement initiatives worldwide, based on the continuous improvement process that has been in place for years. The improvement initiatives relate not only to our divisions but also to the Schaeffler Group's functions and regions. One of the key common objectives of the initiatives is standardizing the structures and processes within the Schaeffler Group and integrating them to a greater extent than has been the case in the past, in order to utilize synergies and make the company more efficient. In order to reinforce these ideas internally and externally, we named the program "One Schaeffler".

Responsibility for implementing the program rests directly with the executive board. Most of the initiatives are scheduled to be completed by the end of 2015. We have created a Program Office to manage and monitor the implementation of the program. It assists the executive board and the project leaders of the initiatives with drafting concepts and implementation. Thus, we are intentionally relying on our internal project management expertise.

Expanding and improving our compliance management system is an integral component of the "One Schaeffler" program. We want to increase compliance with best practice principles, embedding a "Zero-defect culture" throughout the company for the long-term, like we have done in our quality management.

Together with the "One Schaeffler" program, we have begun to improve our internal and external communications and to make them more transparent. This is driven by the executive board's firm belief that we can only successfully cope with the process of change resulting from the "One Schaeffler" program if it is accompanied by extensive communications at all levels of management. We also want to strengthen cooperation across units and countries at all levels, close ranks, and cooperate more effectively as a team. We will only be able to succeed in this if we create transparency – internally as well as externally. Transparency creates trust. And trust is the foundation of good and fair teamwork. Thus, our "One Schaeffler" program stands not only for 20 group-wide improvement initiatives, but also for a cultural change based on the core principles "transparency, trust, and teamwork".

Strategic focus strengthened – Schaeffler shapes "Mobility for tomorrow"

Along with the realignment of our organizational and leadership structure and the "One Schaeffler" program, we also strengthened the focus of our growth strategy in 2013. As a result we have intentionally given our annual report the theme "Mobility for tomorrow". Based on the great megatrends driving our business, we are focusing on 4 key issues "environmentally friendly drives", "urban mobility', 'interurban mobility", and "energy chain". We plan to actively participate in shaping these focus areas with our own research and development and to provide our customers and business partners with an attractive product range from a position as an innovative and technological leader.

We consider 'Mobility for tomorrow" a cross-divisional and cross-regional mission that is key to us and the further development of Schaeffler Group. To this aim, we are not only utilizing synergies across business units, but are also promoting extensive transfer of know-how and expertise between our research and development units and the Schaeffler Group's divisions and business areas based on its global network of manufacturing plants and facilities.

Strong foundation for future growth – ambitious targets for 2014

My fellow executive board members and myself are convinced that by taking these actions and steps we have laid the foundation for future profitable growth of our company. In the future, we will focus the Schaeffler Group even more on its customers than in the past. The global key account management approach established in 2013 is the basis for this focus both in the Automotive division and in the Industrial division, and, in the interest of our customers and business partners, we will continue to expand it further in the coming years.

For 2014 we have again set ambitious targets. We want to grow revenue by 5 % to 7 % p. a. from 2013 while maintaining our EBIT margin at 12 % to 13 %. Given the slightly improving economic environment and the significant potential for growth, we plan to increase our capital expenditures to 6 % to 8 % of revenue. On that basis we intend to generate a sustainably positive free cash flow in the three-digit million range, as we have in the past. We are confident that we can achieve these goals, because we rely not only on the Schaeffler Group's great innovative strength and strong technological leadership, but primarily on the expertise and dedication of our nearly 80,000 employees around the world.

Ladies and gentlemen, dear employees, the successes achieved and steps forward taken in 2013 were only possible because of the fair, extensive, and trusting cooperation between shareholders, supervisory and executive boards, our management, and our employees. Their hard work each and every day helps the Schaeffler Group deal with the challenges of day-to-day operations and keep on developing successfully.

On behalf of the entire executive board, I would like to express my sincerest thanks for that. We would also like to express our sincere gratitude to our shareholders and the members of the supervisory board who have again supported us with assistance and advice throughout the year.

Together, we will continue to do everything we can to embrace the opportunities we have in order to further improve the Schaeffler Group's performance.

Best regards

Klaus Rosenfeld
Chief Executive Officer

Kurt Mirlach,
Human Resources

Norbert Indlekofer,
CEO Automotive

Oliver Jung,
Chief Operating Officer

Klaus Rosenfeld,
Chief Executive Officer and
Chief Financial Officer

Executive board

Prof. Dr Peter Gutzmer,
Chief Technology Officer

Robert Schullan,
CEO Industrial

Prof. Dr Peter Pleus,
CEO Automotive

As a global technology company with operations around the world we want to create a significant value to help our customers to drive “mobility for tomorrow.”

Klaus Rosenfeld, Chief Executive Officer of Schaeffler AG

Mobility for tomorrow

Nowadays, we consider being mobile a given, albeit one that comes at a high price. Environmental damage, global warming, gridlock, noise, pollution, accidents, and the finite nature of the fossil fuel supply are the inevitable consequence of our desire for mobility.

We all know that we cannot go on like this. But what to do? While we need to ensure our mobility going forward, mobility has to become more sustainable to reduce its impact on the environment and on people. These are the key challenges we face. Our responses are, for example, developing alternative, more efficient drive types and expanding the use of renewable energy sources to generate electricity. However, they also include long-established modes of transportation such as bicycling; its modern version, the e-bike, is already ubiquitous in megacities such as Shanghai.

Schaeffler is a key contributor to all forms of mobility of the future. As an international mobility supplier to our automotive and industrial customers, we are meeting the challenges of sustainable mobility for tomorrow. It is our experts who are already offering innovative products for hybrid and electric vehicles today. At the same time, we are working hard to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy efficient. Our research and development departments ensure that we are always a step ahead of the present. Environmentally friendly drives, urban mobility, the field of interurban mobility, and the entire energy chain – at Schaeffler, we are shaping “mobility for tomorrow” for our customers in all of these areas.

FOCUS

Environmentally friendly drives

For me as an electric mobility enthusiast, zero-emission driving is no longer a pipe dream. However, our innovative products for all areas of automotive technology are proof that a great deal can be done for the environment in the field of drive technology based on internal combustion engines, as well.«

Juergen Osterlaenger

Development Engineer
Wheel Hub Drives,
Corporate Innovation,
Herzogenaurach,
Germany


SCHAEFFLER
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Concepts for the automotive future

Yesterday's pioneers racing today's pioneers – this could have been the slogan of the Silvretta E-Auto Rallye held for the fourth time along with the well-known classic car rally Silvretta Classic in July 2013. The starting field, consisting mostly of historic vehicles, also included 23 electric cars.

For three days, the electric vehicles strove for efficiency rather than speed during the three alpine stages around the Montafon valley in Austria. The winner was selected based on the most economical use of volts and amperes and finishing with sufficient power reserves. The concept car "Fiesta eWheelDrive", created by Schaeffler in cooperation with Ford, entered the race for the first time. Although the prototype with its highly innovative wheel hub drive has not yet entered mass production, it joins its all-electric colleagues in demonstrating that the dream of zero-emission driving is moving closer and closer to becoming a reality.

However, the Silvretta E-Auto Rallye also showed once again that we are witnessing the beginning of a new era in automotion: More and more cars are supposed to consume less and less and have to drive using fewer resources. Diesel engine, gasoline engine, gas engine, hybrid drive, or electric vehicle – which or who will come out on top? That is the key question in the automotive sector. Providing a clear answer is proving challenging, since the short range and expensive battery technology of electric vehicles prevent their cost-efficient mass production and the charging infrastructure is still developing.

As a result, manufacturers are relying on a diversification strategy, which involves researching, developing and testing in several directions with the goal of developing energy-efficient, low- or zero-emission and thus environmentally friendly and sustainable drives. Innovative and pro-active partners such as Schaeffler are providing effective support to the automotive sector in pursuing this goal.

It's the total sum that pays

Although hybrid and electric cars are considered viable alternatives to conventional vehicles, experts believe that the internal combustion engine is far from obsolete. This is where the many small fuel-saving innovations act as silent heroes, generating what totals to substantial fuel savings, thus significantly reducing CO_2 emissions.

An example is the automatic engine start-stop technology installed in nearly all current models these days, which manages to generate fuel savings of approximately 5 %. That should be reason enough to consistently use this system. However, many an irritated driver passes on using this energy saver after a while. Why? Because he can hear and feel each time the engine is started conventionally by a traditional starter. Technologies such as Schaeffler's permanently engaged starter generator – a key advancement in automatic start-stop systems – change this. Its advantage: It enables the driver to start and accelerate the engine very conveniently in a split second.

But not only that. Powerful architectures can now be designed such that the generator can be used for starting, driving, and recovering energy.

Energy can also be saved with the Schaeffler thermal management module. Most people are not aware that more than one third of the energy burned up inside the engine in the form of fuel is lost to the environment unused in the form of heat. To utilize that heat – for instance to reach working temperature levels more rapidly

Schaeffler Forum of Inspiration

Finding inspiration – that is the goal of the “Forum of Inspiration” event. This is where Schaeffler employees have the opportunity to discover new things, share insights with their colleagues, create ideas, and much more. This “market square” event rotates annually between various Schaeffler locations. It was Herzogenaurach’s turn in 2013. Here, all of Schaeffler’s technical departments have the opportunity to present their newest products and ideas, and to encourage and expand the sharing of ideas between employees, even across locations.

The “Inspiration Award” was developed and manufactured in the Schaeffler training workshop. It was awarded for the first time in 2013.

The “Forum of Inspiration” has been held since 2006 and meets with growing interest each year. A total of 75 booths offered visitors an insight into new or advanced developments and showed new products and ideas for future technologies.

One of the many products of the eMobility Systems Division presented was the hybrid disconnect clutch function.

In a “glass concept motorcycle” for low to medium performance classes, Schaeffler’s two-wheeled vehicles team demonstrated newly developed energy-efficient components for engines, transmissions and chassis which are geared specifically towards the special requirements of the growing two-wheel vehicle markets in Asia and South America.

We are well-prepared: When modern batteries permit high-performance electric mobility, Schaeffler will be able to offer the appropriate, wide-ranging, perfect E-periphery.«

Prof. Dr Peter Gutzmer, Chief Technology Officer, Schaeffler AG

following a cold start while still providing the driver with moderate temperatures in the passenger compartment – it is distributed intelligently among the engine, transmission and the passenger compartment. This is the thermal management module's task. It very closely monitors whether it is better to open or close the various water circuits at any given time. The result: Fuel consumption and thus CO_2 emissions are reduced by up to 4 %.

Another of the numerous examples of fuel saving innovations are lightweight balancer shafts with rolling bearing supports, which reduce friction within the engine while offering the comfortability also provided by downsizing.

Downsizing – the new modesty

Finally, the largest potential savings are located in the internal combustion engine itself. This is why all large manufacturers are coming out with new engines sporting fewer cylinders that consume less and less fuel. Engineers call this shrinking of engines "downsizing".

However, that does not mean that drivers will have to do without in the future. Rather, the new economical engines are being turned into high-performance power units using turbochargers and direct fuel injection – and, due to ingenious technological twists, are at least slightly, some even significantly more, economical than their predecessors. Profoundly detailed work on reducing friction and resistance in the drive train is very effective here. Key contributors are improved components and surface coatings, for instance in rolling bearings for turbochargers or balancer shafts. Bucket tappets coated with Triondur®, which reduce friction in the valve train of passenger vehicle engines, have proven themselves a million times over during the last ten years. Triondur® is a coating system developed by Schaeffler which is manufactured using a particularly environmentally friendly PVD and PACVD process employing a vacuum technology. Due to its extreme hardness even in coating thicknesses of around 2 µm, Triondur® provides excellent protection from wear while keeping friction low. More advanced Triondur® DLC coating systems which can be customized to suit various conditions can reduce friction between the camshaft and the bucket tappet by up to 50 %.

Variable valve trains play a key role in efficient downsizing. They permit the engine to adapt perfectly to the particular driving situation. Schaeffler's range here runs from switchable valve train components and camshaft phasing units through to UniAir, the first electrohydraulic system for fully-variable valve control in internal combustion engines worldwide, introduced to the market by the Schaeffler Group. Variable valve trains ensure that the engine always operates at optimal efficiency regardless of the load. In combination with downsizing, this reduces fuel consumption by up to 25 %, increasing performance by up to 10 % along the way – and even by up to 15 % at the lower end of the speed range.

Balancer shafts and vibration dampers – such as a dual-mass flywheel with a centrifugal pendulum-type absorber – provide the necessary running smoothness even in smaller engines, for example those with only two or three cylinders, making compact engines efficient, powerful and comfortable all at once.

From hybrid to fully electric vehicle

And 20 years down the road? Will the electric drive win out in the long run? There are many reasons to believe that it will. The electric mobility revolution is already in full swing, but it is taking place in stages – in the form of hybrid vehicles. Consequently, the hybrid drive is considered a transitory technology on the road towards the all-electric car.

A hybrid vehicle combines an internal combustion engine with one or more electric motors, thus utilizing the conceptual advantages of both systems. Excess power generated by the internal combustion engine is converted to electricity and stored in a battery which, in turn, supplies power to the electric motor. Without any loss in

Schaeffler's concept vehicles

Schaeffler's various concept vehicles demonstrate the wide-ranging spectrum of modern automobility in the context of the interaction between engine, transmission and chassis and permit a look at segments of its broad product range for the future of mobility.

Efficient Future Mobility North America concept vehicle

Schaeffler's Efficient Future Mobility North America concept vehicle is based on a mid-size SUV and presents a series of solutions for optimizing power trains based on internal combustion engines that are tailored to the North American market.

The vehicle shows solutions that reduce fuel consumption by up to 15 %.

Efficient Future Mobility India concept vehicle

The vehicle developed in India is a test vehicle based on a small economical car with a manual transmission that is widely used there. The Efficient Future Mobility India concept vehicle is the result of Schaeffler's research and development work towards optimizing the drive train in terms of the driving conditions and driving behavior, as well as the market conditions, specific to cost-sensitive markets.

One of the products this manual-transmission vehicle focuses on is the electronic clutch management (ECM) system.

Schaeffler ACTIVeDRIVE concept vehicle

This Schaeffler concept vehicle is based on a Škoda Octavia Scout. The electric axle installed in this car significantly improves the transmission of force when driving on surfaces with varying frictional values. The Schaeffler ACTIVEeDRIVE makes Schaeffler a pioneer of this type of electric drive concept.

The Schaeffler ACTIVeDRIVE is an electric vehicle with the innovative electric axle used on both axles.

Porsche Cayenne CO_2ncept-10% concept vehicle

The term CO_2ncept-10% refers to a CO_2 demonstration vehicle based on a Porsche Cayenne with a V8 engine. This vehicle contains several new and time-tested improved Schaeffler components in its drive train and chassis, which significantly reduce fuel consumption compared to the mass-produced version of the vehicle. All in all, the concept vehicle improves consumption by 10 %.

In its CO_2ncept-10%, Schaeffler demonstrated detailed solutions that can generate impressive potential for improvement in drive trains based on the internal combustion engine and are nearing mass production.

E-bike, electric scooter, or e-car – we are working on solutions for the mobility of tomorrow and are making sure that people in megacities like Shanghai can travel in an environmentally friendly way.«

ZHANG Minheng

Vice President, BU Transmission Applications Automotive Schaeffler Greater China, Shanghai, China

acceleration, a smaller internal combustion engine can be used (downsizing) and energy can be recovered. Particularly in city traffic, this recovery of braking energy contributes to significant fuel savings. That means that hybrid vehicles primarily play out their strengths in city traffic, while the advantage diminishes on highways at constant speeds.

Cars with range extenders represent a specific type of hybrid drive. They are driven by an electric motor. With a full battery, they can now cover long distances with zero emissions, depending on the size of the battery. Then, a small combustion engine which works like a bicycle dynamo starts and charges the battery. The advantage: Ranges we have been used to in driving a car are made possible.

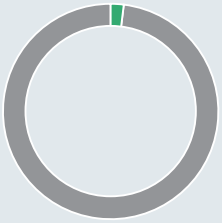
To demonstrate the various modes of operation, Schaeffler's engineers use a concept car developed specifically for testing purposes based on an Opel Corsa. A compact classic gasoline engine serves as the Schaeffler Hybrid's range extender or, alternatively, as its sole drive. A central electric motor mounted on the front axle and two wheel hub motors on the rear axle drive the hybrid study with 50 kW (68 hp) each. The battery can be charged with recovered energy, via the range extender, or using an external power cable as a plug-in hybrid. In addition to the range extender, there are four other types of hybrid vehicles, which differ with respect to the proportion of total output provided by the electric drive – the micro hybrid, the mild hybrid, the full hybrid and finally the plug-in hybrid.

The way is paved

Even though it will take some time for the fully-electric drive to sustainably conquer the streets, examples such as the hybrid drive with range extender represent very attractive interim solutions. As Schaeffler Chief Technology Officer Prof. Dr Peter Gutzmer states: "When modern batteries permit high-performance electric mobility, Schaeffler will be able to offer the appropriate, wide-ranging, perfect e-periphery. An increasing number of mechanical assemblies can be replaced with much more precise and intelligent drives - either fully electric or combined with mechanical or hydraulic components. These components range from camshaft phasing units, disconnect clutches and many other components, as well as the electric axle, through to the wheel hub drive, which has been installed in the fully-electric vehicle "Fiesta eWheelDrive" created by Schaeffler in cooperation with Ford. It creates previously unheard of space savings for city-use electric vehicles which may soon be required in metropolitan areas. Schaeffler is ready for the automotive future.

Vehicles produced worldwide by drive technology

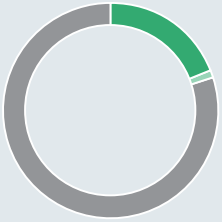
2012
Vehicles produced



98 % internal combustion engine
2 % hybrid drive

Source: IHS Automotive.

2020
Market share
(new vehicle registrations)*



80 % internal combustion engine
19 % hybrid drive
1 % electric drive

2030
Market share
(new vehicle registrations)*

56 % internal combustion engine
35 % hybrid drive
9 % electric drive

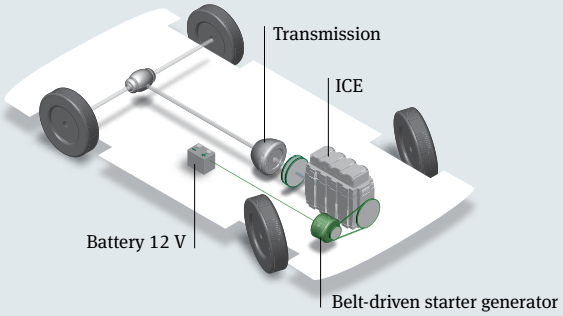
* Source: University of Duisburg-Essen, Chair of General Business Administration & International Automotive Management Competitiveness of the EU Automotive, Industry in Electric Vehicles, Final Report, December 19th of 2012.

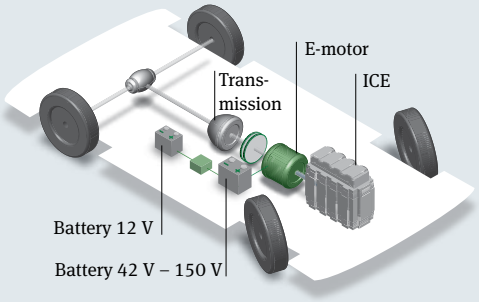
Hybrid vehicles on the rise

Vehicles driven by a combination of an internal combustion engine and an electric motor

Micro hybrid

Micro hybrid vehicles are vehicles that are equipped with a start-stop system and can recover braking energy.



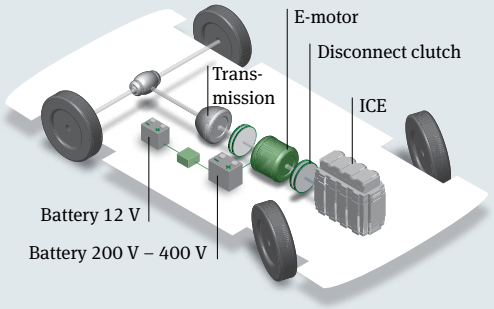


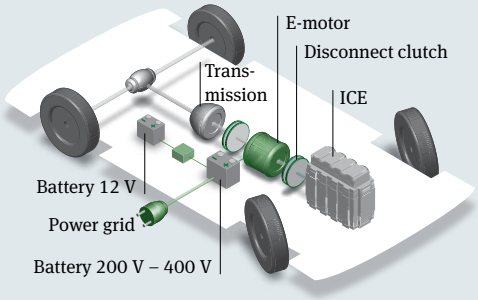
Mild hybrid

In addition to the start-stop system, the e-motor of a mild hybrid boosts the output of the internal combustion engine (ICE). The braking energy can be partially recovered using regenerative brakes in order to charge the battery.

Full hybrid

Full hybrid vehicles provide the option of driving using only electricity, only the internal combustion engine or both.



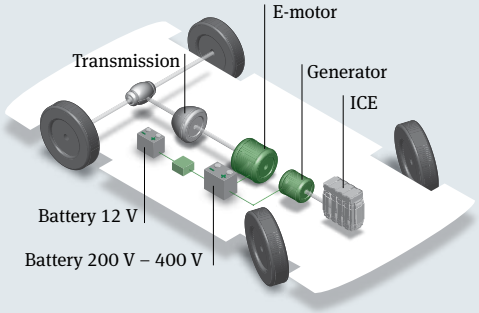


Plug-in hybrid

While the batteries of a mild or full hybrid are charged solely by the vehicle's braking energy or by the internal combustion engine, the batteries of a plug-in hybrid offer the additional option of charging via the power grid. Therefore, these vehicles generally have a larger battery pack, allowing for significantly longer ranges in electric drive mode.

Range extender

Electric vehicles with a range extender are equipped with a high-performance electric drive and allow for purely electric driving over a comparably long range. The range extender is usually an internal combustion engine driving a generator which in turn supplies power to the batteries and the electric drive.



FOCUS

Urban mobility

Changing mobility in megacities

The changing mobility is nowhere more noticeable than in the megacities of this world. At the same time, it is nowhere more necessary: Cities like Moscow, Tokyo, or Shanghai are plagued by gridlock every day, making speedy and flexible travelling impossible. As a result, there is a trend towards micro-mobility that offers significant opportunities for small vehicles. However, for these opportunities to materialize, mobility behavior has to change. A look at Shanghai shows that this change has already begun: Five Schaeffler employees working at the headquarters of Greater China describe their daily commute to work and explain why they have already opted for the mobility solutions of tomorrow.

I believe that we first and foremost have to rethink our attitude.«

WANG Luyi, Manager Corporate Communications, Schaeffler Greater China

I use public transport to get to work. Usually I take the Metro. The stops are conveniently located and I don't have to drive and concentrate on traffic. However, I usually get off two stops earlier, because it is always much too full. I'd rather walk a few kilometers to the office to escape the crowd.

Isn't that annoying?

Yes, it is, although it does have its advantages. As I said, I definitely would not want to drive myself. Unfortunately, it's too far from my apartment to walk all the way. Otherwise, I'd really love to do that.

And how do you picture your ideal future commute?

I could move closer to the office and then finally be able to walk to work. I heard that they are planning to build a housing complex there which will even have integrated charging stations for electric vehicles. On the other hand, I believe that we first and foremost have to rethink our attitude. If that change in mind-set was accompanied by the spread of small and agile electric vehicles, we'd be a big step further along.

> I would not want to give up my e-scooter. It's quiet, low-maintenance and doesn't pollute the air with exhaust fumes.«

XU Na, Secretary, BU Supply Chain Management Industrial, Schaeffler Greater China

I ride my electric scooter to work. A few years ago, when I was trying to decide whether to buy a car or not, I found a wide range of e-scooters available. That made my decision easy. Just think of all the things you avoid by riding an e-scooter: The cost of a trip to the repair shop, for instance, is much less than for a scooter with an internal combustion engine and even more so than that for a car, because there is no oil to change and no spark plugs to replace. I definitely would not want to give up my e-scooter. It's quiet, low-maintenance and doesn't pollute the air with exhaust fumes.

If you are that enthusiastic, you will probably switch to an electric car at some point?

If you take a look at Shanghai's streets, that idea may not be that farfetched. Electric scooters and bikes are already dominating the streets today – just like the normal bicycle in the old days. I'm not sure yet whether I will be one of the first to switch to an electric car. The infrastructure would have to be in place – that means we will also need a well-developed charging system and parking facilities.

The Shanghai Metro carries over two billion passengers per year, so it is overcrowded, particularly during rush hour.

» An e-bike gets you there faster, you don't waste time looking for a parking spot, and you're also doing something for your health.«

SONG Peng, Design Engineer, Industrial Product Management/Product Design, Schaeffler Greater China

I recently got a new e-bike that I ride to work. I wasn't really expecting it at first, but since I've had the e-bike, I've been leaving the car at home and really only use it on the weekend or for longer distances outside the city now. Before, I almost felt like a bit of an outcast in my department, because most of my coworkers have been riding their e-bikes to work for a long time. Now I know why: You get there faster, you don't waste time looking for a parking spot, and you're also doing something for your health without being completely exhausted afterwards.

And what about convenience?

The e-bike is even more convenient for me: I leave my apartment, take the elevator down, and off I go. It really doesn't get more convenient than that. Before, I first had to walk forever across the parking garage to get to my car, and then I had to already get in line just to leave the garage. But that's fortunately all behind me now.

The chosen mode of transportation can make all the difference during rush hour in the morning: If you choose an electric scooter, e-bike or bicycle, you will normally get there faster.

The e-bike produced by smart is equipped with the Schaeffler BBRTTS torque sensor bottom bracket unit. It recognizes when and to what extent the rider requires assistance from the motor and responds accordingly, thus providing top riding comfort.

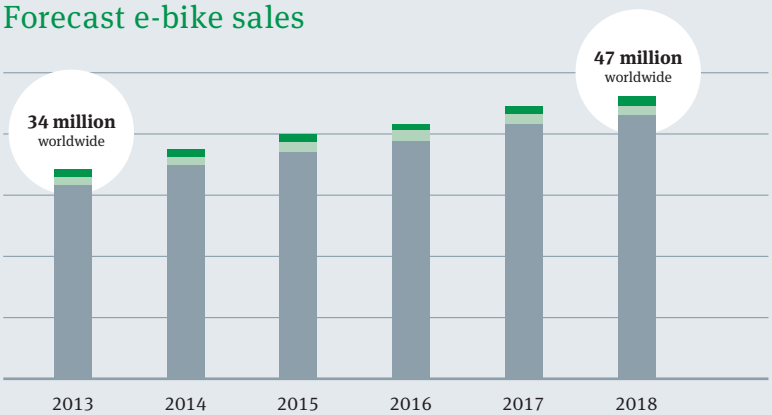
We are already thinking ahead to the metropolis of tomorrow

Approximately 29 million electric bicycles were sold in China last year alone. This shows that they already represent the perfect solution to getting from A to B quickly and conveniently in megacities like Shanghai today. Schaeffler's innovations in the field of sensor bottom brackets contribute to establishing the e-bike as the mode of transport of the future, not only in China, but also in the U.S. and in Europe.

FAG sensor bottom brackets have a high load capacity and their reliable and very high-resolution signal processing ensures the highest level of riding comfort. The BBRTTS torque sensor bottom bracket unit determines the total torque from the sum of the pedal force from both pedals. The bearing unit detects the rider's requirement for motor assistance depending on the situation and controls the output accordingly. Thus, it provides increased riding comfort, efficiency, and range. Not only does this improve the driving experience, it also ensures maximum efficiency, which in turn extends the range.

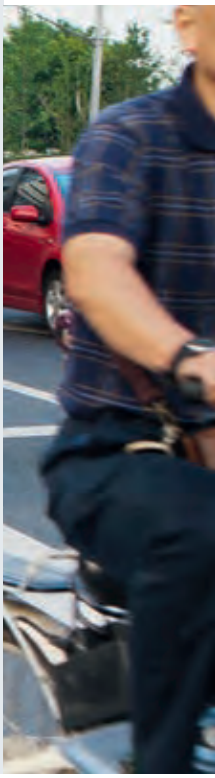
Like all FAG bottom bracket units, sensor bottom brackets are characterized by excellent smooth running characteristics. Schaeffler uses FAG Generation C deep groove ball bearings, which reduce friction by 30 % compared to previous models.

Forecast e-bike sales



Source: Pike Research (2012): Smart Transportation Systems. Executive Summary.

The e-bike market is booming – especially in China. During the period from 2013 to 2018 alone, it will grow by 7.4 % annually. In 2018, annual sales will be 47 million, and rising.



» I think many people will be able to get away from the idea that they have to own their own car if car sharing gets more popular and stays easy and simple to use.«

HE Xudong, Project manager, eMobility Systems Automotive Schaeffler Greater China

I always used to drive my own car to work, but I've been using a car sharing system for a while now. What I really like about it is the flexibility. If I decide one morning that I'd rather ride my bike, that's no problem at all. And I don't have to worry about it, because it is not my own car. I might even sell my car – I've thought about it more than once.

Do you think this kind of utilization concept will win out in the end?

I hope so. It's a fairly new concept for Shanghai, but with the help of the media, it will hopefully become popular quite quickly. I've already started to get my colleagues excited about it. And all arguments support it, really: You save money, you are flexible, and you are doing your share to help make the streets a little bit less congested. I think many people will be able to get away from the idea that they have to own their own car if car sharing gets more popular and stays easy and simple to use.

Daily traffic jams make moving along in the streets of Shanghai difficult – especially for cars.

» It is innovations like the E-Wheel Drive that pave the way to full electric mobility. I'm optimistic that I will also switch to one of these vehicles at some point.«

MA Weixin, Supervisor Lab Central Support, Central Engineering, Schaeffler Greater China

When I started working at the Schaeffler headquarters in Shanghai, I started a car pool to get to work. It was my idea back then, because I drive a hybrid car and wanted to use it even more efficiently. When I was sitting in rush hour traffic, I often felt bad, because most cars only have one person in it, and there are still way too many cars plugging up the streets. That's why I got together with a few colleagues and started the car pool.

What would be the next step to improve urban mobility?

I work in the Automotive division and I'm also personally interested in the innovations in this field. Seeing the many ideas for electric mobility at the Shanghai Auto Show this year, I really felt validated. A car pool using a hybrid car is already a step in the right direction, but it is innovations like the E-Wheel Drive that pave the way to full electric mobility. I'm optimistic that I will also switch to one of these vehicles at some point. That is not unrealistic, because just recently I read that Shanghai is one of twenty model regions for electric mobility in China.

Fully electric into even the smallest parking spot

The electric wheel hub drive with its 40 kW ensures dynamic drive power. Concentrating the drive modules compactly in the rim leaves more room inside the vehicle and increases its maneuverability.

For electric vehicles, which may be required in large cities in the future, the wheel hub drive creates previously unheard of space savings – an important aspect of the mobility for tomorrow.

FOCUS

Interurban mobility

»

In the field of interurban mobility, our innovative bearing solutions are our contribution to making modern means of transportation like aircraft or high-speed trains even faster and more efficient.«

Verena Schindelmann

Business Development Rail
Schweinfurt, Germany


4 C

Advanced solutions ensuring the mobility of tomorrow

The fields of long-distance transport and logistics are demanding: They require rapid means of transportation providing flexible utilization options without unnecessarily burdening the environment. But without the necessary technological innovations, things come to a standstill. As an international mobility supplier, Schaeffler has a pioneering role in interurban mobility, i.e. in linking key urban centers around the world.

The future will bring more traffic – and not only in the streets. Worldwide traffic will increase significantly in the coming decades, as globalization continues while users are demanding a large degree of flexibility. Providing state-of-the-art mobility solutions is a key challenge for railway and aviation companies. The primary component of a sustainable transport concept is an ecological one. In light of the advancing climate change, the focus remains on reducing CO_2 emissions. This means that passengers and freight have to be transported with as little impact on the environment as possible. One example of a technological response to these requirements are eco-efficient aircraft and high-speed trains.

Using the axlebox bearing test stand, all significant parameters can be investigated and tested in advance. In addition, various different route profiles can be simulated under realistic conditions.

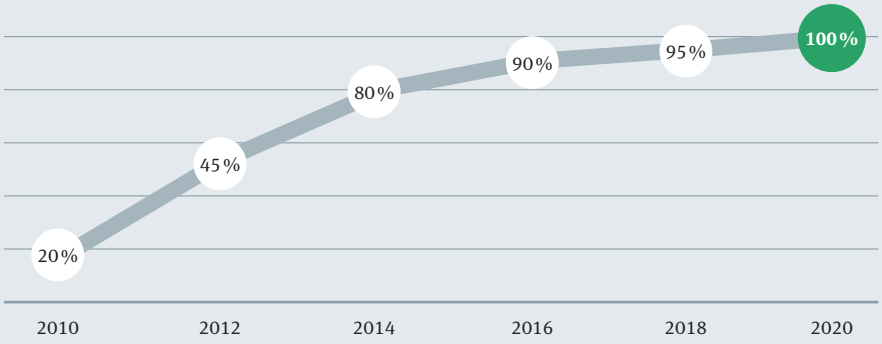
Schaeffler – development partner in the high-speed sector

In the past few years, the Schaeffler Group has established itself as a key partner for the development of rolling bearing solutions for rail-bound freight and passenger transport, high-speed trains, and locomotives. Railway Sector Management is a development partner and supplier involved in numerous projects dealing with the expansion of railway transportation. This applies equally to high-speed long-distance transportation and freight haulage and to commuter railway systems in the growing megacities. Examples in long-distance transportation are the CRH3 high-speed project in China and the axlebox bearings used in the Velaro RUS high-speed train in Russia. In the Siemens DESIRO RUS project, which has been scheduled to start operating in time for the beginning of the Winter Olympic Games in Sotchi, FAG TAROL bearings are used as well.

© Siemens AG

High-speed rail connection (HSR)

Proportion of Chinese cities connected to the HSR network:



All cities in China will be connected to the growing HSR network by the year 2020.

Source: Morgan Stanley Research (May 15, 2011): China High-Speed Rail; On the Economic Fast Track.

»

Ensuring sustainable long-distance mobility is a key challenge for railway and aviation companies.«

Dr Heinrich Schaeperkoetter, Senior Vice President Innovation Strategy Schaeffler

Testing the extremes

The Industrial division of the Schaeffler Group responds to these requirements with appropriate technical solutions. For instance, Schaeffler has become an established key partner for the development of rolling bearing solutions for rail-bound freight and passenger transport. Since they connect the wheelset and the bogie frame, axlebox bearings are subjected to extreme loads. In order to ensure reliability in day-to-day operation while keeping wear and maintenance work at a minimum, Schaeffler operates accredited testing facilities in Germany and China to evaluate and improve the performance of its axlebox bearings for railway applications.

Among the key trends in railway technology are high-speed passenger transportation systems and increasing freight volumes. To fulfill the very demanding requirements of these fields, axlebox bearings used here are subjected to extremely tough tests before installation: In addition to normal testing conditions, the test rigs can run and test extremes such as “high speed” or “heavy haul”. Bearings for high-speed applications are tested at speeds of up to 600 km/h, while in the heavy haul area, engineers perform tests on axlebox bearings used in hauling freight where they are subjected to high axle loads of up to 40 tons per axle.

Most of the bearings tested are double row tapered roller bearings and cylindrical roller bearings in their original housings. The tests simulate distances travelled of at least 600,000 km (up to and including 200 km/h) and 800,000 km (speeds of over 200 km/h) – that means tests can run for up to 45 weeks. Test loads are chosen based on the axle loads (radial load) and lateral forces (axial load) of the intended application. To take into account the cooling of the axlebox bearing housing – and therefore of the bearing – caused by the air flow and the resulting effect on the operating life of the grease, the test rigs are equipped with an air flow simulator that can generate wind speeds of up to 35 m/s.

Schaeffler has decades of experience in testing axlebox bearings. The first tests were conducted in Schweinfurt about 50 years ago. The company’s testing center in Germany has been accredited for ten years, and its first testing facility for axlebox bearings in China was set up seven years ago. At Schaeffler’s research and development departments in Anting (China) and Schweinfurt (Germany), additional test rigs for railway axlebox bearings are currently under construction.

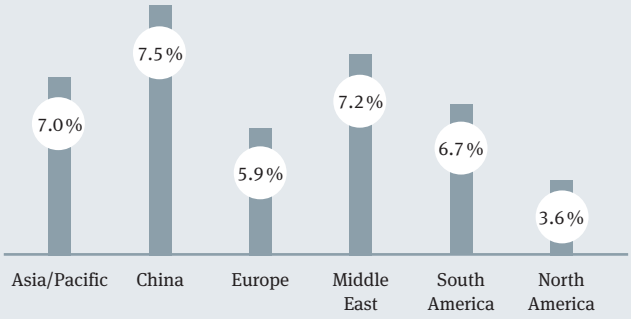
All test rigs enable test runs to be carried out in accordance with the requirements of European Standard 12082. The functional tests carried out in accordance with this standard are used to verify the suitability of axlebox bearings for use in actual operation. The additional capacity in both countries will reduce the time required for bearing approval. Both the customer and the end user will benefit from this reduction in time-to-market.

Railway early-warning system

The TSS-P bogie frame monitoring system for use in passenger transport is one of Schaeffler’s innovations in railway technology. The basic module contains sensors that monitor temperature, acceleration, and speed. This system makes it possible to monitor the condition of the axlebox bearings and wheels. As a result, various operational incidents such as unpredictable lurching and or even a possible derailing can be detected early and prevented. This is a trendsetting development project, and Schaeffler will work closely with its customers to bring this project to volume production.

Growth in air traffic until 2030

Worldwide growth in air traffic by selected regions



Worldwide air traffic will continue to increase until 2030, with Asia/Pacific expected to experience particularly high growth rates.

Source: Boeing (2011): Boeing Commercial Airplanes, Current Market Outlook 2011-2030.

Precision aviation components

Global growth in demand for mobility gives the railway but also the aircraft an increasingly important role in transporting both passengers and cargo, particularly when it comes to covering long distances between urban areas that are located far apart. And since worldwide air traffic will continue to rise until 2030, it is all the more important to be able to ensure its safety. Schaeffler makes a significant contribution to this: Thanks to Schaeffler's bearing technology, which is used in nearly all modern passenger aircraft, commercial aircraft now rank among the safest modes of transportation. Schaeffler Aerospace has developed into a leading global development partner and supplier of rolling bearings specifically for the aerospace industry, such as the bearings and other precision components used in the engines of the Airbus A380 wide-body aircraft, which are supplied by Schaeffler Aerospace.

Rolling bearings in aircraft engines are permanently subjected to extreme loads. High thrust loads and extreme weather conditions push the components to the limit. Nevertheless, they have to meet maximum safety requirements. For this reason, there is a particularly strong focus on research and development in the Aerospace sector – including on development of materials such as special steels, which can bear extremely high loads and speeds when combined with ceramic rolling elements.

Thus, Schaeffler sets worldwide standards for technology in the innovative field of interurban mobility, while meeting maximum safety and performance requirements.

Prof. Dr Andreas Knie

Prof. Dr Andreas Knie is a social scientist at the Social Science Center Berlin and a professor of sociology at TU Berlin. In addition, he is an expert on transport policy and advocates a shift in transportation towards more flexibility and expanding the public commuter and long-distance transport options.

"You can only move up if you are mobile"

He is an expert on the mobility for tomorrow: As the managing director of the Innovation Centre for Mobility and Societal Change in Berlin, Prof. Dr Andreas Knie advocates networking means of transportation in order to meet the need for speed, flexibility, and sustainability. We met him at Tegel Airport in Berlin for an interview.

The growing mobility requirements demand new solutions. How can we ensure interurban mobility – i.e. fast and flexible links between urban centers – in the future despite growing requirements?

Prof. Dr Andreas Knie: First of all, we need to understand that we have to change our thinking and our behavior. We want to and will continue to travel. However, while travelling has to become much more sustainable, it also needs to remain affordable for everyone. One step in that direction would be getting past the idea of ownership – after all, we do not buy an aircraft or a train, either, when planning a trip to a distant destination. When it comes to the car, this kind of behavior means using it only when we actually need it – that need will no longer be a reason to buy a car, though.

If we manage to use all available modes of transportation efficiently, a successful change in usage behavior is possible, despite growing requirements and even for interurban mobility.

However, future mobility will have to be transferred to the post-fossil-fuel level, meaning that existing modes of transportation will increasingly have to run on renewable energy in the future. And, naturally, not only within metropolitan areas – we will also increasingly need to use sustainable modes of transportation to cover large distances. And it will primarily be railways that play a key role in this.

How can we meet the related requirements regarding speed, flexibility, and sustainability, which are particularly high?

Prof. Dr Andreas Knie: This is where networking the various modes of transportation plays a key role, although that is also one of our biggest challenges. The reason is that more and more people are living in the cities – and that also means that there are more and more means of transportation, which take up more and more space. For this reason alone our concept of ownership will have to change when it comes to means of transportation. Don't own it, use it – that is the solution for

» Providing and networking different modes of transportation is the key element of the entire future development of transportation.«

all means of transportation accessible in the streets and at bus stops and train stations. This is the only way to remain flexible and to travel not only rapidly but also sustainably.

What do you consider to be the most sustainable modes of transportation and how can we promote them specifically?
Prof. Dr Andreas Knie: The most sustainable means of transportation are certainly our feet. The bicycle comes second. In addition, public transport – buses and railways – is among the most sustainable means of transportation, of course. Railways offer the unique possibility of covering long distances both rapidly and with a relatively low impact on the environment. Also, public transport is simply more efficient, but needs to continue to improve the quality of its performance.

At least for passenger transport, aircraft are generally considered to be the biggest source of CO_2 emissions per person. However, worldwide air traffic will continue to grow until 2030. Do you think aircraft manufacturers are doing enough to improve their carbon footprint?
Prof. Dr Andreas Knie: Air traffic is not growing everywhere – domestic air traffic in Germany is currently stagnating and has actually decreased slightly, one of the reasons very likely being environmentally friendly alternatives like railways. Also, aircraft manufacturers are already doing quite a lot. For example, jet engines are continually getting better and more efficient. However, I believe their noise level has to come down – particularly from the point of view of people living near airports.

What challenges are we confronted with in developing sustainable transport concepts?
Prof. Dr Andreas Knie: The biggest challenge is continuing to guarantee people's mobility – because democratic societies are participative societies, which means they are mobile. You can only move up if you are mobile – that still applies.

That is why we can no longer rely exclusively on fossil fuels, but have to instead sharpen our focus on the various types of renewable energy. As we all know, these are not always available, so we need the ability to store energy. In addition, the various transportation companies need to be better networked digitally in the future. The end result has to be a service consisting of different means of transportation that are networked and that help the customer get to their destination rapidly and at low cost. Providing such multimodal services is one of the key elements of the entire future development of transportation. Because the networked means of transportation we available to us have to be made accessible anytime anywhere. Cars, bicycles, coaches, and intercity express trains – linking them all to each other and making their use simple and easy is one of the key challenges of the future.

Prof. Dr Andreas Knie, thank you very much for your time.

FOCUS

Energy chain

Water power is the most widely used source of renewable energy worldwide. As a development partner to the energy sector, we support the expansion of renewable energy, laying the foundations for change.«

Michael K. Natusch

Vice President
Market Sectors, North America
Schaeffler Industrial
Fort Mill, United States

Experts on the energy of the future

In light of dwindling resources and significant climate challenges, worldwide demand for clean energy is growing. Therefore, it is imperative that we change mind-sets around the world, and all links of the energy chain, from generating and transporting energy through to transforming and using it, have to be optimized. Renewable energy is key to this process. Water, wind, and solar power represent promising growth areas for Schaeffler because they will all contribute significantly to supplying energy in the future.

The power of water was known and used even in pre-industrial times; however, while it was used to drive mills and sawmills back then, today it generates electricity. With growing success: Approximately 15 % of the electricity generated worldwide comes from water power, already making it the most important source of renewable energy today.

While Schaeffler has been a close development partner und supplier to conventional hydropower for many years, it also offers specific solutions for the field of alternative water power. For example, in a strategic development partnership with British marine engineering company Pelamis Wave Power, Schaeffler was able to make a key breakthrough in the development of wave energy converters used to generate renewable energy from the sea. Building on experience gained in creating the world's first offshore wave energy converter in 2004, Pelamis commissioned the P2 model in 2010.

Similar to a giant sea snake, the Pelamis wave energy converter floats on the surface but is securely anchored to the seabed. The converter consists of several steel tube sections that are linked to each other and faces into the direction of the waves. The natural vertical motion of the waves generates electricity which is then transmitted to shore using a subsea cable.

The second-generation Pelamis, which is located off the Scottish Orkney Islands, improves upon both performance and cost-effectiveness of its predecessor model. This success story was made possible by expanding the performance capacity of the bearings and seals – the bearing units at each joint constantly have to withstand forces of up to several hundred tones.

Unlike the Pelamis sea snake, sometimes Schaeffler's innovative solutions in the field of alternative water power are completely hidden: For example, axial turbines designed to utilize the energy from currents and tides operate entirely under water. Similar to the air flow in a wind power generator, the high-energy water current moves the rotor, which in turn generates electricity.

Like its namesake, the pelagic sea snake Pelamis platura, the wave energy converter is designed to remain in the water permanently and to withstand even the most extreme environmental conditions.

Generating power at the wave farm

Water power is the most important renewable source of energy. Apart from conventional hydropower, other options include generating energy from ocean waves. The Pelamis system is technologically quite advanced – and Schaeffler's innovative bearing solutions have made it possible to start generating power off the coast of Scotland.

The experts lend a hand in adding the finishing touches before the complex transport operation starts, since any maintenance work is much more difficult once the sea snake is afloat.

Consisting of several linked steel tube sections, the Pelamis sea snake floats on the ocean surface. The natural movement of the waves drives hydraulic motors via hydraulic cylinders and pressure accumulators, and the motors are connected to generators. The individual segments of the converter are linked to each other by friction-reducing Schaeffler bearing units consisting of a combination of radial and axial spherical plain bearings. The working forces generated at each of these joints can be several hundred tones, which the bearings have to take up. They are crucial to the success of the waver energy converter.

In developing media lubricated rolling bearings, Schaeffler is able to use its decades of experience in materials technology, surface coatings, and sealing technology.

Under water, everything goes swimmingly

Several meters below the surface, but robust, rust-proof and virtually maintenance free nonetheless: Developing media lubricated rolling bearings counts among the special innovations of Schaeffler's Industrial division in the field of alternative water power. They completely dispense with oil and grease because the bearings are lubricated by water. This represents a significant ecological advantage in under-water applications.

Maintenance free even under water

Whether floating on the surface or completely submerged: The ambient conditions place special demands on the bearing solution, both in the sea snake and in turbines. For these applications, Schaeffler develops rolling bearings that are extremely robust. These units have to operate with absolute reliability, since they are installed several meters under water and are virtually inaccessible for maintenance work. This new generation of rolling bearings is lubricated by water. The rolling bearing rings are made of corrosion resistant steel. The cages, which guide ceramic rolling elements, consist of water-resistant plastic. In addition, Schaeffler has dispensed with heavy, high-friction seals. As a result, media lubricated rolling bearings are perfect for applications under water. The first prototypes of these innovative rolling bearings are already being field tested in various pilot projects, for example in North America.

Maneuverability for maximum efficiency

In addition to their water power activities, Schaeffler is also a development partner on numerous projects in the fields of wind and solar power. Power plants based on concentrated photovoltaics and solar power are particularly efficient if the collectors are constantly tracking the course of the sun. This is where Schaeffler's rolling and plain bearings come into play. The key here are primarily the precision and robustness of the bearing support, because these two factors contribute significantly to the plant achieving its maximum efficiency. A high level of rigidity is necessary for the reflectors and collectors to track the sun exactly. At the same time, the bearings are permanently exposed to the elements and thus have to be appropriately robust. Depending on the type of power plant and its individual design, slewing rings, angular contact roller bearings, track and yoke type track rollers, radial insert ball bearing housing units, and plain bearing bushes and spherical plain bearings have proven themselves.

Schaeffler's spherical plain bearings are ideally suited to such precise and slow swiveling motions. "For the power plant to operate at maximum efficiency throughout its entire life, the bearings have to be very durable, able to bear high loads, and require very little maintenance," emphasizes Dr Arndt Schweigert, Senior Vice President Sector Management Power Generation (Water Power and Solar Power) in Schaeffler's Industrial division, who develops special bearing applications such as these.

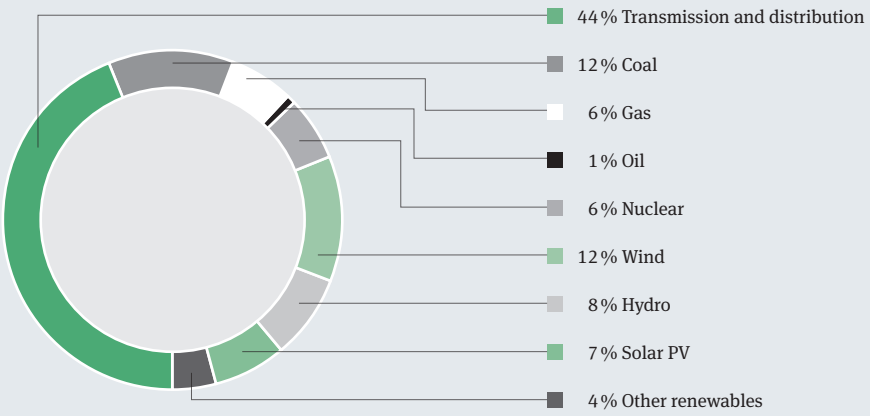
With its new linear actuator, Schaeffler has taken another step towards systems integration. Developed and

For the power plant to operate at maximum efficiency throughout its entire life, the bearings have to be very durable, able to bear high loads, and require very little maintenance.«

Dr Arndt Schweigert, Senior Vice President Sector Management Power Generation (Water Power and Solar Power)

The gigantic Andasol power plant complex in Andalusia is equipped with more than 1,200 hydraulic rod ends. They ensure that the parabolic troughs are continually tracking the sun. This even swiveling motion would not be possible without Schaeffler's top-precision spherical plain bearings.

Global expenditures on new electric generating stations and infrastructure 2011-2020



Source: International Energy Agency (2011): World Energy Outlook.

A total of 31 % of global expenditures on new electric generating stations and infrastructure 2011-2020 will be invested in renewable energy worldwide. However, a large portion of expenditures will relate to infrastructure, since power generated in remote areas has to be transported to the consumer across great distances. Therefore, expanding facilities for transmission and distribution is vitally important. Schaeffler bearings are also installed in the construction machinery used in that expansion.

designed specifically for the harsh operating conditions in solar power plants, the unit can reach a stroke travel of up to 1,000 millimeters at a stroke speed of five millimeters per second. Whether in the sun, sand, rain, or a storm – the linear actuator is extremely low-maintenance in any environment and guarantees an operating life of up to 25 years. The reason is the encapsulated housing which has only few joints, and these are perfectly sealed. The motor and gearbox unit and the entire drive technology are integrated within this housing.

Forming a complete mechatronic system with the rolling bearings for each individual bearing position, the screw drive spindle and spindle nut as well as the extension tube, the new linear actuator unit ensures accurate axes and thus maximizes the energy yield of solar power plants.

Large-size bearing test rig ensures quality

Last but not least, Schaeffler Group Industrial has been developing and manufacturing bearing supports for wind power plants for over 30 years. In addition, Schaeffler's Astraios large-size bearing test rig is the world's largest, most modern, and most powerful large-size bearing test rig. It is used to test large-size bearings weighing up to 15 tons and measuring up to 3.5 meters, such as those used in wind power plants, under realistic conditions, increasing both the safety and cost effectiveness of the plants.

Wave energy converter, solar tracking systems, or spherical roller bearings in wind power plants: With its innovative products and solutions in the field of renewable energy, Schaeffler is fully prepared for the challenges of the energy revolution – and its expertise and commitment provide significant contributions towards an economic breakthrough for this megatrend towards sustainability. Robert Schullan, CEO Industrial, sums it up: "We view the field of renewable energy as a strategic growth area which we will be systematically expanding. The Schaeffler Group's solutions play a significant role in the cost-effectiveness and reliability of these new technologies."

We view the field of renewable energy as a strategic growth area which we will be systematically expanding.«

Robert Schullan, CEO Industrial, Schaeffler AG

Fred. Olsen Renewables AS

Crystal Rig Wind Farm is located about 40 kilometers east of Edinburgh. Its 25 wind power plants make it one of the largest onshore wind farms in Scotland. Schaeffler has been developing and manufacturing bearing supports for on- and offshore wind power plants for over 30 years.

Schaeffler bonds

Established on the international capital markets

Since its successful debut on the international capital markets in January 2012, the Schaeffler Group has evolved into a sought-after and well established market participant thanks to the operational strength of its business. This development was particularly helped by its transparent reporting and proactive investor relations.

Building on that foundation, the Schaeffler Group has continued its bond program in 2013. In April 2013, it successfully placed another EUR 1.25 bn in bonds. In light of high demand for the issue, the originally envisaged issue size of EUR 1 bn was increased by EUR 250 m.

The issue consisted of one Euro and one U.S. Dollar tranche. The Euro tranche totaling EUR 600 m has a maturity of five years and bears interest at 4.25 %. The U.S. Dollar tranche totaling USD 850 m has a maturity of eight years and bears interest at 4.75 %.

The Schaeffler Group had the following bonds outstanding at December 31, 2013:

No. 002

ISIN	Currency	Face value in millions	Coupon	Maturity	Issued at (in %)	Price in % [1] 12/31/2013
XS0741938624	EUR	800	7.75 %	02/15/2017	98.981	116.06
US806261AC75	USD	600	7.75 %	02/15/2017	98.981	114.69
XS0801261156	EUR	326	6.75 %	07/01/2017	98.981	108.17
XS0923613060	EUR	600	4.25 %	05/15/2018	100.000	104.25
XS0741939788	EUR	400	8.75 %	02/15/2019	100.000	113.91
US806261AA10	USD	500	8.50 %	02/15/2019	100.000	112.94
US806261AE32	USD	850	4.75 %	05/15/2021	100.000	100.38

[1] Source: Bloomberg.

All bonds were issued by Schaeffler Finance B.V. and guaranteed by Schaeffler AG and selected Schaeffler AG subsidiaries. The XS0801261156 bond was the only bond listed on the Regulated Market of the Luxembourg Stock Exchange. All other Schaeffler bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

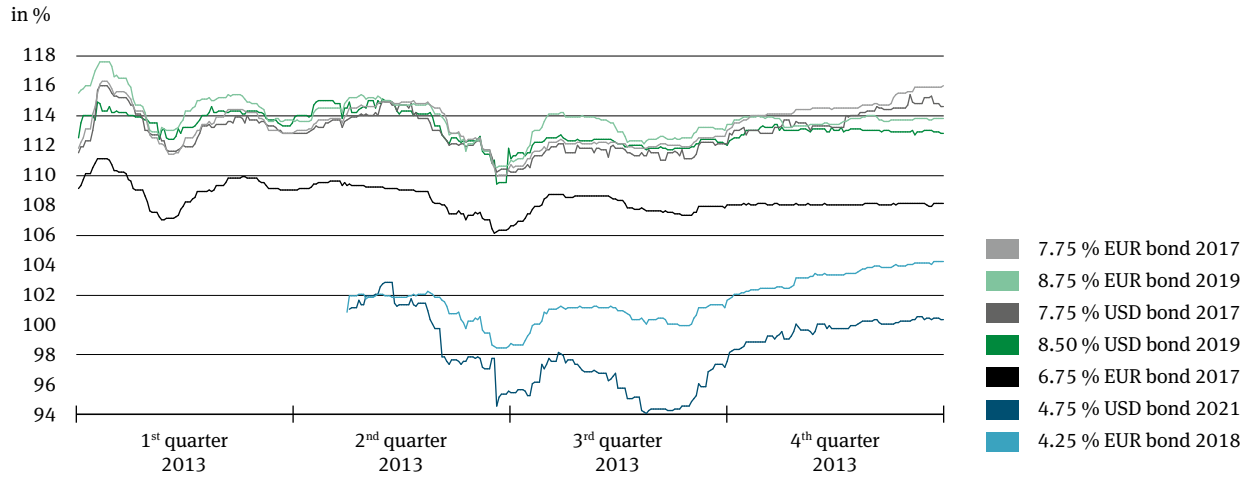
Schaeffler bonds show positive trend

2013 was marked by a strong recovery, particularly of the European capital markets. Most notably, the market for high-yield bonds saw significantly higher issuance volumes. According to Moody's, European companies placed high-yield bonds with a volume totaling EUR 70 bn in 2013, twice as many as in the prior year. In the U.S., a total of EUR 315 bn were issued during the year.

The iTraxx Europe Crossover index which measures credit risk premiums of European corporate bonds below investment grade fell by 195 basis points or 40 % from 482 basis points to 287 basis points between January 01 and December 31, 2013. The Schaeffler Group's bonds have also been doing well in this environment since they were issued. The EUR bond (ISIN: XS0741938624) bearing interest at 7.75 % and maturing in 2017 showed the best performance in 2013, rising to a price of 116.06 % as at December 31, 2013.

Performance 2013

Source: Bloomberg



Rating improved

The Schaeffler Group has been rated by the two rating agencies Moody's and Standard & Poor's since January 2012. As the Schaeffler Group has successfully taken measures to further reduce its debt level and improve its financing terms in 2013, both rating agencies have raised the Schaeffler Group's credit rating. Moody's has been rating the Schaeffler Group as "Ba3" since September 19, 2013 with a stable outlook (previously "B1" and "positive"). Standard & Poor's raised its Schaeffler Group rating from "B+" to "BB-" on October 01, 2013. The outlook remains stable. The bonds issued by Schaeffler Finance B.V. were also upgraded, with Moody's raising its rating to "Ba2" (from "Ba3") and Standard & Poor's to "BB-" (from "B+").

The following summary shows the Schaeffler Group's current ratings:

No. 003

12/31/2013

		Company	**Bonds**
Rating agency	**Rating**	**Outlook**	**Rating**
Moody's	Ba3	stable	Ba2
Standard & Poor's	BB-	stable	BB-

Group management report

Disclaimer in respect of forward-looking statements

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

1. Fundamental information about the group

1.1 Business activities and group structure

Overview of business activities

With its product brands INA, LuK, and FAG, the Schaeffler Group is a leading global provider of technologically advanced components and systems that offer significant added value to the company's customers. The company distributes its products and services to numerous automotive manufacturers and industrial customers. Since its very beginnings, the Schaeffler Group has relied on pioneering spirit and innovative products. For more than 60 years, INA has developed and produced rolling bearings, plain bearings and linear guidance systems for mechanical engineering as well as engine components for the automotive industry. Dr.-Ing. E. h. Georg Schaeffler developed the cage-guided needle roller bearing in 1949. This new bearing type increased the performance of numerous industrial applications and remains one of the leading and most commonly used rolling bearing solutions today. The traditional FAG brand that is over 120 years old is one of the leading global brands for applications in mechanical engineering, in the automotive industry, as well as in aviation and aerospace. The invention of the ball grinding machine by Friedrich Fischer laid the foundation for FAG and the entire modern rolling bearing industry. The introduction of the first diaphragm spring clutch in Europe marked the beginning of the LuK brand's history in 1965. LuK has been supplying systems and components for the automotive drive train to customers all over the world for over 40 years. Today, the Schaeffler Group with its LuK brand ranks among the leading providers of modern clutch and transmission technology.

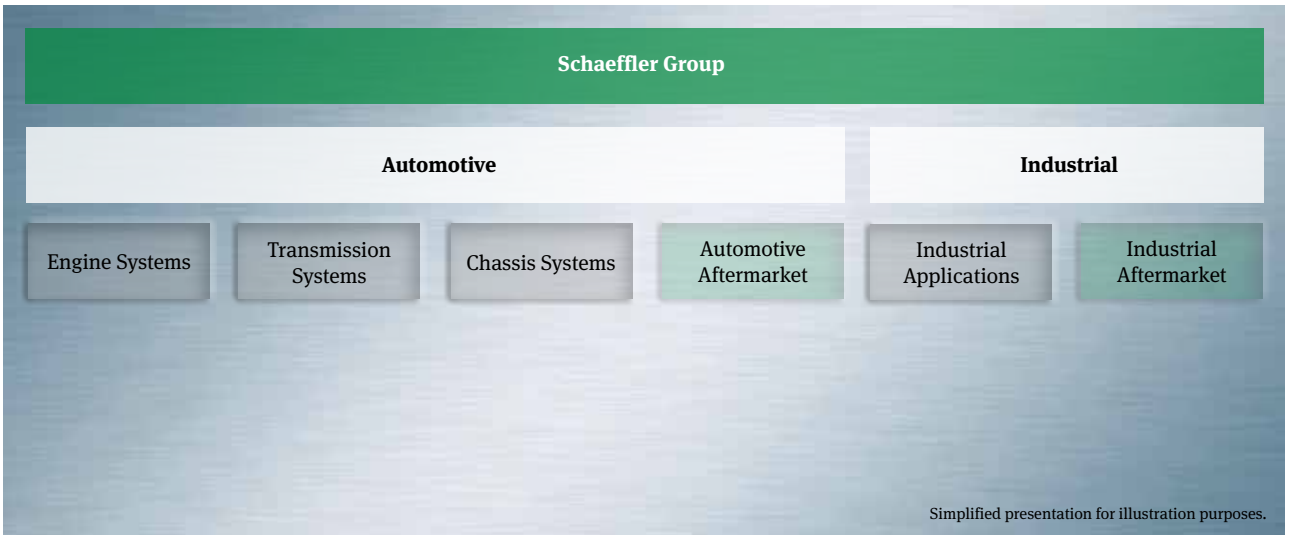
The Schaeffler Group has grown significantly in recent years. With more than 79,000 employees worldwide, it is one of the largest technology companies in family ownership in the world. In 2013, the company generated consolidated revenue of EUR 11,205 m. EUR 8,165 m of this amount or approximately 73 % was earned by the Automotive division and EUR 3,040 m or 27 % by the Industrial division. The Schaeffler Group's business has become increasingly global. For instance, approximately 23 % of revenue related to China and other fast-growing markets in the Asia/Pacific region in 2013. 168 locations in 49 countries– manufacturing locations, research and development facilities, distribution centers, sales offices, and warehouses – represent the Schaeffler Group worldwide. The foundation of the Schaeffler Group's operations are 73 manufacturing locations. Worldwide, Schaeffler plants are managed using uniform processes and principles. The manufacturing locations' high performance capacity and flexibility is one of the key success factors of the Schaeffler Group.

For years, the Schaeffler Group has been pursuing a growth strategy aimed at profitable above-market growth. At the core of this growth strategy are quality, innovation, and technology leadership, in doing business with customers as well as in the group's internal processes.

Organizational structure

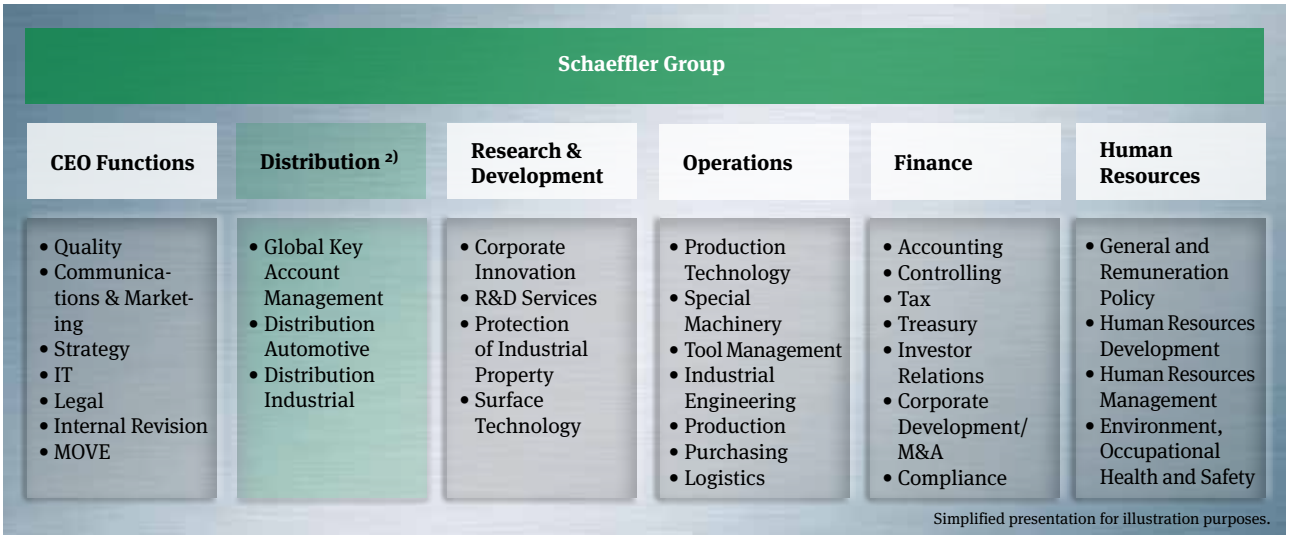
During the fourth quarter of 2013, the Schaeffler Group amended its organizational structure and approved a new organizational and management structure consisting of divisions, functions, and regions as of January 01, 2014. Under the new structure, the Schaeffler Group's business is divided into the two divisions Automotive and Industrial, both of which consist of several business areas. The divisions include both the OEM business and the aftermarket business, which represents 23 % of total revenue for both divisions combined.

Schaeffler Group divisions and business areas



Along with the two divisions and their six business areas, the Schaeffler Group's organizational model also comprises the five functions Research and Development, Operations, Finance, Human Resources, and the CEO Functions. The Distribution function is embedded directly in Schaeffler Automotive and Schaeffler Industrial.

Schaeffler Group functions and functional areas [1)]



[1)] New structure effective January 01, 2014; divisional partners omitted here.
[2)] The Distribution function is embedded directly in the Automotive and Industrial divisions.

The Schaeffler Group primarily manages its business based on its divisions and business areas, which are treated as profit centers. The functions are reflected as cost centers. In addition to divisions and functions, the Schaeffler Group also divides its business into countries and regions each of which is managed by a regional CEO (Chief Executive Officer; including the Europe region beginning March 01, 2014). The regional alignment follows the highly-integrated business model, the high degree of vertical integration and the firm conviction that the Schaeffler Group can only realize its growth strategy with extensive localization and strong regions and functions.

The Schaeffler Group has realigned its regions effective January 01, 2014. In light of its growing global economic importance, China was designated as a separate region named “Greater China”. Korea, Japan and the countries in Southeast Asia were combined to form the new region “Asia/Pacific”. India has become part of the newly created region “Europe”, which includes not only Germany, but also the Middle East, Africa, and Russia. In addition, the previous regions North and South America have been combined into one region “Americas”. Starting on January 01, 2014, the Schaeffler Group’s business activities are thus divided into four regions – Europe, Americas, Asia/Pacific, and Greater China – which in turn are divided into various subregions and countries.

Schaeffler Group regions and subregions [1)]

[1)] New structure effective January 01, 2014.

Management structure

The Schaeffler Group is managed by the executive board of Schaeffler AG. Under the new organizational structure, the executive board consists of the Group CEO and the CEOs of the divisions and functions. The Schaeffler executive board is directly responsible for managing the company, setting objectives and the strategic direction, and managing the implementation of the growth strategy. The supervisory board of Schaeffler AG appoints, advises and supervises the executive board.

The composition of the executive board changed in 2013:

- At the end of September 2013, Dr Gerhard Schuff, member of the Schaeffler AG executive board in charge of Purchasing, retired from the company. His responsibilities were taken on by Oliver Jung, previously in charge of Worldwide Operations and Development of Production Methods. Jung was appointed to the Schaeffler AG executive board effective October 01, 2013 and is responsible for the newly created Operations function (Production, Purchasing, and Logistics).
- On October 04, 2013, the previous CEO Dr Juergen M. Geissinger left the company. At the same time, Klaus Rosenfeld took over as Schaeffler AG CEO in addition to his current role as Chief Financial Officer.
- At the end of 2013, Wolfgang Dangel, member of the Schaeffler AG statutory board of directors in charge of Automotive, left the Schaeffler Group to pursue new career opportunities. Norbert Indlekofer and Professor Dr Peter Pleus were appointed to the Schaeffler AG executive board effective January 01, 2014 to jointly head up the Automotive division. Norbert Indlekofer is responsible for Transmission Systems and the Automotive Aftermarket. He also took on the responsibility for Research and Development within the Automotive division. Professor Dr Peter Pleus heads up Engine and Chassis Systems and is also responsible for Global Key Account Management.

As part of the organizational realignment of the executive board, the previous distinction between the statutory board of directors and the executive board was abolished at the end of 2013. Starting January 01, 2014, the composition of the executive board thus reflects the Schaeffler Group's organization by divisions and functions. In order to ensure that the regions are appropriately represented within the multi-dimensional matrix organization of the Schaeffler Group, a regional CEO was designated for each of the four newly defined regions. The regional CEOs regularly attend executive board meetings and, together with the CEOs of the divisions and the functions, comprise the extended executive board of Schaeffler Group.

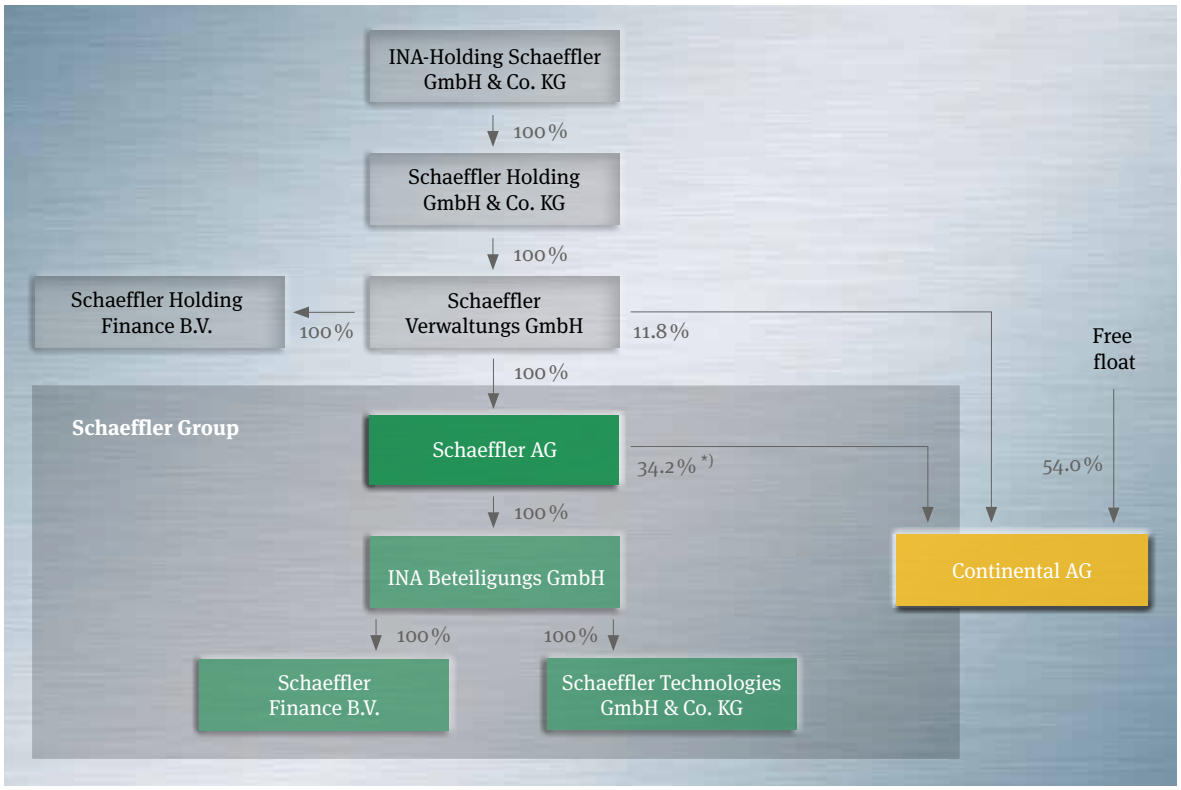
Schaeffler Group management structure [1)]

[1)] New management structure effective January 01, 2014.

Group structure

The Schaeffler Group includes the parent company Schaeffler AG, a stock corporation under German law, and 158 subsidiaries. The group's head office is located in Herzogenaurach, Germany. Schaeffler AG is a wholly-owned subsidiary of Schaeffler Verwaltungs GmbH and an indirect subsidiary of INA-Holding Schaeffler GmbH & Co. KG. The shareholders of INA-Holding Schaeffler GmbH & Co. KG are Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. Schaeffler AG holds a 34.2 % interest in Continental AG via Schaeffler Beteiligungsholding GmbH & Co. KG. Another 11.8 % are held by Schaeffler Verwaltungs GmbH.

Simplified IHO Group structure as at December 31, 2013



*) Schaeffler AG holds the investment in Continental AG via Schaeffler Beteiligungsholding GmbH & Co. KG, which is accounted for at equity in the consolidated financial statements.

Divisions and business areas

The Schaeffler Group distributes its products and services to numerous automotive and industrial customers and has divided its business in two divisions: Automotive and Industrial. The Automotive division, which supplied more than 60,000 products such as clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units, and electric drives to approximately 7,500 customers worldwide in 2013, generated 73 % of group revenue. The vehicle components, modules, and systems produced by the Automotive division are mainly developed for specific customer applications and enable automotive manufacturers to benefit from current issues such as lower fuel consumption and reduced CO_2 emissions. As a partner of nearly all OEMs and leading automotive suppliers worldwide, the Schaeffler Group offers comprehensive technical expertise for the entire drive train – products and applications for engines, transmissions, and chassis of passenger cars and commercial vehicles.

The Industrial division supplied more than 90,000 products such as rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology to approximately 15,000 customers in about 60 different industrial sectors. The Industrial division generated approximately 27 % of the Group's revenue. Cooperating closely with its customers, the Industrial division develops customer-specific bearing solutions for numerous tailored applications. Its product spectrum ranges from high-speed high-precision bearings only a few millimeters in size (e. g. for dentists' drills or machine tools) through to large-size bearings over

three meters in diameter (e. g. for tunnel boring machines or wind turbines). The bearings and related products manufactured by this division are used in applications in drive technology, production machinery and wind turbines, as well as in heavy industries. In the aerospace sector, the Schaeffler Group is a leading manufacturer of high-precision bearings for jet and helicopter engines as well as for space travel applications.

A comprehensive Aftermarket portfolio covering the Schaeffler Group's two divisions rounds out the company's business. The Schaeffler Aftermarket business is responsible for the global business with spare parts for Schaeffler products. The product range comprises approximately 40,000 different products covering applications in clutch and release systems, engine and transmission applications, and chassis applications. In addition, Schaeffler Automotive Aftermarket offers comprehensive services to repair shops and dealers. These include "RepXpert", an online portal for vehicle repair shops and car dealerships and "Partslife", a recycling system for the free vehicle parts market. The Schaeffler Group's Industrial Aftermarket is responsible for the spare parts and service business with end customers and distributors in all significant industrial sectors. Schaeffler's primary objective is to reliably supply high-quality products, application solutions, and services to its customers. In 2013, approximately 23 % of total group revenue was generated in the Aftermarket business.

Functions

Technology expertise, particularly the Research and Development (R&D) and Operations functions, are essential to the success of the Schaeffler Group's business.

Research and Development

In 2013, the Schaeffler Group has further strengthened its Research and Development (R&D) function and thus its foundation for promising innovations and long-term competitiveness. At the end of 2013, approximately 6,000 R&D staff were employed at 16 R&D centers around the world. Schaeffler is present worldwide in order to meet the needs of the various markets and customers. More than 2,500 inventions reported internally in 2013 demonstrate the strategic safeguarding of intellectual property and strengthened innovative ability. Schaeffler expects to again rank among the top 5 most innovative companies in Germany. The Schaeffler Group's research and development activities focused on the following:

- optimizing the R&D organization,
- strengthening internal and external networks,
- expanding systems expertise, and
- offering region-specific all in one solutions.

In light of increasing globalization and changes in the market, the company has realigned its R&D organization in Germany. The three most important fields of action in this process were strengthening innovation management, optimizing R&D resources, and increasing efficiency. The realignment of the R&D function is aimed at reducing its organizational complexity by setting clear responsibilities and standards in order to further expand the successful global cooperation within R&D.

Beginning in 2014, the responsibility for managing the research and development activities of both the Automotive and Industrial divisions are primarily allocated under one head. Global trends ranging from reducing emissions to autonomous driving increasingly require solutions that are conceptually based on an integrated systems approach and designed as components using extensive expertise. Especially trends related to the environment are extremely important, since law makers are setting clear targets in addition to market expectations. As a result, Schaeffler is increasingly developing entire vehicle concepts and drive trains and using them as platforms around the world. To secure its technological leadership, Schaeffler further expanded its systems expertise by implementing its new R&D Automotive organization. One priority of the new Industrial R&D organization is the concentration of development of rolling bearing in one newly created department. This department is working among others on developing existing products into modular systems making advising customers more efficient around the world.

Securing long-term and profitable growth is one of Schaeffler's fundamental objectives. Research and development to keep the product range innovative and competitive is essential to achieving this objective. Therefore, Schaeffler is strengthening existing business fields and is also working on opening up new fields. As part of this initiative, a corporate innovation department was established to encourage product and technology innovations across divisions. At the "Forum of Inspiration" held in mid-2013, all of Schaeffler's technical departments had the opportunity to present their newest products and ideas, and to encourage and expand the sharing of ideas between employees, even across locations. At this event, the "Inspiration Award" was presented to staff for the first time to recognize exceptional innovations.

One important aspect is the continuous improvement of internal and external networks, since continually sharing knowledge is the basis for the worldwide success of Schaeffler's research and development activities. The key objectives of cooperating with external partners are not only to utilize the potential for joint development projects but also to recruit junior staff.

For instance, the "Schaeffler Innovation Days" held in Pune, India, in February 2013, at which numerous new developments of the Automotive and Industrial divisions were presented to customers, helped enhance Schaeffler's external network. The event provided an opportunity to share experiences, identify trends, and jointly discuss product ideas.

Research and Development in the Automotive division

More than ever, the future of mobility requires focusing on long-term trends. The key trends in future mobility are

- social trends (e. g. urbanization),
- increasing environmental awareness worldwide, and
- technological change (e. g. electric mobility).

2013 again saw a large number of prizes awarded to Schaeffler innovations, one of which was the "Global Innovation Award". Schaeffler was given this award in connection with the "Nissan Global Supplier Award" for the highly efficient chain of a continuously variable transmission, receiving praise for its excellent technological development.

There are demands to significantly reduce worldwide CO_2 emissions by 2020. The strictest limits have been set in Europe. In response to these legal requirements, electrifying the drive train has become a fundamental sector trend. This trend will develop at varying speeds. Conventional mechanical or hydraulic components are increasingly being replaced by electric solutions. Other systems, such as start-stop or the boosting function, will open up additional potential for efficiencies in the conventional internal combustion engine. The Schaeffler Group expects high growth rates for these electrified systems and mild hybrids. Fully battery-based electric drives and fuel cell technology, on the other hand, will need more time. These technologies are experimental prototypes that are important for gaining valuable experience with electric vehicles. As a result, the internal combustion engine still holds great potential for improvement and will continue to play a dominant role in the coming years.

Schaeffler has positioned itself in the market ranging from optimizing drive trains based on internal combustion engines (1) and hybrid solutions (2) through to all-electric mobility (3) under the title "Efficient Future Mobility". Its broad range of products, regularly supplemented through the addition of innovative solutions, again made Schaeffler one of the most important partners of the automotive industry in 2013. Schaeffler aimed to serve regional needs in a global development network and to provide tailored solutions for its customers worldwide – strictly following the "In the region – For the region" approach.

(1) Drive trains based on internal combustion engines

In keeping with the still-dominant role played by drive trains based on internal combustion engines, substantial potential for reducing fuel consumption and emissions was realized by meticulously detailed work. Technologies include electromechanical and electrohydraulic phasing systems for the valve train and automated transmission systems.

At the North American International Auto Show (NAIAS) in Detroit, U.S., Schaeffler presented a concept for the demonstration vehicle "Efficient Future Mobility North America" aimed at making a critical contribution to complying with future fuel consumption regulations. With efficiency increases of up to 15 %, Schaeffler's innovations reflect the specific requirements of the North American market and already facilitate compliance with the CAFE standard (CAFE: Corporate Average Fuel Economy) by 2020 without hybridization. Integrated solutions include an improved start-stop system, a thermal management module, and an AWD disconnect clutch to minimize friction losses.

At the “Schaeffler Innovation Days” held in Pune, India, Schaeffler presented its concept vehicle “Efficient Future Mobility India”, which combines selected technologies designed specifically for cost-sensitive markets. Together, they reduce fuel consumption by up to 7 % while improving the driving experience.

Schaeffler was nominated as a finalist for the Automotive News PACE Award 2014 (PACE: Premier Automotive Suppliers’ Contribution to Excellence) for its fuel-saving torque converter with centrifugal pendulum-type absorber. Developed at Schaeffler’s LuK USA LLC facility in Wooster, Ohio, the integrated torque converter takes a completely new approach to the torque converter/clutch system, placing the clutch function directly on the torque converter turbine.

(2) 48V technology/hybridization

In light of increasing drive train electrification, Schaeffler offers numerous systems suited for hybrid vehicles with a high-performance low-voltage power system. Using a 48 volt solution makes it possible to achieve outputs of up to 12 kilowatts. This entry-level hybridization thus already offers the essential advantages of a hybrid vehicle, i. e. it significantly lowers CO_2 emissions while being economically attractive.

At the International Motor Show in Frankfurt, the focus was on the “48 Volt System” exhibit. Engine start-stop systems represent the entry to drive train electrification. The efficient use of the electric power installed in the vehicle is one of Schaeffler’s development goals. An increase in the internal combustion engine’s load point to facilitate the engine running in the ideal operating window as well as needs-based operation of the accessory units, regenerative braking, boosting, and sailing are all indispensable when it comes to fulfilling future emission regulations. The following solutions optimize modern engine start-stop systems:

- permanently engaged starter,
- belt-driven starter generator,
- electric camshaft phasing units,
- accumulator valves, and
- non-contact sensors for manual transmissions.

Schaeffler’s 48-volt drive module, which has a maximum output of 12 kilowatts, also reduces CO_2 emissions. This is a compact electric drive that includes the clutch and planetary transmission. The 48-volt on-board electric system also allows for the integration of additional high-performance innovations such as actuators that allow the roll stiffness and ground clearance to be regulated, which in turn has a positive effect on the vehicle’s aerodynamics and thus on its fuel consumption.

The full-hybrid version of Schaeffler’s hybrid module facilitates significant fuel savings. Schaeffler’s electric axle is an advanced and high-performance solution for hybrid vehicles with all-wheel drive. The upper end of the range is a multi-gear electric drive axle with two electric motors.

At the Tokyo Motor Show, Schaeffler presented the hybridized double clutch transmission with seven gears, which was originally developed for the Japanese market in cooperation with Honda. This system made its series production debut in the Honda Fit Hybrid, which is based on a new hybrid electric vehicle platform.

(3) Electric mobility

In the field of electric mobility, Schaeffler worked on various solutions for the mobility of the future. The focus was on the concept study "eSolutions", which was presented, among other things, the E-Wheel Drive wheel hub drive. All components of this technology that are required for driving, decelerating and driving safety, such as the electric motor, power electronics, controller, brake, and cooling system, are integrated inside the wheel rim. The R&D center in Anting, China, is part of the Schaeffler Group's strategic concept for establishing its electric mobility activities. Approximately 30 engineers located there provide services related to researching, developing and testing new next-generation systems to Schaeffler Technologies GmbH & Co. KG.

In addition, the concept car "Fiesta eWheelDrive" with wheel hub drive was created in cooperation with Ford in 2013. The possibilities provided by this potential future technology were demonstrated at a trade convention and in a drive event on a test track in Lommel, Belgium. Highly integrated wheel hub drives also provide significant advantages in terms of maneuverability, driving dynamics, and active safety in addition to the perfect utilization of space. Schaeffler's E-Wheel Drive is part of the "MEHREN" (Multimotor Elektrofahrzeug mit hoechster Raum- und Energieeffizienz und kompromissloser Fahrsicherheit – Multi-Motor Electric Vehicle with Top Space and Energy Efficiency and Uncompromising Driving Safety) research project supported by the Federal Ministry of Economics and Technology that Schaeffler is cooperating on with partners in industry and universities.

Research and Development in the Industrial division

In 2013, awards received by the Schaeffler Group included being named "Supplier of the Year" for 2012 by Gildemeister. Schaeffler also received this award in the "Quality" category in 2011, so winning this general award reflects Schaeffler's wide range of expertise. Along with high quality, the award especially recognizes innovative ability and supply reliability.

In the future, rolling and plain bearings will remain extremely important for the functionality, cost-effectiveness, and reliability of numerous industrial applications, and their consistent technological advancement promises considerable potential efficiencies. Among other things, development work focuses on optimizing rolling bearing components and standardizing them in configurators and modular systems (1). In addition, the Schaeffler Group's proven expertise in mechanics and mechatronics enables it to offer various modular solutions right up to complete system partnerships (2). It is Schaeffler's ambition to be the market and technology leader in bearings and systems with bearing supports, to offer optimal solutions to all relevant market segments, and to ensure customer-oriented products and worldwide services (3).

(1) Components

Bearing components still offer potential for significantly improving performance and efficiency while reducing life-cycle costs. Schaeffler presented innovative bearing supports with optimized performance and friction characteristics at the Hannover Messe.

The Schaeffler Group presented a cylindrical roller bearing with cage and optimized contact geometry for the first time. The axial frictional torque is reduced by up to 50 % compared to bearings without optimized contact geometry. The permitted axial load can therefore be up to 60 % of the radial load. Another innovation is the ball bearing with an efficient lip seal (ELS), which has improved friction characteristics. It significantly reduces the frictional torque at increasing speeds by approximately 30 % compared to conventional wheel bearings, thus reducing power loss while exhibiting improved sealing action. With its new radial insert ball bearing, which is fitted with a non-contact BRS seal, Schaeffler is now offering an innovative solution that reduces friction by an average of approximately 50 %.

The company also presented premium high-performance products from the “X-life” program that guarantee a significantly longer operating life under the same operating conditions. State-of-the-art manufacturing technologies enable a better, more uniform surface over the whole contact surface between the rolling elements and raceway.

Schaeffler’s Surface Technology Center has developed a modular system that includes approximately 20 validated coating solutions, offering the right solution for every type of requirement. At Schaeffler, coating technology is currently most frequently employed in automotive engineering. However, conditions and requirements in the aerospace sector – especially the need for kerosene efficiency and noise reduction – also make the use of coatings in jet engine mechanics increasingly attractive. The latest developments by Schaeffler Aerospace are based on a coating technology involving applying a 0.5 to 2 µm diamond-like carbon (DLC) coating to specific functional surface of the bearing rings and/or rolling elements. This coating called Triondur® C significantly reduces friction and is extremely resistant to abrasive wear.

(2) Module and systems expertise

For specific applications, magnetic bearing technology is increasingly gaining importance as an alternative to conventional bearing supports. This especially applies to medium and large industrial machinery with very high rotational speeds and shaft weights of up to several tons. In an active electromagnetic bearing support, a magnetic field causes the shaft to float, and can thus be rotated virtually frictionless. With the “FAG Active Magnetic Bearing”, Schaeffler presented a standardized, cross-system complete unit at the Hannover Messe. It was developed in cooperation with external partners. In 2013, the Schaeffler Group agreed on a research cooperation with the University of Applied Sciences Zittau/Goerlitz. The two partners’ first collaborative project entails setting up a testing facility which will make it possible to carry out endurance tests under virtually realistic conditions.

In the service field, Schaeffler presented a new condition monitoring system, which intelligently interconnects lubricant and vibration diagnosis with relubrication units to facilitate all-round monitoring of rolling bearings. This means comprehensive monitoring and a constant, optimum supply of grease, especially for machines that are difficult to access or critical in the event of failure.

(3) Visualizing the product portfolio using prototypes

At the "Schaeffler Innovation Days" in Pune, India, Schaeffler premiered its concept model bike for low to medium performance classes with numerous newly developed components for engines, transmissions and chassis for the growing markets in Asia and South America. As one of the leading suppliers to the global motorbike and bicycle market, the Schaeffler Group understands how to synergistically utilize its many years of experience in the Automotive division. In both fields, improving the combustion process and mechanical efficiency as well as electrification are dominant trends. In keeping with these trends, the transparent demonstration model was equipped with low-friction bottom brackets that have lip seals on both sides. This lowers friction values while also reducing ingress of contamination and moisture. Another innovation, the one-way starter clutch, which is manufactured using forming methods, was developed to improve performance and reduce weight.

Schaeffler presented another highlight, its "Transparent Machine Tool", at the international trade fair for the machine tool industry (EMO) in Hanover. Its numerous innovative solutions for feed spindles, main spindles, and rotary and linear axes demonstrate Schaeffler's broad expertise in high-performance and efficient machine tools. The "Transparent Machine Tool" highlights Schaeffler's strategy of using maximum customer proximity and systems expertise to develop solutions that make their customers more competitive. The presentation included an inductive absolute angular measuring system integrated in the bearing that combines high measuring speeds and precision with installation space reduction and proven robustness.

Operations

The Operations function comprises Production, Purchasing, and Logistics.

Production

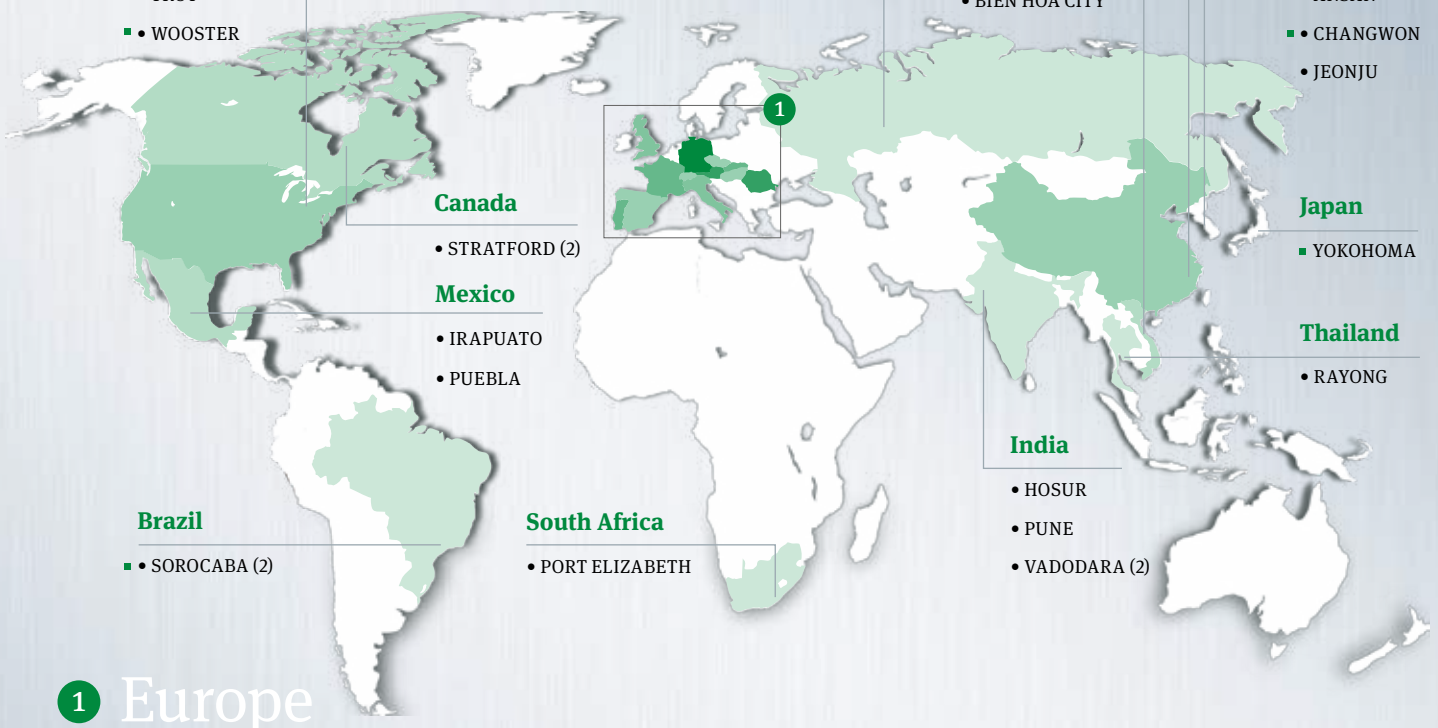
As at December 31, 2013, 73 manufacturing locations represented the Schaeffler Group around the world. Schaeffler's strong Automotive business helped increase production volumes for 2013 by 7.8 % compared to the prior year.

A reference model developed for all production plants ensures continuous improvement of cost structures, quality and supply reliability for Schaeffler's customers. This defined organizational structure is used to make group processes available to plants worldwide.

The Schaeffler Group's operating excellence was confirmed once more by numerous awards such as Toyota's Certificate of Achievement in Quality Performance in Japan, which is awarded to suppliers meeting top quality and supply standards.

Schaeffler celebrated several production anniversaries in 2013. The one millionth centrifugal pendulum-type absorber came off the assembly line at the Buehl plant. While 26,000 of these absorbers were produced in its first year of series production in 2010, sales soared to 400,000 in 2012. Schaeffler is consistently advancing this technology by developing it further in order to maintain its competitive edge.

Schaeffler Group locations



United States
- CHERAW (2)
- DANBURY
- FORT MILL (2)
- JOPLIN
- SPARTANBURG
- TROY
- WOOSTER

Canada
- STRATFORD (2)

Mexico
- IRAPUATO
- PUEBLA

Brazil
- SOROCABA (2)

South Africa
- PORT ELIZABETH

Russia
- ULYANOVSK

Vietnam
- BIEN HOA CITY

China
- ANTING
- NANJING
- SUZHOU
- TAICANG (3)
- YINCHUAN

South Korea
- ANSAN
- CHANGWON
- JEONJU

Japan
- YOKOHOMA

Thailand
- RAYONG

India
- HOSUR
- PUNE
- VADODARA (2)

1 Europe

Germany
- BUEHL
- ELFERSHAUSEN
- ELTMANN
- GUNZENHAUSEN
- HAMM/SIEG
- HERZOGENAURACH
- HIRSCHAID
- HOECHSTADT (2)
- HOMBURG (3)
- INGOLSTADT
- KALTENNORDHEIM
- LAHR
- LUCKENWALDE
- MAGDEBURG
- MORBACH
- SCHWEINFURT (2)
- STEINHAGEN
- SUHL
- UNNA
- WUPPERTAL

United Kingdom
- LLANELLI
- PLYMOUTH
- SHEFFIELD

France
- CALAIS
- CHEVILLY
- HAGUENAU (2)

Portugal
- CALDAS DA RAINHA

Spain
- ELGOIBAR

Italy
- MOMO

Switzerland
- ROMANSHORN

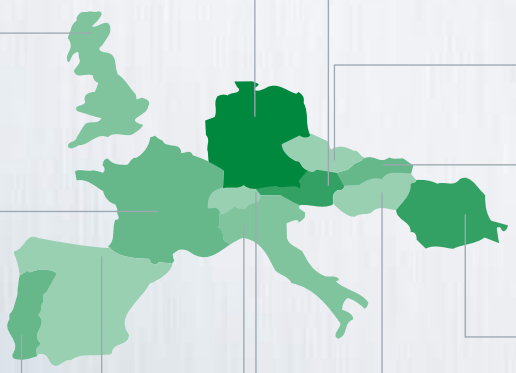
Austria
- BERNDORF - ST. VEIT

Czech Republic
- LANSKROUN

Slovakia
- KYSUCE NOVE MESTO
- SKALICA

Romania
- BRASOV

Hungary
- DEBRECEN
- SZOMBATHELY



	Germany	Europe	North America	South America	Asia/Pacific
• Manufacturing locations	• 24	• 20	• 12	• 2	• 15
▪ R&D centers	▪ 5	▪ 4	▪ 3	▪ 1	▪ 3

In addition, Schaeffler's only manufacturing location on the African continent in Port Elizabeth, South Africa, celebrated its 50th anniversary. The Port Elizabeth plant supplies 1.2 million clutches annually to local and international OEMs as well as the Aftermarket business and other Schaeffler locations.

Following its principle "In the region – For the region", the Schaeffler Group continued its customer-oriented localization strategy in order to meet the regional needs of its customers.

In addition to manufacturing locations in Germany, France, Italy, and Spain, Schaeffler also has significant production plants in Central and Eastern Europe. In total, 44 manufacturing locations and nine regional research and development facilities represent the Schaeffler Group in this region. The regional head office is located in Herzogenaurach, Germany.

Schaeffler continued to consistently expand its production capacities at the Central and Eastern European plants in 2013. The German manufacturing locations remained focused on integrating new product start-ups and technologically optimizing production capacities in order to maintain the Schaeffler Group's high level of efficiency and flexibility. During the third quarter of 2013, Schaeffler decided to take certain personnel-related structural measures at the manufacturing locations in Wuppertal and Schweinfurt aimed at making capacities more competitive and improving its organizational and cost structures. Excess capacity is being eliminated by means of socially responsible measures to the extent possible in order to safeguard these locations.

In the growth region Russia, which Schaeffler includes in its Europe region, construction started on a new plant in Ulyanovsk. The investment in this project is expected to total approximately EUR 40 m. Around 250 jobs will be created there over the next four to five years. The production plant will primarily manufacture products for the automotive sector, but will also produce components for the railway industry, primarily serving the local market.

In the Asia/Pacific region, the Asian business is managed from the regional headquarters in Shanghai established in 2007. With its own branches in China, Taiwan, Korea, Japan, the Philippines, Malaysia, Vietnam, Thailand, Singapore, Indonesia, India, and Australia, the Schaeffler Group is represented across the entire region. 15 manufacturing locations currently serve the Automotive and Industrial divisions, and three regional research and development centers ensure that customers in Asia are served rapidly and with applications specific to their needs.

To meet the rapidly growing demand of the Chinese and Asian/Pacific market, another plant is currently being established in Nanjing, China. This plant's production range will serve mainly the Schaeffler Group's Industrial division.

Schaeffler Group USA Inc. has its regional head office in Fort Mill, South Carolina. In addition to a total of five manufacturing locations in South Carolina, there are another three plants in the U.S. (Ohio, Connecticut, and Missouri) as well as two each in Canada and Mexico. Three regional research and development centers help meet customer requirements in the U.S.

Since the first plant in North America was founded in Stratford, Canada, in 1953, Schaeffler has continually invested in establishing additional technologies and locations. Today, more than 7,000 employees at these locations manufacture numerous products for the automotive and aerospace industries. The main technologies at the plants are turning and grinding operations as well as heat treatment and mounting processes.

Along with several distribution facilities, Schaeffler has been operating two manufacturing locations and one research and development center in South America (in the countries Argentina, Brazil, Chile, Colombia, and Venezuela) for more than five decades. The Schaeffler Group's presence in Brazil dates back as far as 1958. The regional head office is located in Sorocaba, Brazil.

Approximately 4,200 employees work at the two manufacturing locations in Sorocaba. The product range with its three product brands INA, LuK, and FAG comprises numerous engine and drive components for the automotive industry such as clutches and clutch accessories, belt drive components, and valve lash adjustment elements as well as wheel bearings and wheel bearing sets. Products for heavy industries as well as for the railway and aerospace industries round out the portfolio. The two plants specialize in turning and grinding processes, punching, heat treatment, laser welding, plastic injection molding, and mounting processes.

Purchasing

Purchasing consists of the purchasing function for the Automotive and Industrial divisions, the corporate purchasing function for production and non-production materials, as well as the staff department for strategy and supplier networks. In addition, the global orientation of the purchasing function is supported by the purchasing organizations of the Asia/Pacific, North America, and South America regions.

The three key purchasing objectives are quality, cost, and supply, which continued to be relevant in 2013:

- Improving supply quality through close cooperation with suppliers
- Ensuring competitive procurement costs
- Optimizing the supply chain to increase reliability of supply by improved logistical connections.

At EUR 6.6 bn (prior year: EUR 6.4 bn), total purchases for 2013 were at the same level as in the prior year. They comprised EUR 3.8 bn (prior year: EUR 3.6 bn) in purchases of production materials (raw materials and components), and EUR 2.8 bn (prior year: EUR 2.8 bn) in general purchasing (primarily intangible assets property, plant and equipment, supplies, and services). Over the course of 2013, requirements for production materials, both raw materials and components, have increased by 5.5 % compared to 2012. The Schaeffler Group was able to ensure supply to its plant around the world in 2013.

The Schaeffler Group's supplier structure reflects its customers' demand for local sources of supply. In 2013, goods and services were obtained from approximately 30,000 suppliers in 76 countries. The largest market in terms of volume is Europe, although the trend is shifting towards the Asian markets, where Schaeffler is continuing to press ahead with its "best cost sourcing" activities. These are aimed at purchasing at optimum cost, taking into account quality and reliability of supply.

Since Schaeffler is a company with a high degree of vertical integration, commodities such as steel, in the form of flat steel or steel bar, iron and aluminum casting, as well as non-ferrous metals are important production materials. The production materials Schaeffler uses primarily depends, directly or indirectly, on the trend in the price of scrap steel, coking coal, and iron ore, as well as non-ferrous metals.

In 2013, prices of all primary materials for steel production were slightly below those of the prior year.

To ensure the company's growth, Schaeffler performed a periodic review of the purchasing strategies of its divisions. Cross-functional working groups identified and successfully implemented various purchasing projects. Once again, the focus here was on the growth markets (Asia/Pacific and North America) and on developing the local supplier base. The implementation of these steps is aimed at securing the future supply of materials to the plants at competitive prices, maintaining the high quality and ensuring timely delivery. The interdisciplinary cooperation of all functions, especially in production, quality and logistics, helps accommodate regional and local requirements.

As part of the Business Process Management initiative, Schaeffler began revising guidelines and processes throughout the company. These activities are aimed at improving the process landscape for the long-term, increasing transparency in procurement processes, and promoting the standardization of processes worldwide.

There were no significant insolvencies among Schaeffler's suppliers in 2013. Expanding the instruments for preventively identifying risk has further reduced the probability of interruptions in supply in 2013. During the initial evaluation of suppliers, a potential analysis is performed to screen suppliers for risks regarding technology, quality, processes, and cost-effectiveness. In addition, the creditworthiness of volume suppliers is also systematically reviewed on an ongoing basis.

As a result of the Schaeffler Group's customers' increased sensitivity regarding sustainability, analyzing the supply chain has become more important in 2013. As Schaeffler is indirectly subject to the Dodd Frank Act 1502 (conflict minerals) via its customers, the company complies with the requirements of this law. The Schaeffler Group defined and established the appropriate processes and made inquiries with potentially affected suppliers, enabling it to provide its customers with the relevant information on the origin of these minerals. In the future, Schaeffler's consistently sustainable corporate policy will also include involving and developing its global supply chain with respect to economic, ecologic, and social issues. In order to actively support its sustainability efforts, inquiries regarding environmental management systems are already part of Schaeffler's supplier evaluation process today.

Continental AG and Schaeffler have been cooperating on purchasing for four years. 41 suppliers from twelve countries supplying numerous Continental and Schaeffler locations worldwide were invited to the second joint "Premium Supplier Day". By closely cooperating with the common premium suppliers, both companies can meet their stringent requirements for their supplier base. Numerous cross-regional projects and programs utilize synergies between the two companies and have further improved material costs. The cost target set within the purchasing cooperation was again reached in 2013.

Logistics

Logistics has been realigned as a function with global responsibility and has been assigned to the Chief Operating Officer as at December 31, 2013, emphasizing the strategic importance of this function for the Schaeffler Group's customers' satisfaction with the availability of materials, supply reliability, flexibility, and responsiveness of the supply chain.

From its worldwide production network of 73 locations, Schaeffler makes deliveries to its customers at several thousand delivery points every day. Following new logistics concepts, Schaeffler is working on optimizing the supply of materials across the entire process chain from the supplier via the manufacturing sites through to the customer. This process has to take into account the logistical challenges of the various types of businesses and reflect them in tailored supply chain solutions. For instance, in the Schaeffler Group's mass production business, delivery is primarily just in time (JIT) via direct pick-up by the customer. To be able to provide optimal service to its Aftermarket customers, Schaeffler maintains inventories of defined product ranges on hand at specifically designated distribution centers in order to ensure both availability and rapid delivery following the receipt of a customer's order. The large-size bearings business requires complex logistical solutions, sometimes with special transports directly to the customer.

With a view to improve the requirements of Industrial Aftermarket customers, Schaeffler decided to optimize its distribution structure in Europe. In the coming years, Schaeffler will gradually establish a high-performance logistics network based on four locations in a project named "European Distribution Center" (EDC). Its objective is to achieve better supply to the market and improved delivery performance in order to significantly support the competitive position of this business.

The Schaeffler Group also puts a high emphasis on integrating its suppliers into the manufacturing process. Global standardization, for instance using the ASN process (ASN: advance shipping notice), and value streams designed along lean principles are the foundation of a targeted further development of the company's logistical processes. Schaeffler is also increasingly making use of consignment warehouse solutions in order to supply the manufacturing sites as lean and closely to their needs as possible.

In addition to implementing logistics solutions tailored to the Schaeffler Group's various businesses, the company consistently utilizes synergies, e. g. by combining shipments across divisions for land, ocean, and air freight. Thus, more than 180,000 tons of ocean freight were transported on a consolidated basis via forwarding agents in 2013. Materials from suppliers are also integrated in the transport infrastructure within the Schaeffler Group, which helps realize additional cost savings potential.

Another challenge posed by the global logistics network is managing imports and exports. A team of experts ensures proper customs handling while utilizing customs and trade agreements to the greatest extent possible.

Another logistics issue that is increasingly gaining in importance is managing empty packaging. The reusable packaging system for major customers in the Automotive and Industrial divisions, which has been in place for several years, is currently being expanded by adding separate container cycles linking up suppliers. This approach saves costs and helps protect the environment by reducing the amount of disposable packaging materials used.

Regions

The Schaeffler Group has a strong global presence and divides its core markets into the four regions Europe, Asia/Pacific, North America, and South America (as at December 31, 2013). Along with the core markets of Europe (55.5 % of 2013 revenue, with 24.9 % attributable to Germany) and North America (16.4 % of 2013 revenue), its business in the Asia/Pacific region, which generated a total of 23.4 % of revenue in 2013, is increasingly gaining importance. Following its "in the region – for the region" approach, the Schaeffler Group has established an integrated worldwide development and manufacturing network solidly embedded in the regions. As at December 31, 2013, the Schaeffler Group has 44 manufacturing locations in Europe, twelve in North America, two in South America, and 15 in the Asia/Pacific region. Almost all of the Schaeffler Group's manufacturing plants operate under the same high quality and environmental standards and are certified in accordance with international guidelines.

The Schaeffler Group's regional structure in effect since January 01, 2014 is discussed in the "Organizational structure". A world map showing the Schaeffler Group's manufacturing locations and R&D centers is provided on page 69.

1.2 Group Management

The Schaeffler Group has been pursuing a strategy of profitable growth for years. This growth strategy is founded on quality, innovation and technological leadership. Schaeffler manages its business using a multi-dimensional matrix consisting of two divisions (Automotive and Industrial with several business areas), various functions (Finance, Human Resources, etc.), and four regions. The Schaeffler Group's primary management units are its divisions with their respective business areas, which are treated as profit centers and are responsible for business operations and earnings worldwide. The functions have governance and service roles and are managed as cost centers. The regional CEOs are responsible for managing and carrying out the business in the four Schaeffler regions, following the "global before local" principle. A separate regional profit center income statement combining the legal entities in each region is prepared for the regions.

Schaeffler's internal corporate management system consists primarily of the annual operating budget, monitoring and management during the year, regular executive board meetings and management meetings, as well as reports provided to the supervisory board of Schaeffler AG. Discussions at these meetings and reports cover the development of the business, including the achievement of targets and objectives, as well as the forecast for the year as a whole and any action that may be required.

During the year, the company is monitored and managed based on a comprehensive system of standardized monthly reports on earnings, financial position, and net assets. These reports include for instance key operational performance indicators regarding revenue, trends in manufacturing and overhead costs, capital expenditures (capex), and working capital, and details on the Group's net income and financial result as well as on selected other financial items. The performance indicators used are determined on a uniform basis group-wide.

Financial performance indicators

The focus of Schaeffler's financial performance indicators is on the ongoing monitoring and optimization of:

- Revenues
- Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)
- Capital expenditures (capex; cash paid to acquired property, plant and equipment and intangible assets)
- Free cash flow

The Schaeffler Group uses these performance indicators to measure the economic performance of its business. These indicators are discussed in detail below.

Revenue

Revenue growth is a key factor for long-term growth in the value of the company. The company strives to exceed average revenue growth in the respective market. In order to monitor this target, Schaeffler prepares detailed analyses of revenue trends by region and by division.

No. 004

in € millions	2013	2012	Change in %
Revenue	11,205	11,125	0.7

Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)

Schaeffler uses a multi-step income statement starting with revenue; cost of sales is deducted to arrive at gross profit. Deducting research and development, selling, and administration expenses and taking into account other income and other expenses then results in earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT).

No. 005

in € millions	2013	2012	Change in %
Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)	982	1,413	-30.5
Adjusted EBIT	1,410	1,413	-0.2

The adjustments relate entirely to expenses incurred in connection with the special items referred to in the 2013 annual report. In 2013, these expenses consist of the provision for ongoing EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m.

Capital expenditures (capex)

Capital expenditures are presented in the statement of cash flows and consist of cash paid during the period to acquire property, plant and equipment (e. g. machinery, buildings) of EUR 554 m (EUR 825 m) and intangible assets (e. g. software licenses) of EUR 18 m (prior year: EUR 35 m).

No. 006

in € millions	2013	2012	Change in %
Capital expenditures (capex: cash paid to acquire property, plant and equipment and intangible assets)	572	860	-33.5

Free cash flow

The Schaeffler Group uses its free cash flow measure to determine the cash flow remaining after all cash in- and outflows required to maintain or expand the business. Free cash flow is calculated using the statement of cash flows based on cash flows from operating activities of EUR 1,183 m (prior year: EUR 1,213 m) and cash used in investing activities of EUR -554 m (prior year: EUR -832 m).

No. 007

in € millions	2013	2012	Change in %
Free cash flow	629	381	65.1

Trends in the key financial performance indicators described above are discussed in the "Report on the economic position" in 2013.

In addition to these key performance indicators, Schaeffler also regularly determines supporting indicators designed to positively affect the performance indicators.

Beginning in 2014, "debt to EBITDA ratio" and "return on capital employed (ROCE)" will be added to the key financial performance indicators.

Non-financial performance indicators of the Schaeffler Group

Please refer to the chapters on "Sustainability and corporate social responsibility" and "Employees" for information on non-financial performance indicators.

1.3 Employees

Qualified technical and management staff are a key factor for the Schaeffler Group's long-term success. The objective of the Schaeffler Group's human resources activities is to find, support, and retain the best employees long-term, in order to secure Schaeffler's competitive position.

Number of employees increased by 3.2 % worldwide

The Schaeffler Group employed an average of 77,359 employees (prior year: 75,893) in 2013. The number of employees at December 31, 2013 was 78,559, 3.2 % above the prior year level of 76,099. Schaeffler recruited new personnel compared to December 31, 2012 primarily in production and production-related areas – mainly in the regions Asia/Pacific, North America, and Europe, primarily in Central Europe.

No. 008

Number of employees [1]	12/31/2013	12/31/2012	Change in %
Europe	52,746	51,847	1.7
Asia/Pacific	13,667	12,664	7.9
North America	7,907	7,246	9.1
South America	4,239	4,342	-2.4
Schaeffler Group	**78,559**	**76,099**	**3.2**

[1] Figures as at December 31; presentation based on the regional structure in effect until December 31, 2013.

Trainees

2,602 trainees (or 3.3 % of Schaeffler's workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 2,414 or 3.2 % of the workforce) as at the end of 2013. The number of trainees has increased by 7.8 % over the course of the year. The objectives of an apprenticeship at the Schaeffler Group include not only providing the trainee with the qualifications required by a specific occupational profile, but also promoting independent thinking and acting, creativity, and strengthening environmental awareness and a sense of responsibility.

Tenure

The average period Schaeffler's employees have been with the Schaeffler Group (tenure) was 10.9 years in 2013 (prior year: 10.7 years). Tenure is a significant indicator of the employees' commitment to the company and demonstrates their identification with the company.

The worldwide labor turnover rate within the Schaeffler Group was 2.9 % in 2013 (prior year: 2.6 %).

Absenteeism due to illness

Schaeffler's health management aims to create structures within the company that ensure and promote the Schaeffler Group's employees' well-being, health, performance, and satisfaction, both on and off the job. Worldwide absenteeism due to illness experienced by the Schaeffler Group has increased by 0.1 percentage points to 3.3 % (prior year: 3.2 %) in 2013, although it varied widely across regions.

Employee qualification and continuing education

The objective of the Schaeffler Group's human resources development and continuing education activities is to support employees and to provide them with the qualifications they need to meet the complex challenges of their jobs at all times.

4,373 continuing education courses took place in Germany in 2013 (prior year: 4,192), a decrease in the number of live in-class courses of 357 compared to the prior year. The Schaeffler Group also held approximately 500 online-training sessions with a total of 20,800 participants, following the trend towards making continuing education courses available to employees anytime anywhere.

The number of participants in continuing education courses in Germany increased by 14,310 to 52,256 compared to the prior year. The increase was primarily due to the compliance training mandatory for all employees in 2013.

No. 009

Number Germany [1]	12/31/2013	12/31/2012	Change in %
Continuing education courses	4,373	4,192	4.3
Participants	52,256	37,946	37.7

[1] Figures as at December 31.

In future, Schaeffler's range of continuing education courses will be consolidated worldwide under the umbrella of the Schaeffler Academy. In 2013, the company established the Schaeffler Academy in five countries. Since then, Germany, Brazil, Romania, France, and the U.S. have been using common IT standards which make it possible to transparently present the range of continuing education courses to all employees. The Schaeffler Academy not only offers standard qualifications, but also provides tailored, specific and comprehensive qualifications. The Schaeffler Group opened a new continuing education center to house its range of in-house training courses in Herzogenaurach in July 2013. With its nearly 1,300 square meters of floor space, this Schaeffler Academy location can accommodate around 200 training participants per day.

1.4 Sustainability and corporate social responsibility

Sustainability

Several indicators are considered to be significant to the Schaeffler Group's sustainable development. Many of these indicators are reflected in international standards aimed at various different objectives, e. g. energy efficiency, depending on their origin and focus.

For Schaeffler, sustainability is not a stand-alone issue. Rather, sustainable management has to be integrated into day-to-day operations. The commitment to sustainable management has always been anchored in the company's corporate management principles. They include the objective "Exemplary actions on the basis of clear ethical corporate values determine our success", and putting that objective into action means recognizing risks, analyzing and assessing issues, and then making an appropriate decision.

Environmental protection and occupational safety are key pillars of sustainable development. Based on the fundamental assertions in its code of conduct, which applies worldwide, Schaeffler issued a group-wide environmental protection and occupational safety policy many years ago. It is evaluated regularly and its fundamental principles are updated to meet current requirements. This worldwide policy is the basis for all of Schaeffler's future actions in the field of environmental protection and occupational safety. There are standards in all countries setting out country-specific rules over and above this corporate policy. In many cases, Schaeffler significantly exceeds the applicable national legal requirements by implementing these regulations. An example is the plant in Yinchuan, China. This location is the first Chinese location ever to be validated under the criteria of the European EMAS, and has been entered into the site register of the European Community. To achieve this, a Chinese verifier approved by the Deutsche Akkreditierungs- und Zulassungsgesellschaft für Umweltgutachter mbH (German Accreditation- and Approval Company for Environmental Experts/Verifiers – DAU) had to accompy the audit and to confirm the accuracy of and compliance with all laws and rules.

Nearly all manufacturing locations are validated and certified in accordance with the same standards – EMAS and ISO 14001 regarding environmental protection and OHSAS 18001 regarding occupational safety. The Schaeffler Group started establishing its environmental protection and occupational safety management system at its headquarters in Herzogenaurach more than 15 years ago. Based on ISO 50001, energy efficiency concerns were added to the Environment-Health-Safety management system (EHS) which has been stable and successful for many years in May 2013, and the first successful certifications were performed in 2013.

The EMAS certifications granted by independent assessors outside Europe play an extremely important role in international comparison. These successfully completed audits attest to the fact that nearly all Schaeffler locations comply with the highest level of uniform global environmental protection and occupational safety standards.

The environmental protection and occupational safety experts at each location are connected with each other within their region via a regional coordinator. Regular monitoring of results, constant exchange of information and mutual support contribute to safeguarding the high standards in each region. In turn, the regional coordinators are closely linked to the strategic technical departments at the Competence Center Environmental Protection and Occupational Safety (CC EHS), whose specialists are responsible for global strategy, thus providing technical

management to the entire organization within the EHS management system. This matrix organization of strategic and operational responsibility has primary responsibility for implementing the nearly identical worldwide environmental protection and occupational safety standards.

Environmental protection

General

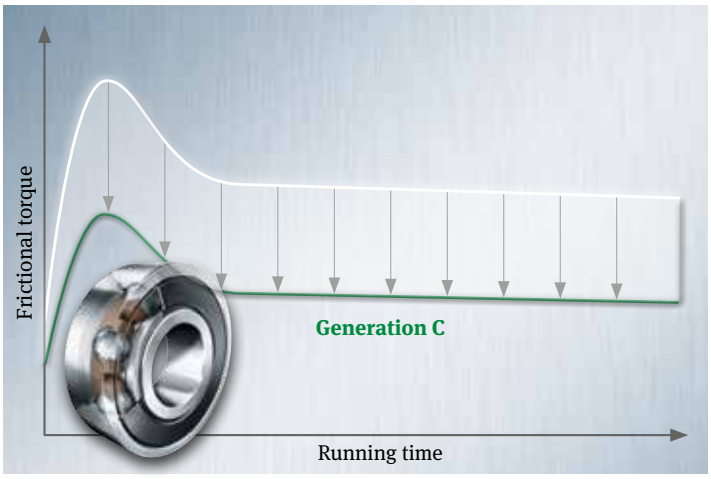
Protecting the environment is a significant component of sustainable management. Sustainably reducing fuel consumption and CO_2 emissions are the dominant issues in the automotive industry. Developers' tasks related to this issue range from further developing and improving the combustion engine through optimizing the classic drive train to developing completely new technologies such as electric mobility.

The constantly increasing worldwide demand for energy not only calls for new, intelligent solutions to further reduce losses in bearing technology but also for new developments in high-performance direct drives. In this sector, as well, reducing the consumption of resources and thus reducing CO_2 emissions is the challenge of today and tomorrow. Schaeffler's numerous state-of-the-art innovations make significant contributions to its customers.

An example is a ball bearing from Schaeffler's latest series "Generation C":

Product advantages:
- Improved raceway osculation
- Improved surface quality
- Improved materials
- Higher ball roundness
- Plastic cages with minimized friction
- Selected special greases

Customer advantages:
- Less energy consumed
- Less heat generated
- Long grease operating life
- Long bearing operating life
- Higher speeds
- Less noise generated
- Lower overall cost



Deep groove ball bearing Generation C: Benchmark in energy efficiency.

Generation C: The technologically advanced deep groove ball bearing – Generation C – experiences significantly less friction-induced performance losses compared to the previous generation. In addition, improved materials and surface quality, an increased ball precision, re-designed plastic cages resulting in minimal friction and the use of selected special greases have all contributed to this improvement. The advantages for the Schaeffler Group's customers include reduced energy consumption, significantly longer operating lives, and less noise generated due to the smoother running of the bearing. In combination, these advantages reduce the total cost over the life of the deep groove ball bearing.

In addition to product-related requirements regarding environmental protection, environmentally-friendly production processes conserving resources contribute significantly to sustainable development. Schaeffler has very successfully responded to these challenges for many years. A uniform global energy, environmental protection, and occupational safety management system governs key procedures, sets standards, and defines procedures and processes. Regular external reviews under the uniform auditing system based on EMAS, ISO 14001, OHSAS 18001, and ISO 50001 safeguard these processes. In addition, Schaeffler's sustainable corporate management goes beyond its own locations – it also covers the supply chain, see "Purchasing" for details on the company's supply chain management.

Key environmental protection indicators

Making success measurable and recognizing trends early on in order to be able to take action towards improvement are key components of Schaeffler's management system. Extensive data collection and analyses support day-to-day operations.

Schaeffler identifies and analyses its CO_2 emissions in two different categories: CO_2 from electricity consumption and CO_2 from electricity consumption in relation to value-added. Emissions from electricity consumption are determined based on the relevant energy mix, which differs across almost all locations. This energy mix shows the primary energy sources used to generate the electricity obtained.

If the physical quantity and calculation method for the amount of CO_2 generated by each primary energy source are known, the CO_2-equivalent can be calculated based on the individual mix of the electricity obtained.

Corporate social responsibility

To the Schaeffler Group's executive board and employees, commitment to cultural, sports, and social activities and issues is a fundamental obligation and part of the company culture. 2013 again saw Schaeffler supporting numerous projects.

Schaeffler Medical Centers in India and Sri Lanka

Schaeffler India Automotive Aftermarket has joined forces with local dealers to organize almost 40 medical check-ups since 2012 in "Schaeffler Medical Centers". This campaign provided 3,680 mechanics with the opportunity to obtain a medical examination from a professional team of medical doctors. This social project was expanded to Sri Lanka in 2013.

Schaeffler grants its first environmental protection awards

Creating a safe, healthy, and performance-enhancing working environment and taking environmental protection seriously makes an important contribution to the Schaeffler Group's continued existence and success. The two German locations Herzogenaurach and Homburg as well as Brasov, Romania, and Momo, Italy, are the winners of the first Schaeffler environmental protection award. Brasov received a special award for its overall performance with respect to the environment and corporate social responsibility (CSR). The other three locations won the category "Overall development of environmental protection at the location relative to plant size": Herzogenaurach in the "over 2,000 employees" category, Homburg with its "500 to 2,000 employees", and Momo with its "less than 500 employees".

Addiction prevention as a component of training

Addiction prevention seminars have been a set component of Schaeffler's training program in Germany for 18 years. They are taken during the first year of training in connection with courses on health promotion and occupational safety. In addition to the classic issues such as drugs, smoking, and alcohol, trainees also look at current issues such as addiction to the internet, mobile phones, and computer games, which can also have severe adverse effects on health, family, and workplace safety. However, educating participants on drugs remains the key focus of these seminars. In addition to the number of new drugs, abuse of prescription drugs is also steadily on the rise. To be able to act appropriately and at the right time, participants have to know the risk.

Schaeffler supports students' motorsports projects

Global Formula Student racing has been part of Schaeffler's broad commitment to motorsports since 2006. Along with the team from Schweinfurt who developed and built the MFSix race car by themselves, the technology company supports twelve other student racing teams in Germany as well: Teams from other countries also benefit from Schaeffler's commitment, including students at the University of Akron, U.S. Formula Student racing has become an established training ground for young engineers and generates valuable contacts between young technical talents and Schaeffler.

2. Report on the economic position

2.1 Macroeconomic and sector-specific environment

Economic environment

Having declined under the weight of the Euro crisis in 2012, the global economy stabilized again considerably over the course of 2013, growing by 3.0 % overall (source: International Monetary Fund, January 2014).

According to the current annual economic report issued by the German Council of Economic Experts, the industrialized economies provided essential momentum to the global economy in 2013. An expansive monetary policy and reduced uncertainty regarding future developments in the Euro crisis positively affected the economy. In the emerging countries, on the other hand, production did not grow to the same extent as in the industrialized economies compared to the prior year. Recently, these countries' exports have even shown a declining trend. In addition, many emerging countries experienced large cash outflows and significant downward pressure on their currencies in the summer of 2013, following an announcement by the U.S. Federal Reserve that it would tighten its expansive monetary policy.

In the Euro region, business climate indicators continued to improve over the course of 2013 since uncertainty about future developments in the Euro crisis has declined slightly overall. In the crisis countries Greece, Spain, and Portugal, as well, consumer and business confidence has risen slightly recently. Despite this slightly improved business climate, total gross domestic product for the Euro region fell by 0.4 %. In Germany, the economy reported growth of around 0.5 %.

The U.S. economy gathered momentum over the course of 2013, growing at a rate of 1.9 %. The biggest contributor to this growth was consumer spending which rose considerably despite tax increases and public spending cuts. The U.S. Federal Reserve maintained its expansive monetary policy in 2013; the planned decrease in bond purchases was shelved for the time being in October.

The South America region generated economic growth of 2.6 % in 2013. The Brazilian economy, the largest in South America, began gathering momentum following a weak start to the year. Gross domestic product in Brazil expanded by 2.3 %.

Following a somewhat weak start to 2013, production in China rose again over the course of the year. In total, gross domestic product there increased by 7.7 % over the prior year. The Indian economy was up by a total of 4.4 % in 2013. Japan reported economic growth of 1.7 %. That growth was helped considerably by the devaluation of the Yen.

Trends in automobile production

Overall, the automotive industry has developed positively in 2013. Global production of passenger cars and light commercial vehicles increased 3.1 % to approximately 84 million passenger cars and light commercial vehicles in 2013 (source: IHS Global Insight, January 2014). This growth was primarily driven by the U.S. (+7.1 %) and China (+12.9 %). Despite lower economic growth in China compared to prior years, the automotive industry there was going at full speed. In the Europe region which generates almost 60 % of Automotive division revenue, making it the most important region for this division, production of passenger cars stabilized over the course of 2013, following a noticeable slump in the prior year. 20.5 million units were produced in total (-1.0 %). With a plus of 1.0 %, production of passenger vehicles and light commercial vehicles in Germany fared better than in Europe as a whole. In Japan and India, the two large automotive markets in the Asia/Pacific region besides China, production declined by 3.7 % and 3.4 %, respectively.

No. 010

Automobile production volumes (in units)	2013	2012	Change in %
Europe	20,468,226	20,678,055	-1.0
North America	16,210,353	15,510,211	4.5
South America	4,190,875	3,966,497	5.7
Asia/Pacific	43,173,607	41,355,374	4.4
World	**84,043,061**	**81,510,137**	**3.1**

Source: IHS Global Insight (January 2014).

Trends in construction of machines and equipment

The overall trend in demand for industrial goods was disappointing in 2013. Due to uncertainty regarding future economic developments, many customers were very cautious with respect to ordering new machinery. According to estimates published by market research institute Oxford Economics, especially the global production of metal products and construction of machines and equipment were marked by limited growth of just under 2 %. Trends in emerging countries and industrialized economies differed widely: While the emerging countries reported a plus of approximately 4 %, industrial production in the industrialized economies stagnated at the prior year level. Production of industrial goods in the Euro region fell by approximately 2 %. Germany experienced a decline of approximately 1 %. Industrial production in the U.S. grew by approximately 3 %. Growth in China of approximately 7 % in 2013 was weaker than in the prior year.

2.2 Course of business

The course of the Schaeffler Group's business in 2013 was marked by a positive trend in the automotive sector on the one hand and a challenging market environment in the industrial sector on the other. These trends were also reflected in the very different course of business experienced by the two divisions. While the Automotive division grew its revenue by 6.6 % compared to the prior year, Industrial division revenue fell by 10.7 %. In total, the Schaeffler Group's revenue increased by 0.7 % to EUR 11,205 m (prior year: EUR 11,125 m). Without the adverse impact of currency translation of 2.2 %, operational revenue growth would have been 2.9 %.

The company generated EBIT of EUR 982 m in 2013. This amount includes EUR 48 m in expenses related to provisions for personnel-related structural measures. In addition, EBIT for the fourth quarter of 2013 was reduced by a special item related to the ongoing EU antitrust proceedings. The proceedings involve investigations of possible violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe. The Schaeffler Group expects the European Union (EU) to hand down a decision in 2014 and currently anticipates that a penalty will be imposed. A provision for this issue totaling EUR 380 m was recognized based on internal estimates in the fourth quarter of 2013, which reduce the Schaeffler Group's EBIT margin by 3.4 percentage points.

Excluding the expenses for personnel-related structural measures and the provision for the ongoing EU antitrust proceedings, adjusted EBIT of EUR 1,410 m (prior year: EUR 1,413 m) was approximately even with the prior year level. The adjusted EBIT margin excluding the impact of the items referred to above was 12.6 % (prior year: 12.7 %).

The adjustments relate entirely to expenses incurred in connection with the special items referred to in the 2013 annual report. In 2013, these expenses consist of the provision for ongoing EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m.

Cash flows from operating activities were EUR 1,183 m (prior year: EUR 1,213 m) in 2013. The Schaeffler Group generated positive free cash flow of EUR 629 m (prior year: EUR 381 m).

Events and trends in 2013

Over the course of 2013, the Schaeffler Group was able to further lower its borrowing costs by several refinancing transactions. In addition, the company significantly reduced its debt to EUR 6,190 m (prior year: EUR 7,261 m). In September 2013, the Schaeffler Group sold 3.9 million shares in Continental AG at a price of EUR 122.50 per share to a broad range of international investors in an accelerated placement. The Schaeffler Group's interest in Continental AG, Hanover, amounts to 34.19 % of the outstanding shares as at December 31, 2013.

2013 was marked by several changes in personnel. The supervisory board appointed Oliver Jung, previously in charge of Operations worldwide and of Development of Production Methods, to the Schaeffler AG executive board. In his new role as Chief Operating Officer, Jung took on the responsibility for purchasing and logistics in addition to his previous duties. Dr Gerhard Schuff, previously responsible for purchasing, retired at the end of September 2013. On October 04, 2013, the previous CEO Dr Juergen M. Geissinger left the company. Klaus Rosenfeld, Schaeffler AG CFO, took on the role of CEO in addition to his current responsibilities. At the end of 2013, Wolfgang Dangel, member of the statutory board of directors in charge of Automotive,

left the Schaeffler Group to pursue new career opportunities. Norbert Indlekofer and Professor Dr Peter Pleus were appointed to the Schaeffler AG executive board effective January 01, 2014 and have been jointly heading up the Automotive division since then.

Business performance compared to the forecast for 2013

In its group management report for 2012, the Schaeffler Group had forecasted an increase in revenue for 2013 of approximately 4 %. Conditions described in the chapter "Macroeconomic and sector-specific environment" differed significantly from the assumptions underlying this forecast, especially in the markets of the Industrial division. When it prepared the forecast for 2013, the Schaeffler Group expected the global engineering industry to grow by 3 to 4 %. The emerging countries (primarily Brazil, Russia, India, and China) in particular were anticipated to provide significant impetus, with engineering sector growth expected at approximately 8 %. As discussed above in the chapter "Economic environment", actual engineering sector growth of approximately 2 % and growth of approximately 4 % in the emerging countries did not live up to these expectations. In light of this, the Schaeffler Group updated its outlook for 2013 in its half-year and nine-month reports for 2013 to forecast revenue growth before the adverse impact of currency translation of approximately 1-2 %.

The Schaeffler Group's revenue for 2013 of EUR 11,205 m was 0.7 % above the prior year level. Excluding the adverse impact of currency translation of 2.2 %, which was not included in the original forecast for 2013, the company generated operational growth of 2.9 %, missing the forecast made in March 2013 by approximately 1 percentage point despite the difficult economic conditions.

As forecasted, the Schaeffler Group invested EUR 611 m or approximately 5 % of consolidated revenue in research and development in 2013 in order to further strengthen its foundation for promising innovations and a long-term competitive position.

Despite the challenging economic conditions, the Schaeffler Group maintained its profitability target, an EBIT margin of approximately 13 %, throughout the year. Excluding the charges related to the provisions for personnel-related structural measures and the ongoing EUR antitrust proceedings totaling EUR 428 m, the Schaeffler Group generated adjusted EBIT of EUR 1,410 m and an adjusted EBIT margin (as a percentage of revenue) of 12.6 %, thus achieving its original forecast for 2013.

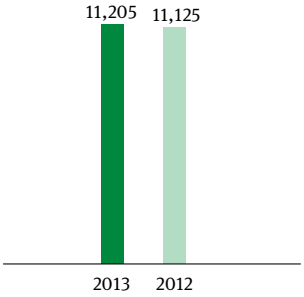
The capital expenditure forecast of approximately 5-7 % of revenue was achieved with capex (cash paid to acquire property, plant and equipment and intangible assets) of EUR 572 m or 5.1 % of revenue.

The Schaeffler Group generated free cash flow of EUR 629 m in 2013, which was in line with the forecasted target.

2.3 Earnings

Schaeffler Group earnings

Revenue (Schaeffler Group)
in € millions



The Schaeffler Group generated revenue of EUR 11,205 m (prior year: EUR 11,125 m) in 2013. Its two divisions, Automotive and Industrial, experienced very different trends in 2013. While the Automotive division increased its revenue by 6.6 %, significantly more than global vehicle production due especially to new customer projects and product innovations in the fields of resource efficiency and environmental technology, Industrial division revenue of EUR 3,040 m was 10.7 % below the prior year level (prior year: EUR 3,406 m). Although the decrease in Industrial division revenue compared to the prior year diminished slightly during the latter half of 2013, the year as a whole was affected mainly by a lack of willingness to invest in certain countries due to economic and political uncertainty. In total, the Schaeffler Group generated growth of 0.7 % in 2013. Excluding the adverse impact of currency translation of 2.2 %, operational revenue growth was 2.9 %.

No. 011

in € millions	2013	2012	Change in %
Revenue	11,205	11,125	0.7
Cost of sales	-8,029	-7,836	2.5
Gross profit	3,176	3,289	-3.4
Functional expenses [1]	-1,848	-1,817	1.7
Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)	982	1,413	-30.5
• in % of revenue	8.8	12.7	-
Adjusted EBIT [2]	1,410	1,413	-0.2
• in % of revenue	12.6	12.7	-
Financial result [3]	-442	-680	-35.0
Income from at equity-accounted investees	801	554	44.6
Income taxes [3]	-469	-405	15.8
Net income [3] [4]	865	870	-0.6

[1] Selling, administration and research and development.
[2] Adjusted EBIT – excluding special items (provision EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m).
[3] Financial result for the comparative prior year period has been restated for the initial application of IAS 19 (rev. 2011), see Note 1.4 to the consolidated financial statements for details.
[4] Attributable to shareholders of the parent company.

The adverse impact of currency translation affected primarily the South American market, where revenue fell by 6.2 % despite increased sales. The Europe and Asia/Pacific regions slightly exceeded prior year revenue levels, mainly because of the positive second half of 2013. The declining revenue trend in the Industrial division was more than offset by the above-market growth in Automotive division revenue. North American revenue increased by 4.2 % compared to the prior year period, despite the adverse impact of currency translation.

Cost of sales rose by 2.5 % to EUR 8,029 m (prior year: EUR 7,836 m) in 2013, growing slightly faster than revenue, mainly because of the decrease in Industrial division revenue. While variable cost of sales decreased in proportion to revenue, the company has not yet been able to fully adjust its fixed cost of sales to the decreased production volume. As a result, gross profit fell by EUR 113 m to EUR 3,176 m (prior year: EUR 3,289 m) compared to the prior year period, while gross margin for the year decreased to 28.3 % (prior year: 29.6 %). While the Automotive division maintained its gross margin at nearly the same high level as in 2012, the decrease in revenue levels and the resulting residual overheads in the Industrial division had a considerable adverse effect on the Schaeffler Group's gross margin. The measures taken by the Schaeffler Group to increase efficiency, such as personnel and production adjustments, have not yet fully offset the pressure on earnings caused by lower capacity utilization in 2013, especially at certain Industrial locations. Taking personnel-related structural measures affecting both the Automotive and the Industrial division, Schaeffler decided to adjust capacities at the manufacturing locations in Wuppertal and Schweinfurt and has started implementing these adjustments. The measures are aimed at improving the company's competitive position, creating ground-breaking technologies, and improving Schaeffler's organizational and cost structures. As a result, cost of sales for 2013 includes EUR 48 m in personnel expenses for personnel-related structural measures. Excluding these expenses, adjusted gross margin for 2013 amounted to 28.8 % of revenue.

The Schaeffler Group pressed ahead with numerous advancements of products and activities around new issues, as these represent key factors for the long-term success and further growth of the Schaeffler Group. In 2013, research and development focused mainly on the fields of electric mobility and hybridization of vehicles as well as on renewable energy and mechatronic products. As a result, research and development expenses rose by 3.0 % to EUR 611 m (prior year: EUR 593 m) in 2013. As a percentage of revenue, research and development expenses remained stable at 5.5 % (prior year: 5.3 %). At 67.6 % (prior year: 68.6 %), personnel expenses made up the majority of Schaeffler's research and development costs.

No. 012

Key research & development metrics	2009	2010	2011	2012	2013
Research and development expenses (in € millions)	384	467	495	593	611
Research and development expenses (in % of revenue)	5.2 %	4.9 %	4.6 %	5.3 %	5.5 %
Number of research and development staff [1]	**4,875**	**4,902**	**5,465**	**6,098**	**6,039**

[1] Average figures.

Selling expenses increased by 0.3 % to EUR 761 m (prior year: EUR 759 m) in 2013, primarily due to higher variable freight and logistics expenses incurred mainly due to the strong performance of the Automotive division. Industrial division selling costs did not decline to the same extent as revenue.

Administrative expenses increased slightly by 2.4 % to EUR 476 m (prior year: EUR 465 m), mainly caused by an increase in corporate function staff (see Note 3.4 to the consolidated financial statements).

Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT) fell by EUR 431 m from the prior year to EUR 982 m (prior year: EUR 1,413 m) in 2013. At the same time, the EBIT margin decreased to 8.8 % (prior year: 12.7 %). The decrease in EBIT is related to the decline in gross profit. The decline primarily reflects lower Industrial division revenue as well as expenses related to personnel-related structural measures of EUR 48 m. In addition, EBIT for the fourth quarter of 2013 was adversely impacted by special items related to the ongoing EU antitrust proceedings. The proceedings relate to the investigations of possible violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe. The Schaeffler Group expects the European Union to hand down a decision in 2014 and currently anticipates that a penalty will be imposed. A provision for this issue in the amount of EUR 380 m was recognized in the fourth quarter of 2013 based on internal estimates.

Excluding the expenses for personnel-related structural measures and the provision for the ongoing EU antitrust proceedings, adjusted EBIT was EUR 1,410 m and the corresponding adjusted EBIT margin amounted to 12.6 %.

The Schaeffler Group's financial result improved by EUR 238 m to EUR -442 m (prior year: EUR -680 m) in 2013.

Financial result comprises financial income of EUR 217 m (prior year: EUR 23 m) and financial expenses of EUR 659 m (prior year: EUR 703 m).

No. 013

	2013		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-465	0	-465
Fair value changes and compensation payments on derivatives	-99	114	15
Foreign exchange gains and losses	0	88	88
Amortization of cash flow hedge accounting reserve	2	0	2
Interest income and expense on pensions and partial retirement obligations	-50	0	-50
Other	-47	15	-32
Total	**-659**	**217**	**-442**

	2012		
in Mio. EUR	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-523	0	-523
Fair value changes and compensation payments on derivatives	-6	8	2
Foreign exchange gains and losses	-10	3	-7
Amortization of cash flow hedge accounting reserve	-72	0	-72
Interest income and expense on pensions and partial retirement obligations [2]	-57	0	-57
Other	-35	12	-23
Total	**-703**	**23**	**-680**

[1] Incl. transaction costs.
[2] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

Interest expense on financial debt of EUR 465 m (prior year: EUR 523 m) includes interest paid and accrued on the Group's external financing arrangements of EUR 388 m (prior year: EUR 453 m) and expenses of EUR 52 m (prior year: EUR 47 m) relating to transaction costs. Interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH is also included here. The decrease in interest expense compared to the prior year is primarily attributable to repayments of principal and improved financing terms obtained in the refinancing transactions completed during the year.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of EUR 15 m (prior year: EUR 2 m). The amount consists largely of favorable changes in the value of embedded derivatives and unfavorable changes in the value of cross-currency derivatives.

Net foreign exchange gains on financial assets and liabilities amounted to EUR 88 m (prior year: losses of EUR 7 m) and resulted primarily from translating financial debt denominated in U.S. Dollar into the Group's reporting currency Euro (see Note 1.3 to the consolidated financial statements). This financial debt is hedged using cross-currency derivatives, and the resulting offsetting impact is presented under "Fair value changes and compensation payments on derivatives".

Additional income of EUR 2 m (prior year: expenses of EUR 72 m) arose from amortizing the cash flow hedge accounting reserve related to interest rate hedging instruments. As this income is economically related to interest expense on the Group's financial debt, it is also presented within interest expense.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 50 m (prior year: EUR 57 m). See Note 4.11 to the consolidated financial statements for additional details on pensions.

Other items generated net expenses of EUR 32 m (prior year: EUR 23 m).

Schaeffler's income from at equity-accounted investees of EUR 801 m (prior year: EUR 554 m) arises almost entirely from the investment in Continental AG held via Schaeffler Beteiligungs GmbH & Co. KG. The amount includes a EUR 187 m gain on the disposal of shares held by Schaeffler AG representing a 1.95 % interest in Continental AG in the third quarter of 2013.

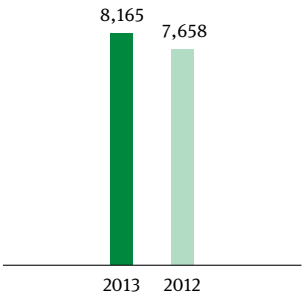
Income taxes rose by EUR 64 m to EUR 469 m (prior year: EUR 405 m) in 2013. This increase over the prior year results primarily from deferred taxes not recognized because it is not sufficiently probable that they will be realized and from tax expense related to prior years. As the expenses related to the ongoing EU antitrust proceedings, which are not tax deductible, have had a substantial adverse impact on pre-tax income, they significantly increase the effective tax rate. However, this effect is partially offset by the increase in Schaeffler's income from at equity-accounted investees which is not taxable.

Net income after non-controlling interests was EUR 865 m following net income of EUR 870 m in the prior year. The increase is attributable to the measures taken in 2013 to refinance the company's debt, which have improved the Group's financial result. In addition, Schaeffler's income from at equity-accounted investees has increased.

Automotive division

Automotive division revenue increased by 6.6 % from the prior year to EUR 8,165 m (prior year: EUR 7,658 m) in 2013. In the fourth quarter of 2013, the Automotive division generated significant revenue growth of 7.0 % compared to the prior year, confirming the high growth rates achieved during the first three quarters of 2013. These were partially offset by the adverse impact of currency translation of 2.0 %. Excluding this currency translation impact, Automotive division revenue increased by 8.6 %.

Revenue (Automotive)
in € millions



The overall increase is primarily due to new customer projects and related production start-ups. The key growth drivers enabling the Automotive division to grow faster than the market included product innovations which help optimize drive trains based on combustion engines, in turn reducing CO_2 emissions.

In 2013, revenue growth was again driven by the Asia/Pacific (+12.1 %) and North America (+10.4 %) regions. Europe (+4.6 %) also reported a positive revenue trend. In South America (-3.9 %), revenue declined slightly from the prior year, since the very significant operational growth in this region was largely offset by the adverse impact of currency translation. Compared to the development of regional production volumes for passenger vehicles of up to 6 tons (Source: IHS Global Insight, January 2014), revenue fared much better than market in all regions.

Existing volume supply agreements with OEM customers of the Automotive division will lead to nearly full utilization of current production capacity in 2014. This is documented by binding supply orders from OEM customers recorded at short notice on the one hand and on the other hand by annual ranges of delivery quantities contractually agreed in some cases. However, capacity utilization depends to a large extent on the general economic trends in the global passenger car and commercial vehicle markets. Based on passenger cars in use around the world and the components installed in these cars, Schaeffler forecasts a similar level of capacity utilization for the Automotive Aftermarket business in 2014 as experienced in 2013.

No. 014

in € millions	2013	2012	Change in %
Revenue	8,165	7,658	6.6
Cost of sales	-5,947	-5,552	7.1
Gross profit	2,218	2,106	5.3
EBIT	736	997	-26.2
• in % of revenue	9.0	13.0	-
Adjusted EBIT [1)]	1,131	997	13.4
• in % of revenue	13.8	13.0	-

Prior year information based on 2013 segment structure.
[1)] Adjusted EBIT – excluding special items (provision for EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 14.7 m).

The engine systems, transmission systems, and chassis systems sectors and the Automotive Aftermarket business all generated revenue growth in 2013.

The above-market growth in revenue in the engine systems sector was driven by the top-selling product groups camshaft phasing units and valve train components – ranging from mechanical valve lash adjustment elements to fully variable valve train systems (e. g. UniAir).

Transmission systems sector revenue increased primarily as a result of the positive growth generated by dry double clutches. In addition, the top-selling product groups continuously variable transmission systems (CVT), tapered roller bearings, and clutch components also experienced a significant increase in revenue. The development of multi-link chains for CVT automatic transmissions also deserves special mention here. They are currently being used in mass-production in cooperation with Subaru and now, for the first time, by transmission manufacturer Jatco.

Revenue growth in the chassis systems sector was mainly based on the solid performance of ball screw drives used for instance in electromechanical power steering systems and chassis solutions (e. g. in electromechanical parking brakes). Since the commercial vehicle market is slowly recovering, the top-selling product group tapered roller bearings also returned to revenue growth.

The second half of 2013 confirmed the strong trend in the Automotive Aftermarket business once again. The reasons for the considerable increase in revenue there include higher sales of service kits for dual-mass flywheels, clutches, belt tensioners and wheel bearings.

Higher production volumes related to revenue growth favorably impacted gross profit. In 2013, the cost of raw materials was slightly below the prior year comparison period.

Cost of sales for 2013 increased by 7.1 % to EUR 5,947 m (prior year: EUR 5,552 m). Driven by the increase in revenue, gross profit rose by EUR 112 m to EUR 2,218 m (prior year: EUR 2,106 m) compared to the prior year.

Expenses for personnel-related structural measures at the production facility in Schweinfurt of EUR 14.7 m relating to the plan to relocate volume production of wheel bearings to Kysuce, Slovakia, and volume production of release bearings to Skalica, Slovakia, adversely impacted gross profit for the second half of 2013. As a result, gross margin for 2013 declined slightly by 0.3 percentage points to 27.2 % (prior year: 27.5 %). Excluding expenses for personnel-related structural measures related to wheel and release bearings, adjusted gross margin was 27.3 %.

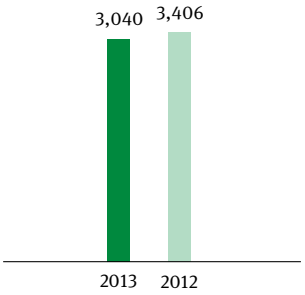
In order to secure future growth opportunities for the Automotive division, research and development expenses were raised by 6.3 % from EUR 429 m to EUR 456 m in 2013. The increase resulted primarily from higher personnel expenses as well as product initiatives in the field of electric mobility and hybridization of vehicles.

EBIT for the fourth quarter of 2013 was adversely impacted by special items related to ongoing EU antitrust proceedings. The proceedings relate to the investigations of possible violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe. The Schaeffler Group expects the European Union to hand down a decision in 2014. As Schaeffler currently anticipates that a penalty will be imposed, it recognized a provision of EUR 380 m based on internal estimates. This has reduced Automotive division EBIT by EUR 261 m to EUR 736 m (prior year: EUR 997 m) in 2013 compared to the prior year. The EBIT margin decreased to 9.0 % (prior year: 13.0 %) in 2013. Excluding expenses for personnel-related structural measures related to wheel and release bearings and the provision for the ongoing EU antitrust proceedings, the adjusted EBIT margin was 13.8 %.

Industrial division

At EUR 3,040 m (prior year: EUR 3,406 m), Industrial division revenue fell significantly short of the prior year level, decreasing 10.7 % in 2013. Revenue remained stable over the course of 2013, fluctuating only slightly in each quarter. There was no noticeable reversal of the trend in revenue compared to the prior year.

Revenue (Industrial)
in € millions



Economic and political uncertainty in many countries prevented an economic recovery and hampered the revenue trend in the Industrial division. In addition, currency translation had an adverse impact of 2.6 % on revenue. Excluding this impact from currency translation, the Industrial division reported a revenue decline in the single-digit percentage range (-8.1 %).

From a regional perspective, revenue in the Asia/Pacific (-16.3 %) and South America (-13.6 %) regions fell considerably short of the prior year level. The North America (-9.3 %) region and Europe (-8.0 %) also experienced significant declines in revenue. The low revenue levels in the Aftermarket business and for production machinery in particular contributed considerably to this trend. Order intake was significantly higher than the prior year level in 2013, and slightly higher than revenue for 2013. The positive trend in order intake during the last quarter of the year indicates moderate growth in revenue in 2014.

No. 015

in € millions	2013	2012	Change in %
Revenue	3,040	3,406	-10.7
Cost of sales	-2,082	-2,223	-6.3
Gross profit	958	1,183	-19.0
EBIT	246	416	-40.9
• in % of revenue	8.1	12.2	-
Adjusted EBIT [1)]	280	416	-32.8
• in % of revenue	9.2	12.2	-

Prior year information based on 2013 segment structure.
[1)] Adjusted EBIT – excluding special items (personnel-related structural measures of EUR 35.5 m).

The Schaeffler Group's Industrial business consists of the Industrial OEM market (Industrial Applications) and the Aftermarket business. Except for the aerospace sector, revenue in the six key sectors fell clearly short of the prior year.

- In the production machinery sector, revenue for all subsectors such as machine tools and food processing, printing, and woodworking machinery fell considerably short of prior year levels. The machine tool subsector generated high revenue primarily in the market sector for equipment for the automotive industry, while other market sectors experienced lower levels of revenue resulting from the continuing capital expenditure back-log in the machinery manufacturing sector following the record years 2011 and 2012. The printing machinery subsector was still marked by significant structural changes and declining revenues.

- Although the power transmission sector has stabilized its revenue in 2013, revenue continued to remain well below the prior year, particularly in the key regions Europe and Asia/Pacific. Customers' high inventory levels and economic uncertainty in both regions kept revenues from recovering.
- Renewable energy sector revenue for the period fell only slightly short of the prior year level. This sector suffered from excess capacity, price competition, the uncertain political environment and restrictive financing conditions for new projects. Significant reductions in revenue were reported in the Europe region, but these were almost entirely offset by higher revenue in the North America, South America, and Asia/Pacific regions. Order intake exceeded revenue throughout the year.
- Revenue in the aerospace sector rose primarily for jet engine components for commercial passenger aircraft. Stricter environmental requirements and increasing fuel prices have resulted in increased capital expenditures on new aircraft with fuel-efficient and quieter jet engines. The Europe region reported considerable revenue growth year-on-year; however, fiscal cuts in the military sector, particularly in North America, were hampering revenue.
- In the off-highway equipment sector, revenue stabilized in the fourth quarter of 2013 following a steady decline, although it still fell slightly short of the prior year. The construction machinery market, in particular, reported significant declines in revenue. Revenue in the agricultural machinery subsector for 2013 was slightly below the prior year. In Asia/Pacific, distributors' high inventory levels held back the recovery of revenue in both of these key subsectors.
- Following increases in 2012, revenue in the heavy industries sector, which is typically project-based and slow to respond to cyclical changes, has been decreasing significantly since the end of the first quarter of 2013. While revenue for the metal production and processing subsector was still slightly above prior year levels in 2013, the mining machinery, mining and processing, and drilling equipment and conveyor systems subsectors reported significant declines in revenue.

Revenue in the Industrial Aftermarket business fell significantly short of the prior year level. Uncertainty about future economic trends made dealers across all regions cautious in placing orders and led to double-digit negative percentage changes. The continuing reduction in inventory levels along the entire distribution chain held back revenue in the Aftermarket business in Asia/Pacific; however, a slight recovery in the revenue trend emerged over the course of the year 2013.

Cost of sales for 2013 decreased by 6.3 % to EUR 2,082 m (prior year: EUR 2,223 m). The decrease in plant utilization due to the declining revenue resulted in an adverse impact of overheads which Schaeffler was unable to fully offset. In 2013, the cost of raw materials was slightly below the prior year comparison period. Personnel expenses incurred in connection with personnel-related structural measures at the production facility in Wuppertal impacted gross profit adversely. The impact of foreign exchange losses and price decreases in some markets and sectors on revenue was not fully offset by reductions in cost of sales. As a result, cost of sales did not decrease to the same extent as revenue. Gross margin fell by 3.2 percentage points to 31.5 % (prior year: 34.7 %). Excluding expenses for personnel-related structural measures at the company's Wuppertal plant, adjusted gross margin was 32.6 %.

Research and development expenses decreased by 5.5 % from EUR 164 m to EUR 155 m in 2013. The Industrial division focused on researching and developing products for new business fields, particularly for renewable energy and electric mobility, as well as magnetic bearings.

In total, Industrial division EBIT declined by EUR 170 m or 40.9 % to EUR 246 m in 2013 compared to prior year (prior year: EUR 416 m). The EBIT margin decreased to 8.1 % (prior year: 12.2 %) in 2013. Excluding expenses for personnel-related structural measures at the company's Wuppertal plant, the adjusted EBIT margin was 9.2 %.

2.4 Schaeffler Group financial position and net assets

Cash flow

The Schaeffler Group generated positive free cash flow of EUR 629 m (prior year: EUR 381 m) for 2013 as a whole.

No. 016

in € millions	2013	2012	Change in %
Cash flows from operating activities	1,183	1,213	-2.5
Cash used in investing activities	-554	-832	-33.4
Free cash flow	**629**	**381**	**65.1**
Cash used in financing activities	-738	-341	> 100

	12/31/2013	12/31/2012	Change in %
Financial debt	6,190	7,261	-14.8
Cash and cash equivalents	300	433	-30.7
Net financial debt	**5,890**	**6,828**	**-13.7**
Shareholder loans	443	323	37.2
Net financial debt excluding shareholder loans	**5,447**	**6,505**	**-16.3**

Cash flows generated from operating activities in 2013 were EUR 1,183 m, EUR 30 m or 2.5 % less than in the prior year (prior year: EUR 1,213 m). This decline was primarily due to the increase in inventories and trade receivables as well as higher tax payments in 2013. These factors were partially offset by the EUR 162 m dividend (prior year: EUR 80 m) paid by Schaeffler Beteiligungsholding GmbH & Co. KG to Schaeffler AG due to the dividend paid by Continental AG as well as the increase in trade payables.

Cash used in investing activities was EUR 554 m in 2013 compared to cash used of EUR 832 m in the prior year. Capital expenditures amounted to EUR 572 m, falling significantly short of the prior year level of EUR 860 m. The decline from prior year was the result of Schaeffler selectively aligning its investing activities with current market conditions.

Free cash flow for 2013 amounted to EUR 629 m, improving by EUR 248 m from the prior year (prior year: EUR 381 m). Capital expenditures were financed entirely out of cash flows from operating activities.

Cash used in financing activities amounted to EUR 738 m (prior year: EUR 341 m) in 2013. The change from the prior year is mainly due to the repayment of loans. The most significant cash outflows were prepayments of EUR 412 m made by INA Beteiligungsgesellschaft mbH from unrestricted funds. The disposal of a 1.95 % interest in Continental AG in September 2013 and the prepayment of loans financed using the proceeds of that transaction were carried out via Schaeffler Beteiligungsholding GmbH & Co. KG which is accounted for using the equity method. The repricing and full prepayment of tranches B2 EUR and B2 USD completed in March 2013 using newly obtained loan tranches C EUR and C USD was largely non-cash in nature. The financing transactions completed in April 2013 to refinance the company's senior loans – such as placing bonds with institutional investors and replacing existing loans with new loan agreements – were also largely non-cash in nature. Only transaction costs paid for these arrangements are included in cash flows from operating activities.

Net financial debt (including shareholder loans of EUR 443 m) fell by EUR 938 m to EUR 5,890 m (prior year: EUR 6,828 m) as at December 31, 2013. The reduction was primarily due to the prepayment of bank debt using the dividend received from Continental AG of EUR 163 m, prepayments from unrestricted funds of EUR 412 m, as well as the prepayment of EUR 476 m following the sale of a 1.95 % interest in Continental AG.

The debt to EBITDA ratio, defined as the ratio of net financial debt (excluding shareholder loans) to adjusted earnings before financial result, income from at equity-accounted investees, income taxes, depreciation, amortization, and impairment losses (EBITDA) was 2.6 at December 31, 2013. Excluding the special items related to the ongoing antitrust proceedings and the personnel expenses incurred in connection with the personnel-related structural measures at the company's Schweinfurt and Wuppertal locations, adjusted EBITDA increased 1.5 % to EUR 2,062 m. Excluding the above adjustments, EBITDA amounted to EUR 1,634 m (prior year: EUR 2,031 m), the debt to EBITDA ratio amounted to 3.3 (prior year: 3.2).

Capital structure

The Schaeffler Group's capital structure improved once more in 2013, primarily due to the reduction in financial debt and the earnings-related improvement in shareholders' equity which drove up the equity ratio.

No. 017

in € millions	12/31/2013	12/31/2012	Change in %
Shareholders' equity [1]	**2,491**	**2,108**	**18.2**
Provisions for pensions and similar obligations	1,516	1,553	-2.4
Provisions	96	75	28.0
Financial debt	5,965	7,140	-16.5
Income tax payables	340	267	27.3
Other financial liabilities	162	237	-31.6
Other liabilities	5	3	66.7
Deferred tax liabilities	154	119	29.4
Total non-current liabilities	**8,238**	**9,394**	**-12.3**
Provisions	599	223	> 100
Financial debt	225	121	86.0
Trade payables	1,014	794	27.7
Income tax payables	155	232	-33.2
Other financial liabilities	419	401	4.5
Other liabilities	286	273	4.8
Total current liabilities	**2,698**	**2,044**	**32.0**
Total shareholders' equity and liabilities	**13,427**	**13,546**	**-0.9**

[1] Prior year shareholders' equity restated for initial application of IAS 19 (rev. 2011) see Note 1.4 to consolidated interim financial statements for details.

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) rose by EUR 383 m to EUR 2,491 m in 2013 (prior year: EUR 2,108 m). The equity ratio was 18.6 % (prior year: 15.6 %) at December 31, 2013.

The increase in shareholders' equity was primarily driven by net income of EUR 872 m, which has more than offset the decrease in shareholders' equity resulting from the dividend of EUR 250 m declared by the annual general meeting on March 20, 2013, and from other comprehensive loss totaling EUR 253 m. The sole shareholder, Schaeffler Verwaltungs GmbH, has waived its right to payment of EUR 15 m of the dividend, thereby contributing this amount to Schaeffler AG's shareholders' equity. The remaining dividend payable of EUR 235 m has increased the loan due to the sole shareholder and is presented within non-current financial debt (see Notes 4.9 and 4.10 to the consolidated financial statements).

Other comprehensive loss of EUR 253 m resulted mainly from translating net assets of foreign group companies (EUR -324 m) and unfavorable changes in the value of hedging instruments (EUR -4 m), partially offset by the impact of pension obligations and similar obligations (EUR 85 m).

Shareholders' equity also includes EUR 0 m (prior year: EUR 15 m) in other items related to equity-accounted investees recognized directly in shareholders' equity.

Non-current liabilities and provisions decreased by EUR 1,156 m from the prior year to EUR 8,238 m (prior year: EUR 9,394 m), mainly as a result of the reduction in non-current financial liabilities by EUR 1,175 m to EUR 5,965 m (prior year: EUR 7,140 m). This decline was primarily driven by prepayments made in connection with EUR 163 m in dividends received from Continental AG and the proceeds on the disposal of the interest in Continental AG totaling EUR 476 m, as well as EUR 412 m in prepayments made from unrestricted funds (see "Financing transactions").
Non-current financial debt due to the sole shareholder, Schaeffler Verwaltungs GmbH, fell by EUR 32 m to EUR 245 m (prior year: EUR 277 m).
The decrease in non-current other financial liabilities by EUR 75 m to EUR 162 m (prior year: EUR 237 m) was primarily due to the early termination of interest rate derivatives as well as changes in the fair value of cross-currency swaps.

Current liabilities rose by EUR 654 m to EUR 2,698 m (prior year: EUR 2,044 m), primarily as a result of higher provisions due to the recognition of provisions for the ongoing investigations of EU antitrust authorities and increased trade payables. Reasons for the increase include extensive investing activity at year-end, partially offset by the impact of currency translation. The increase in current financial debt was primarily attributable to the change in financial debt due to Schaeffler Verwaltungs GmbH, the company's sole shareholder.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and and contingent liabilities. The Schaeffler Group's obligations under operating rental and lease agreements totaled EUR 106 m (prior year: EUR 101 m) at December 31, 2013; obligations under finance leases were insignificant.

Contingent liabilities amounted to EUR 19 m (prior year: EUR 37 m) at December 31, 2013.

Asset structure

At EUR 13,427 m (prior year: EUR 13,546 m), total assets remained largely unchanged from the prior year.

No. 018

in € millions	12/31/2013	12/31/2012	Change in %
Intangible assets	538	554	-2.9
Property, plant and equipment	3,369	3,515	-4.2
Investments in equity-accounted investees	5,085	5,040	0.9
Other investments	14	14	0.0
Other financial assets [1]	206	91	> 100
Other assets [1]	59	59	0.0
Income tax receivables	12	17	-29.4
Deferred tax assets	230	364	-36.8
Total non-current assets	**9,513**	**9,654**	**-1.5**
Inventories	1,536	1,495	2.7
Trade receivables	1,676	1,626	3.1
Other financial assets [1]	119	106	12.3
Other assets [1]	141	125	12.8
Income tax receivables	142	107	32.7
Cash and cash equivalents	300	433	-30.7
Total current assets	**3,914**	**3,892**	**0.6**
Total assets	**13,427**	**13,546**	**-0.9**

[1] Other financial assets and other assets were reported as other assets in the company's annual report 2012. Comparative amounts have been adjusted accordingly.

Intangible assets fell to EUR 538 m (prior year: EUR 554 m) compared to the prior year. Amortization of EUR 34 m exceeded additions of EUR 18 m, primarily software purchases.

Property, plant and equipment declined by EUR 146 m to EUR 3,369 m (prior year: EUR 3,515 m) compared to the prior year. The main reasons for this decline were lower additions compared to 2012 in response to current market trends as well as the adverse impact of currency translation. Additions of EUR 555 m were more than offset by depreciation of EUR 613 m.

Despite the placement of 3.9 million shares in Continental AG representing a 1.95 % interest completed as at September 19, 2013 and the dividend of EUR 163 m (prior year: EUR 108 m) received in connection with the dividend paid by Continental AG, the carrying amount of investments in equity-accounted investees increased by EUR 45 m to EUR 5,085 m (prior year: EUR 5,040 m). This increase is almost entirely the result of measuring the interest in Continental AG, which is held via Schaeffler Beteiligungsholding GmbH & Co. KG, using the equity method.

Schaeffler Beteiligungsholding held a 34.19 % (prior year: 36.14 %) interest in Continental AG, Hanover, as at December 31, 2013. The articles of incorporation stipulate that all income and losses as well as all assets and liabilities of Schaeffler Beteiligungsholding GmbH & Co. KG are attributable to Schaeffler AG. Based on a share price of EUR 159.40 per share (prior year: EUR 87.59 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG was EUR 10,901 m (prior year: EUR 6,332 m) on December 31, 2013.

Other non-current financial assets include options to prepay bank debt and bonds. These options were obtained in connection with the refinancing transactions completed in 2012 and 2013. Changes in the fair value of these financial derivatives were the primary reason for the EUR 115 m increase in this balance to EUR 206 m (prior year: EUR 91 m).

Inventories rose by EUR 41 m or 2.7 % to EUR 1,536 m (prior year: EUR 1,495 m) as at the reporting date. Key reasons for this change were higher inventory levels to ensure supply availability to various Automotive customers, partially offset by the impact of currency translation.

The increase in trade receivables of EUR 50 m to EUR 1,676 m as at December 31, 2013 (prior year: EUR 1,626 m) is mainly due to a stronger fourth quarter of 2013 compared to the prior year, particularly for European and Asian customers who often have longer payment terms. The adverse impact of currency translation has partially offset the increase.

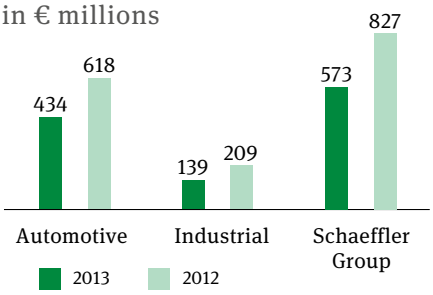
Other current financial assets rose by EUR 13 m to EUR 119 m (prior year: EUR 106 m), primarily due to favorable changes in the fair value of financial derivatives. The increase in other current assets of EUR 16 m to EUR 141 m (prior year: EUR 125 m) was mainly driven by higher value-added tax refunds receivable.

Cash and cash equivalents decreased by EUR 133 m to EUR 300 m (prior year: EUR 433 m). Cash inflows from operating activities of EUR 1,183 m more than offset cash outflows for investing activities of EUR 554 m. Cash outflows for investing activities of EUR 738 m was mainly due to repayment of loans.

Additions to intangible assets and property, plant and equipment

Since the Schaeffler Group is a technology-oriented high-growth company, investing in intangible assets and property, plant and equipment is a key component of its growth strategy.

Additions
in € millions



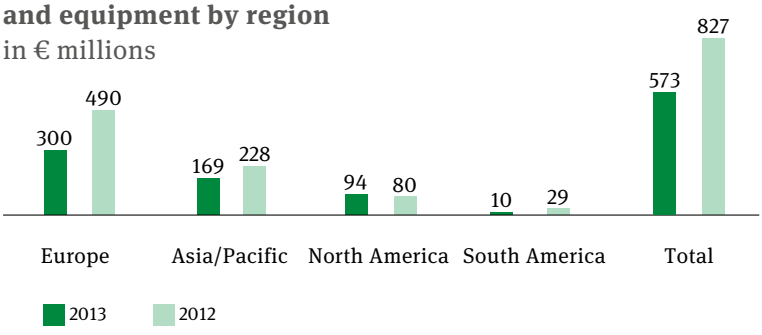
At EUR 573 m, additions to intangible assets and property, plant and equipment for 2013 fell short of the prior year amount of EUR 827 m. In the statement of cash flows, these amounts are adjusted for non-cash transactions and the impact of currency translation. At 5.1 %, additions to intangible assets and property, plant and equipment as a percentage of consolidated revenue fell short of the prior year level (7.4 %). Amortization and depreciation amounted to 5.8 % of consolidated revenue in 2013. In addition, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 177 m (prior year: EUR 164 m) at December 31, 2013.

The relative decrease in additions to intangible assets and property, plant and equipment was approximately equal in both divisions, with the Automotive division spending EUR 434 m (prior year: EUR 618 m) and Industrial making additions to intangible assets and property, plant and equipment of EUR 139 m (prior year: EUR 209 m).

In 2013, the capital expenditure strategy remained focused on strengthening the company's competitive position by expanding capacity at manufacturing locations in the Schaeffler Group's growth regions. To secure future growth and customer proximity, additions to intangible assets and property, plant and equipment were primarily made for production start-ups, expanding capacity, and localization.

Schaeffler invested EUR 159 m in replacement equipment, rationalization, and added functionalities to maintain its excellent quality and reliability of supply. This enabled Schaeffler to replace technologically outdated machinery with innovative and more efficient equipment, mainly in Europe. Overhauling IT solutions and licenses remained a particular priority in 2013. These additions to property, plant and equipment also increase productivity at the plants.

Additions to intangible assets and property, plant and equipment by region
in € millions



EUR 300 m of EUR 573 m in total additions to intangible assets and property, plant and equipment were made in Europe, including EUR 170 m in Germany. In order to strengthen its innovative ability for new products and technologies, Schaeffler invested primarily in new machinery concepts. These will lead to an improved cost structure, thus securing the Schaeffler Group's competitive position.

Schaeffler invested EUR 169 m in locations in the Asia/Pacific region in 2013 in order to meet the requirements of a strong demand in the Asian market. The majority was invested in creating manufacturing capacities to secure Schaeffler's ability to supply customers in accordance with their needs. Schaeffler also further expanded the proportion of value added locally. In addition, EUR 27 m were invested in land and buildings in this region – the majority of additions in this class – in order to ensure Schaeffler's ability to profit from the growth trend in this region in the future. The remaining additions to land and buildings of EUR 24 m were spread across the other regions with a particular focus on Europe. The construction of new production halls in Skalica, Slovakia, and Szombathely, Hungary, for EUR 7 m was made a priority here in order to be able to realize planned capacity expansions and new production start-ups on time. Additions to machinery and equipment, at EUR 376 m, represented the majority of total additions. From this investment strategy is 64 % of this amount related to equipment from external sources and 36 % to proprietary equipment from Schaeffler's internal special machines department. This amount also includes planned additions of functionalities and rationalizations.

Following its strategy "In the region – For the region", the Schaeffler Group began constructing two plants in Ulyanovsk, Russia, and Nanjing, China, in 2013.

Began constructing plants in Ulyanovsk, Russia, and Nanjing, China, in 2013

Financing

The Schaeffler Group has taken extensive measures to refinance its existing financial liabilities in 2013. These transactions further diversified Schaeffler's financing resources, further extended the maturity profile of its debt, and further lowered its borrowing cost.

The Schaeffler Group reduced the principal of its financial debt by EUR 1.1 bn to EUR 6.3 bn compared to the prior year.

Details of the refinancing transactions are as follows:

First quarter 2013

On February 21, 2013, Schaeffler AG announced plans to seek a repricing of tranches B2 EUR and B2 USD by repaying them in full and obtaining new loan tranches. Favorable market conditions and encouraging sustainable operating results permitted Schaeffler to significantly improve the terms of new tranches C EUR and C USD. In addition, tranches C EUR and C USD were increased compared to the previous loan tranches B2 EUR and B2 USD and the resulting additional funds of approximately EUR 253 m were used to partially prepay tranche A, which has a shorter maturity. The transaction was completed on March 18, 2013. Maturity, collateral, financial covenants, and other terms contained in the loan agreement remain unchanged.

Second quarter 2013

On April 22, 2013, Schaeffler AG announced another debt refinancing transaction which generated proceeds of EUR 1.25 bn through the placement of additional high-yield bonds with international investors. The company placed one EUR and one USD tranche. The Euro tranche totaling EUR 600 m has a maturity of five years and bears interest at 4.25 %. The USD tranche totaling USD 850 m has a maturity of eight years and bears interest at 4.75 %. The proceeds were used to prepay a portion of the existing bank loans. Tranche B1 totaling EUR 504 m was repaid in full. Schaeffler was able to refinance the remaining loan balance of tranche A at more favorable terms and an extended maturity using new tranche D.

In addition, the Schaeffler Group partially prepaid tranche D using EUR 163 m in dividends received from Continental AG. A further voluntary prepayment of EUR 87 m was made out of the company's own funds. These prepayments reduced tranche D by a total of EUR 250 m.

Third quarter 2013

In simultaneous transactions, the IHO companies (Schaeffler Verwaltungs GmbH) and the Schaeffler Group successfully disposed of interests in Continental AG, Hanover, totaling 3.9 % on September 19, 2013. Included in this transaction were 1.95 % or 3.9 million shares held by the Schaeffler Group which were sold at a price of EUR 122.50 per share. Proceeds on the sale were EUR 476 m. Combined with a prepayment of EUR 325 m from unrestricted funds, the Schaeffler Group prepaid loan tranches totaling EUR 801 m. The Schaeffler Group was able to reduce its non-current financial debt from a total of EUR 6.7 bn in mid-2013 to EUR 5.8 bn as at September 30, 2013, primarily by making the prepayments discussed above. The Schaeffler Group's interest in Continental AG, Hanover, amounts to 34.19 % of the outstanding shares as at September 30, 2013.

Following this transaction, the two rating agencies Moody's and Standard & Poor's raised the Schaeffler Group's credit ratings. Moody's has been rating the Schaeffler Group as "Ba3" since September 19, 2013 with a stable outlook (previously "B1" and "positive"). The bonds issued by Schaeffler Finance B.V. were also upgraded and are now rated "Ba2" (previously "Ba3") by Moody's. Standard & Poor's raised its Schaeffler Group rating from "B+" to "BB-" on October 01, 2013. The outlook remains stable. The rating for the bonds issued by Schaeffler Finance B.V. was also increased and is now at "BB-" (previously "B+").

Fourth quarter 2013

On November 20, 2013, the Schaeffler Group announced that it had terminated interest rate derivatives early at their then fair value. The derivatives were acquired in 2009 for the Schaeffler Group's interest rate hedging portfolio. At termination, the fair value of the derivatives was EUR -81 m. This step was taken to adjust the Schaeffler Group's interest rate hedging portfolio to the current requirements related to the Group's financing arrangements, and will also reduce future compensation payments on interest rate derivatives.

At December 31, 2013, the Syndicated Senior Term Loan and Revolving Credit Facilities Agreement (SFA) consisted of the following tranches:

No. 019

		12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012	
Tranche	Currency	Face value in millions		Carrying amount in € millions		Coupon		Maturity
Senior Term Loan B1	EUR	-	504	-	501	-	Euribor + 4.75 %	-
Senior Term Loan C [1]	EUR	299	525	292	510	Euribor + 3.75 % [2]	Euribor + 5.00 %	01/27/2017
Senior Term Loan C [3]	USD	1,699	1,500	1,213	1,120	Libor + 3.25 % [4]	Libor + 4.75 %	01/27/2017
Senior Term Loan D [5]	EUR	730	2,446	713	2,410	Euribor + 2.875 % [6]	Euribor + 4.00 %	06/30/2016
Revolving Credit Facility [7]	EUR	1,000	1,000	-9	-10	Euribor + 2.875 % [6]	Euribor + 4.00 %	06/30/2016

[1] Since March 18, 2013, previously Senior Term Loan B2 EUR.
[2] Euribor floor of 1.00 % (December 31, 2012: 1.50 %).
[3] Since March 18, 2013, previously Senior Term Loan B2 USD.
[4] Libor floor of 1.00 % (December 31, 2012: 1.25 %).
[5] Since April 22, 2013, previously Senior Term Loan A.
[6] Since November 21, 2013 (December 31, 2012: 4.00 %).
[7] EUR 49 m (December 31, 2012: EUR 57 m) were drawn down as at December 31, 2013, primarily in the form of letters of credit.

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

No. 020

ISIN	Currency	Face value in millions	Carrying amount in € millions		Coupon	Maturity
		12/31/2013	12/31/2013	12/31/2012		
XS0741938624	EUR	800	788	785	7.75 %	02/15/2017
US806261AC75	USD	600	428	446	7.75 %	02/15/2017
XS0801261156	EUR	326	323	322	6.75 %	07/01/2017
XS0923613060	EUR	600	595	-	4.25 %	05/15/2018
XS0741939788	EUR	400	398	398	8.75 %	02/15/2019
US806261AA10	USD	500	361	378	8.50 %	02/15/2019
US806261AE32	USD	850	612	-	4.75 %	05/15/2021

The XS0801261156 bond is the only bond listed on the Regulated Market of the Luxembourg Stock Exchange. All other Schaeffler bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

The existing loan and bond agreements contain certain constraints including a requirement to meet certain financial covenants relating to senior debt leverage cover, senior interest cover, and capital expenditure cover. Compliance with financial covenants is continually monitored and managed and reported to the lending banks. The company has complied with the financial covenants as stipulated in the debt agreements throughout 2013.

Liquidity

At December 31, 2013, cash and cash equivalents amounted to EUR 300 m (prior year: EUR 433 m) and consisted primarily of bank balances. EUR 151 m of this amount related to countries with foreign exchange restrictions and other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted. In addition, the Schaeffler Group has a revolving line of credit of EUR 1.0 bn (prior year: EUR 1.0 bn), of which EUR 49 m (EUR 57 m) were utilized at December 31, 2013 primarily in the form of letters of credit.

2.5 Overall assessment of the 2013 business year

Having declined under the weight of the Euro crisis in 2012, the global economy stabilized again considerably over the course of 2013, growing by 3.0 % overall (source: International Monetary Fund, January 2014). The industrialized economies provided key momentum. In the emerging countries, on the other hand, production did not grow to the same extent compared to the prior year. In the Euro region, business climate indicators continued to improve slightly over the course of 2013 since uncertainty about future developments in the Euro crisis has declined overall. Despite the slightly improved business climate, total gross domestic product for the Euro region fell by 0.4 %. In Germany, the economy reported growth of around 0.5 %. The U.S. economy slightly gathered momentum over the course of 2013, growing at a rate of 1.9 %. The South America region experienced economic growth of 2.6 % in 2013. Following a somewhat weak start to the year, production in the largest emerging country China rose again over the course of 2013. In total, gross domestic product there increased by 7.7 % over the prior year. In India, the economy was up by a total of 4.4 % in 2013. Japan reported economic growth of 1.7 %.

Being a leading global technology company, the Schaeffler Group held its ground in this environment. The Automotive division continued to grow more rapidly than the market while the performance of the Industrial division's business was disappointing. Despite a challenging economic environment, revenue increased 0.7 % to EUR 11,205 m compared to the prior year. Excluding the adverse impact of currency translation of 2.2 %, the Schaeffler Group generated operational revenue growth of 2.9 %.

The overall trend in the automotive industry was encouraging in 2013. Global production of passenger cars and light commercial vehicles increased 3.1 % to approximately 84 million passenger cars and light commercial vehicles in 2013 (source: IHS Global Insight, January 2014). Automotive division revenue increased by 6.6 % from the prior year to EUR 8,165 m (prior year: EUR 7,658 m) in 2013. Revenue growth was partially offset by the adverse impact of currency translation. Excluding this adverse impact, Automotive division revenue grew by 8.6 %, significantly above market. In 2013, revenue growth was again driven by the Asia/Pacific (+12.1 %) and North America (+10.4 %) regions.

The overall trend in demand for industrial goods in 2013 was disappointing. Due to uncertainty regarding future economic developments, many customers were very cautious with respect to ordering new machinery. According to estimates published by market research institute Oxford Economics, especially the global production of metal products and the engineering and plant construction were marked by limited growth of just under 2 %. As expected, Industrial division revenue of EUR 3,040 m fell significantly short of the prior year level (prior year: EUR 3,406 m) in 2013. While the revenue trend has stabilized since the first quarter of 2013, demand in the market for investment goods did not demonstrate a clear reversal of the prior year trend over the course of 2013.

Gross profit of EUR 3,176 m (prior year: EUR 3,289 m) reflects lower utilization of capacity, especially at certain Industrial locations. Schaeffler's measures to increase efficiency, such as adjustments to personnel and production, have not yet fully offset this impact.

Research and development expenses grew by 3.0 % to EUR 611 m, representing 5.5 % of revenue. In 2013, research and development focused mainly on the fields of electric mobility and hybridization of vehicles as well as on renewable energy and mechatronic products.

Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT) fell by EUR 431 m from the prior year to EUR 982 m (prior year: EUR 1,413 m) in 2013. At the same time, the EBIT margin decreased to 8.8 % (prior year: 12.7 %). As the decrease in EBIT is related to the decline in gross profit, it primarily reflects lower Industrial division revenue and expenses related to personnel-related structural measures of EUR 48 m. In addition, EBIT for the fourth quarter of 2013 was adversely impacted by a special item of EUR 380 m related to the ongoing EU antitrust proceedings.

Excluding the expenses for personnel-related structural measures and the provision for the ongoing EU antitrust proceedings, adjusted EBIT of EUR 1,410 m was almost flat with prior year and the corresponding adjusted EBIT margin amounted to 12.6 %.

Net income after non-controlling interests was EUR 865 m following net income of EUR 870 m in the prior year. The increase is attributable to the measures taken in 2013 to refinance the company's debt, which have improved the Group's financial result. In addition, Schaeffler's income from at equity-accounted investees has increased.

Cash flows from operating activities declined by 2.5 % to EUR 1,183 m (prior year: EUR 1,213 m). Capital expenditures of EUR 18 m for intangible assets and EUR 554 m for property, plant and equipment were below the prior year amounts of EUR 35 m and EUR 825 m, respectively. Total capital expenditures of EUR 572 m (prior year: EUR 860 m) resulted in a capex ratio (ratio of capital expenditures to revenue) of 5.1 % (prior year: 7.7 %).

The increase in free cash flow by 65.1 % to EUR 629 m (prior year: EUR 381 m) was mainly driven by a dividend of EUR 162 m received from Continental AG via Schaeffler Beteiligungsholding GmbH & Co. KG and by focused adjustments of investing activities to the current situation in the markets.

This positive overall development of Schaeffler's business validates the focus of the company's business model on profitable growth. Schaeffler has a global presence and is exceptionally well positioned, especially in the emerging countries. Furthermore, the encouraging earnings trend – particularly in the Automotive division – attests to the fact that the company has again made good headway in 2013 on its path to further increasing its efficiency and productivity.

3. Supplementary report

No material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after December 31, 2013.

4. Report on opportunities and risks

The Schaeffler Group is exposed to a large number of potential risks that can adversely affect its business. To be able to appropriately respond to these risks, the Schaeffler Group has established a risk management system to ensure that risks to the company's continued existence as a going concern and to its development are identified on a timely basis.

Schaeffler defines risks as possible future developments or events that can lead to adverse deviations from budgeted results, while opportunities are future developments or events that lead to favorable deviations from budgeted results. Business opportunities are identified in a regular process which is embedded in normal operations.

Risk management system

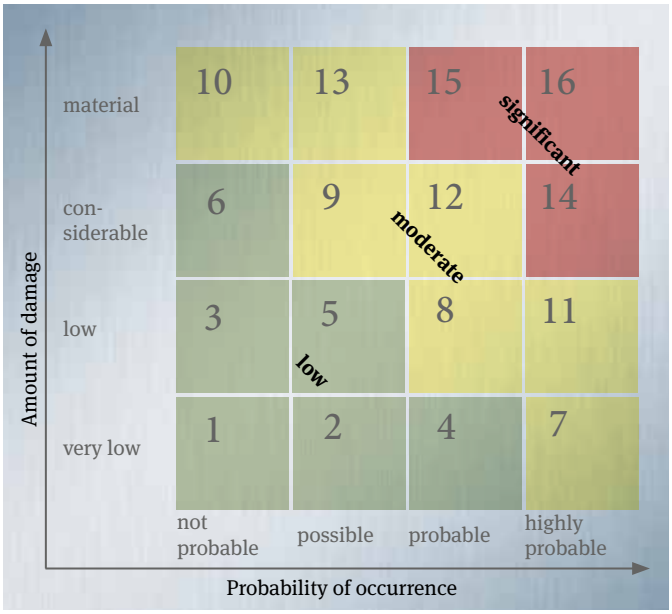
Responsibility for the risk management system rests with the executive board of the Schaeffler Group. The executive board regularly reports to the audit committee and the supervisory board of Schaeffler AG and ensures that measures required to manage risk are approved. The objective is to identify risks to the company's continued existence as a going concern and to its development, in particular, on a timely basis and to respond to these risks with appropriate action. Consciously dealing with identified risks and regularly monitoring risk factors increases risk awareness and ensures continuing improvement.

Details of the risk management system are set out in a risk management guideline which the executive board has published within the Schaeffler Group, making it available to all employees. It contains a description of the process, the allocation of responsibilities, and the structure of the risk management system. The guideline also defines a group-wide catalogue of risk categories to ensure that all risks along the value-chain are monitored. Identified risks have to be assigned to pre-defined risk categories. This catalogue must be completely reviewed by all those responsible for risk in order to ensure uniform and systematic identification of risks. To make risk assessment comparable, suggested risk assessments have been provided for all risk categories. The executive board has asked corporate risk management to review and update the risk management system on an ongoing basis and to ensure that existing uniform group-wide standards are implemented and complied with. Technical direction from corporate risk management is binding on all individuals responsible for risk.

The risk management system consists of a multi-phase process spanning various levels and organizational units in order to appropriately reflect the matrix structure of the Schaeffler Group. In a bottom-up process, risks are identified and analyzed at the subsidiary level. Based on this analysis, the next step is a top-down analysis by the appropriate global management of divisional and corporate functions. They assess the risks identified within the subsidiaries taking into account all interdependencies within the Schaeffler Group. This approach ensures that all responsibilities within the Schaeffler Group are reflected in the risk management system.

Risks are identified semiannually at all material Schaeffler AG subsidiaries. Operating management is responsible for identifying risks. The time period for identifying risks is the same as the forecasting horizon of three years. Subsidiaries included are selected using a defined selection process based on revenue and earnings measures as well as risk factors specific to the business. Different performance measures are applied, depending on the business model of each subsidiary. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management system. In 2013, 64 of 159 Schaeffler Group entities are included, representing 97 % of revenue and 88 % of the Schaeffler Group's net income.
The risk management system only deals with risks that are material to the Schaeffler Group as a whole. The executive board defines a threshold for determining whether an identified risk should be classified as material. Risks are assessed based on their monetary impact on net income and their probability of occurrence. In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures. The amount of loss and the probability of occurrence after taking into account any measures in place at the reporting date to mitigate risk represent the remaining net exposure. All net exposures exceeding the defined threshold of one million Euros are reported to the executive board.

Risks are assigned to one of four loss classes based on their impact on earnings, financial position, and net assets of the Schaeffler Group, and their probability of occurrence is estimated. The combination of potential loss and probability of occurrence determines the risk class. The defined 16 risk classes are classified as low (risk class 1 to 6), moderate (risk class 7 to 13) or significant (risk class 14 to 16) based on their impact on earnings, financial position, and net assets. Risk classes can be presented graphically using a risk matrix.



Reported net exposures are actively managed. Management takes measures to avoid or reduce risks or to provide safeguards against them. Any risk that cannot be mitigated by taking appropriate action is classified as business risks. Risks with a less than moderate impact on the Schaeffler Group are managed by operating management. Risks with a moderate or significant amount of exposure, however, are managed at the corporate level by the executive board of the Schaeffler Group. Within its area of responsibility, the executive board decides what measures are required and ensures that they are implemented and continually updated. The current status is regularly reported to the executive board and the supervisory board.

Corporate risk management regularly reports to the executive board about the risk situation, which ensures that the executive board is continually updated about the current risk situation of the Schaeffler Group and its change over time. An aggregated summary of identified opportunities is also included in these reports.

The executive board of the Schaeffler Group has asked internal audit to perform regular audits in order to satisfy itself that the risk management system is effective. A two-step process was developed for this purpose which assesses both the conceptual basis and operational implementation.

In a first step, internal audit reviewed the design, adequacy, and appropriateness of the risk management guideline as the foundation of the Schaeffler Group's risk management system in 2012. The operational implementation in selected Schaeffler Group subsidiaries is audited in the second phase of the audit. Comments provided by internal audit are taken into account in the process of continually improving the risk management system.

In response to the growing complexity of the risk management system and to ensure data are protected, Schaeffler introduced a risk management tool in 2013.

Internal control system

The Schaeffler Group has a standardized process in place to monitor the effectiveness of its internal control system, paralleling the risk management system. The objective of the internal control system relating to accounting and financial reporting is to ensure the accuracy of the accounting system and the related reporting. The Schaeffler AG executive board is responsible for establishing and continually improving appropriate controls over financial reporting.

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

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

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

In 2013, selected individual companies performed a control self-assessment process. The internal audit function, which is another component of the internal control system, assists with complying with existing guidelines and implementing measures aimed at continual improvement and minimizing risk.

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

Risk management

The executive board divides the risks into strategic, operating, legal, and financial risks. These risks are described in decreasing order of the magnitude of their impact on Schaeffler's earnings, financial position, and net assets.

Strategic risks

The Schaeffler Group considers strategic risks to be specifically technological risks, risks arising from market changes, country risk, and risks from strategic equity investments such as the investment in Continental AG.

Technological risks: The Schaeffler Group is characterized by an excellent competitive position with respect to the conventional power train. This exceptional position may be jeopardized both by the conventional power train migrating to electric mobility and by the expiry of key patents. By establishing the electric mobility business field and planning to create a corresponding product range, Schaeffler intends to offset the loss in conventional power train revenue; not achieving this objective is expected to have a material impact on the Schaeffler Group's earnings.

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

Extensive market analyses are carried out in order to limit such risks. Trends are analyzed and evaluated early on and alternative development decisions are considered with respect to their effect on the product portfolio and strategic approach of the group. The selection of the future product portfolio is essential to the Schaeffler Group's success; the omission of ground-breaking developments can have a material adverse impact on the earnings, financial position, or net assets of the Schaeffler Group.

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

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

Operating risks

The risks listed below are among the key operating risks of the Schaeffler Group. Unless the extent to which one or both divisions are affected by these risks is explicitly described, the discussion of the risks relates to both of the Schaeffler Group's division.

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

Production risk: Several manufacturing locations only have one of a given type of machine. The failure of one of these bottleneck machines can lead to a bottleneck in supply to internal and external customers. The period between failure of the bottleneck machine and when alternative means of production are set up is crucial. Alternative means of production can be either set up by a Schaeffler Group plant with comparable production lines or provided by an alternative supplier. To minimize the probability of occurrence, the risk is mitigated by extensive maintenance. Should a bottleneck machine fail despite this extensive maintenance, that would have a material impact on earnings. To minimize the loss if such a failure occurs, Schaeffler either identifies alternative suppliers or maintains safety stock.

Loss of market share: The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. As a result, Schaeffler is exposed to the risk of being displaced by existing or new competitors and of its products being replaced by product innovations or by new technological features. The Automotive division considers the resulting loss of market share to be considerably higher. Maintaining the company's technological leadership and developing new and improved products requires significant investment in intangible assets and property, plant and equipment. Such investments may be restricted not only by deteriorating earnings, but also by financial covenants contained in the loan agreements, such as the capex covenant (see Note 4.10 to the consolidated financial statements), which would jeopardize technological development and improvements. Competition is also driven by factors such as price adjustments and ability to deliver. The Schaeffler Group's key customers include, in particular, well-known OEMs and suppliers, who expect continual price reductions both during the bidding process and throughout the term of supply agreements. To prevent constant price adjustments from impairing margins, the Schaeffler Group is forced to continually improve its production process and reduce expenditures. Besides the price, a deciding factor in the Industrial and Aftermarket business is also the ability to deliver, which is constantly being enhanced by systematic improvements in production and delivery logistics.

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

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

Sales risk: Global economic conditions are a key driver of demand for the Schaeffler Group's products. The demand for products of the Automotive division and the Automotive Aftermarket in particular depends considerably on the overall economic trend. This also applies to the engineering sector and industrial growth markets such as renewable energy. In addition, demand is subject to cyclical fluctuations. Automotive demand is not only affected by global economic conditions, but also by other factors such as changes in consumption patterns, fuel prices, interest rate levels, and others. Demand for Industrial products is influenced by a wide range of factors due to the large variety of business fields in which the Schaeffler Group operates. Renewable energy depends heavily on government subsidies. Sales of production machinery, on the other hand, depend on new developments and the resulting need for capital expenditures. Aerospace benefits from various new technological developments. Individual drivers can be identified for each sector.

This could materially affect the company's earnings. The distribution of revenue across both divisions and the large degree of diversification within the divisions helps reduce the probability of a decline in revenue for the Schaeffler Group as a whole.

Procurement risks: These risks arise from market price fluctuations as well as from lack of availability of raw materials of the appropriate quality and quantity. Manufacturing the Schaeffler Group's products requires large amounts of raw materials and components, which are primarily made from steel products. The Schaeffler Group also mitigates the volatility of raw material prices by entering into tranche transactions for energy and by passing price fluctuations on to customers using price adjustment clauses. Schaeffler does not use derivative financial instruments to hedge raw material prices. The potential impact of increases in material prices on Schaeffler's earnings is low.

Economic considerations may result in the Schaeffler Group limiting purchases, particularly of components and certain raw materials, to a single supplier. An inherent risk of such single sourcing is that alternative sources may not be available at short notice if a supplier cannot deliver. This could materially affect the Schaeffler Group's earnings, financial position and net assets. These risks are mitigated by systematically selecting and evaluating suppliers to keep the probability of a supplier not being able to deliver low.

Counterparty risk: Among Schaeffler's major customers are various OEM's. These business relationships result in concentration, including a concentration of risk with respect to the collectibility of trade receivables. This risk is managed by constantly monitoring customers' creditworthiness and payment history. A default of individual customers could materially affect Schaeffler's earnings, financial position and net assets. Additional measures include consistent collection procedures and the use of commercial credit insurance.

Product piracy risks: The Schaeffler Group brands INA, LuK and FAG are inseparably associated with a high standard of quality, making them increasingly susceptible to product piracy. Combating product piracy is a high priority for Schaeffler. The Schaeffler Group protects intellectual property not only using global patents and industrial property rights but also by actively combating counterfeit products, which damage its image as well as its revenue. Based on the large number of counterfeit products seized Schaeffler anticipates this issue to materially affect its earnings, financial position and net assets.

Development risks: Developing and bringing to market new products bears the risk that timing, quality or budgeted costs can not be met. In order to mitigate this risk, the Schaeffler Group has implemented a uniform group-wide system to manage its research and development processes. This system allows decision makers to monitor the relevant projects efficiently and counteract adverse developments on a timely basis. The Schaeffler Group can further reduce this risk by closely cooperating with its key customers in the areas of customer-specific development and continuous improvement, particularly in the Automotive division. However, conditions may change during the development process, materially affecting Schaeffler's earnings, financial position and net assets.

Legal risks

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

Antitrust proceedings: Since 2011, several antitrust authorities have been investigating several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. During the year, the investigations of the EU antitrust authorities have become sufficiently substantiated for the Schaeffler Group to recognize a provision through profit or loss in December 2013 (see Note 4.12 to the consolidated financial statements). Schaeffler expects this issue to affect its financial position.
In addition, there is a risk that, along with the EU antitrust authorities, other antitrust authorities will also impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. and in Canada have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

If one or more of these risks materialize, the Schaeffler Group's earnings, financial position and net assets could be significantly adversely affected, making it more difficult to meet the company's obligations under its financial debt.

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

Financial risks

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

(1) Liquidity risk

(2) Risks related to pension obligations

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

(1) Liquidity risk

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

Liquidity risk can arise if the financing requirements determined during the budgeting process are not sufficient or if the financing needs identified cannot be met by existing equity or debt financing arrangements. The Schaeffler Group's financing requirements were met throughout the year by existing financing instruments and the refinancing arrangements completed.

To avoid unforeseen short- or medium-term liquidity needs to the extent possible, short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period ranging from four weeks through 13 weeks to 12 and 18 months. Short-term fluctuations in cash flow are monitored daily and can be offset using lines of credit. To this end, the Schaeffler Group has a revolving credit facility of EUR 1,000 m and other bilateral lines of credit held by various subsidiaries.

The existing loan and bond agreements contain certain constraints including a requirement to meet certain financial covenants (see Note 4.10 to the consolidated financial statements). The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the covenants are not met, which would result in the debt becoming due immediately. Compliance with financial covenants is continually monitored and managed and reported to the lending banks. The Schaeffler Group has complied with its financial covenants throughout both 2013 and the prior year, and also expects to comply with them in 2014.

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

(2) Risks related to pension obligations

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

(3) Market risk

The risk of changes in foreign exchange and interest rates impacting the Schaeffler Group's earnings, financial position, and net assets and the value of financial instruments held is subsumed under the term market risk.

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

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

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

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

Currency risk is managed at the corporate level. Currency risk is aggregated across the group and hedged using hedging instruments. Hedging instruments used include cross-currency swaps and forward exchange contracts and options. Currency risk, market values of foreign currency derivatives and developments in foreign exchange markets are continuously monitored and managed as part of the risk management system.

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

Overall assessment of Schaeffler Group risks

The EU antitrust authorities are expected to impose a penalty in early 2014. With the notification of the EU antitrust authorities' intention to levy a penalty received in 2013, a risk with a significant impact on the company's earnings has materialized. In addition, there is a risk that antitrust authorities in other countries will also impose penalties and that third parties may claim damages. The other risks identified by the Schaeffler Group remain largely unchanged from the prior year. No risks to the company's continued existence as a going concern or to its development have been identified. However, risks not yet identified or classified as immaterial could also have an adverse effect.

Opportunity management

The responsibility for identifying and utilizing opportunities lies with operating management. Opportunities are discussed with the executive board during regularly held strategy conferences and, based on these discussions, strategies are derived to determine the future direction of the Schaeffler Group.

An aggregated overview of the opportunities identified at the strategy conferences is included in the reports regularly provided to the executive and supervisory boards of Schaeffler AG. Opportunities are documented in the risk management tool.

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

Strategic and operating opportunities

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

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

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

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

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

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

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

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

Industrial 4.0: The Internet of Things finding its way into the factory has started a fourth industrial revolution. In future, companies will network their machines, warehousing systems and equipment around the world. The Schaeffler Group views its sensor-equipped bearings as an opportunity to benefit from this trend.

3D printing: The Schaeffler Group already supplies components for this innovative manufacturing technology. There are opportunities in using this technology in Schaeffler's own development and production.

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

Legal opportunities

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

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

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

Financial opportunities

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

Rating: Rating agencies Standard & Poor's and Moody's have been providing a company rating for the Schaeffler Group and a bond rating since January 2012 (see "Financing" for further detail). An improvement in the ratings provided by Standard & Poor's and Moody's can result in more favorable financing conditions and open up new opportunities for obtaining financing. Over the course of the year 2013, the company rating improved from "B+" to "BB-" with a stable outlook (S&P's) and from "B1" to "Ba3" with a stable outlook (Moody's). The bond rating was upgraded from "B+" to "BB-" (Standard & Poor's) and from "Ba3" to "Ba2" (Moody's) in 2013.

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

5. Report on expected developments

Expected economic environment

Leading economic research institutes are expecting the global economy to expand moderately next year. Based on this forecast, the Schaeffler Group anticipates global economic growth of approximately 3 % in 2014. In this positive economic environment, the Schaeffler Group continues to expect stable and profitable growth.

Based on the forecast by market analyst IHS, Global Insight (January 2014), which is derived from automobile manufacturers' estimated production volumes, as well as our own estimates, the Schaeffler Group is anticipating worldwide production of passenger vehicles and light commercial vehicles to increase by approximately 3 to 4 % in 2014. The Schaeffler Group expects to see automobile production in Western Europe return to growth in 2014, following declines in the last two years. In both North and South America, the group estimates that automobile production will increase by approximately 4 %. Production of passenger cars in the Asia/Pacific region (Southeast Asia combined with Japan, Korea, and Australia) is likely to decline by a total of approximately 3 % due to decreasing production volumes in South Korea and Japan. China will drive growth in global automobile production with its production expected to expand by around 9 %.

No. 021

Passenger cars and light commercial vehicle production growth (in % compared with prior year)	**2014**
America	4.2
• North America	4.3
• South America	3.7
EMEA	4.3
• Western Europe	2.4
• Germany	0.8
• India	5.6
Asia/Pacific	-2.8
Greater China	9.5
World	**3.9**

Source: IHS Global Insight (January 2014) and internal estimates.

The budgeted revenue trend for the Automotive division is based on this forecast.

Based on the forecast by market-research institute Oxford Economics (Forecast Winter 2013), the Schaeffler Group is expecting the markets of its Industrial division to grow by about 5 to 6 % in 2014. Significant momentum will again be provided by the emerging countries, where

Schaeffler is expecting growth of approximately 6 %. The company believes the engineering sector in the industrialized countries will grow by around 5 %. However, the revenue forecast for the Industrial division reflects other sector-related heterogeneous factors in addition to the Oxford Economics forecast due to the large number of markets in which the customers of the Industrial division operate.

Schaeffler Group outlook

Existing volume supply agreements with OEM customers of the Automotive division will lead to nearly full utilization of current production capacity in 2014. This is confirmed by binding supply orders from OEM customers recorded at short notice on the one hand and on the other hand by annual ranges of delivery quantities contractually agreed in some cases. Based on passenger cars in use around the world and the components installed in these cars, Schaeffler forecasts the level of capacity utilization for the Automotive Aftermarket business in 2014 to be similar to 2013. Thanks to its well-established strategy for innovation and growth and Schaeffler's strong position with respect to the requirements of future mobility, the company expects its Automotive division to again grow more rapidly than global production of passenger cars and light commercial vehicles in 2014.

The positive trend in order intake in the Industrial division during the fourth quarter of 2013 indicates moderate revenue growth in 2014.

Revenue growth of 5 to 7 % expected for 2014

Based on the consistent focus of its business on the global growth markets, the excellent position in its business sectors, and the large number of new product start-ups, particularly in the Automotive division, the Schaeffler Group expects its revenue to grow by 5 to 7 % in 2014. This forecast is based on the assumption that the trend of the global economy will not differ from current expectations. In arriving at its forecast, the Schaeffler Group has assumed largely constant exchange rates.

Our investments in intangible assets and property, plant and equipment for new products and manufacturing facilities are the foundation of the growth of our operations. The regional focus here remains on the growth regions Asia/Pacific and Greater China. The Schaeffler Group is planning on a capex ratio of 6 to 8 % of revenue in 2014.

Due to the expected improvement in Industrial division earnings and the stable earnings situation of the Automotive division, the Schaeffler Group expects to generate an EBIT margin of 12 to 13 % in the coming year.

The group will maintain its development activities at the level of the prior years and again plans to invest approximately 5 % of its consolidated revenue in researching and developing new products and processes in 2014.

As Schaeffler Beteiligungsholding GmbH & Co. KG is accounted for at equity in the Schaeffler Group's consolidated financial statements, the Group's income from at equity-accounted investees is affected by the economic performance of Continental AG.

The Schaeffler Group is expecting to generate positive free cash flow in 2014. Given the significant budgeted increase in capital expenditures and the expected payment of a penalty in connection with the European Commission's investigations of possible agreements violating antitrust laws, the company is expecting free cash flow to decline considerably compared to 2013.

The Schaeffler Group aims to continue growing its revenue and earnings in the coming years, as well. With its strong regional presence in the growth markets and regions, its technological leadership, the excellent quality of its products, the wide range of premium products offered, and its innovative strength, the Schaeffler Group is excellently positioned for the future.

Herzogenaurach, March 10, 2014

The Executive Board

Consolidated financial statements

1. Consolidated income statement

No. 022

in € millions	Note	2013	2012	Change in %
Revenue	3.1	11,205	11,125	0.7
Cost of sales		-8,029	-7,836	2.5
Gross profit		**3,176**	**3,289**	**-3.4**
Research and development expenses		-611	-593	3.0
Selling expenses		-761	-759	0.3
Administrative expenses		-476	-465	2.4
Other income	3.2	70	35	100
Other expenses	3.3	-416	-94	> 100
Earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT)		**982**	**1,413**	**-30.5**
Financial income [1)]	3.5	217	23	> 100
Financial expenses [1)]	3.5	-659	-703	-6.3
Financial result [1)]	**3.5**	**-442**	**-680**	**-35.0**
Income from at equity-accounted investees	**2.3, 3.6**	**801**	**554**	**44.6**
Earnings before income taxes [1)]		**1,341**	**1,287**	**4.2**
Income taxes [1)]	3.7	-469	-405	15.8
Net income [1)]		**872**	**882**	**-1.1**
Attributable to shareholders of the parent company [1)]		865	870	-0.6
Attributable to non-controlling interests		7	12	-41.7

[1)] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

2. Consolidated statement of comprehensive income

No. 023

in € millions	2013 before taxes	2013 taxes	2013 after taxes	2012 before taxes	2012 taxes	2012 after taxes
Net income [1]	**1,341**	**-469**	**872**	**1,287**	**-405**	**882**
Foreign currency translation differences for foreign operations	-183	0	-183	-39	0	-39
Net gain (loss) on hedge of net investment in foreign operations	35	0	35	2	0	2
Effective portion of changes in fair value of cash flow hedges	-5	1	-4	180	-51	129
Net change in fair value of available-for-sale financial assets	-1	0	-1	1	0	1
Share of other comprehensive income (loss) of equity-accounted investees	-185	0	-185	-10	1	-9
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**-339**	**1**	**-338**	**134**	**-50**	**84**
Defined benefit plan actuarial gains (losses) [1]	25	-10	15	-325	92	-233
Income (loss) of equity-accounted investees	96	-26	70	-256	72	-184
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**121**	**-36**	**85**	**-581**	**164**	**-417**
Total other comprehensive income (loss)	**-218**	**-35**	**-253**	**-447**	**114**	**-333**
Total comprehensive income (loss) for the period	**1,123**	**-504**	**619**	**840**	**-291**	**549**
Total comprehensive income (loss) attributable to shareholders of the parent company	1,125	-504	621	832	-291	541
Total comprehensive income (loss) attributable to non-controlling interests	-2	0	-2	8	0	8
Total comprehensive income (loss) for the period	**1,123**	**-504**	**619**	**840**	**-291**	**549**

[1] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

See Notes 2.2, 4.11, and 4.15 to the consolidated financial statements for further detail.

3. Consolidated statement of financial position

No. 024

in € millions	Note	12/31/2013	12/31/2012	Change in %
ASSETS				
Intangible assets	4.1	538	554	-2.9
Property, plant and equipment	4.2	3,369	3,515	-4.2
Investments in equity-accounted investees	4.3	5,085	5,040	0.9
Other investments		14	14	0.0
Other financial assets	4.7	206	91	> 100
Other assets	4.7	59	59	0.0
Income tax receivables	4.7	12	17	-29.4
Deferred tax assets	4.4	230	364	-36.8
Total non-current assets		**9,513**	**9,654**	**-1.5**
Inventories	4.5	1,536	1,495	2.7
Trade receivables	4.6	1,676	1,626	3.1
Other financial assets	4.7	119	106	12.3
Other assets	4.7	141	125	12.8
Income tax receivables	4.7	142	107	32.7
Cash and cash equivalents	4.8	300	433	-30.7
Total current assets		**3,914**	**3,892**	**0.6**
Total assets		**13,427**	**13,546**	**-0.9**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		500	500	0.0
Reserves [1)]		2,643	2,027	30.4
Accumulated other comprehensive income (loss) [1)]		-709	-479	48.0
Equity attributable to shareholders of the parent company		**2,434**	**2,048**	**18.8**
Non-controlling interests		57	60	-5.0
Total shareholders' equity	**4.9**	**2,491**	**2,108**	**18.2**
Provisions for pensions and similar obligations	4.11	1,516	1,553	-2.4
Provisions [1)]	4.12	96	75	28.0
Financial debt	4.10	5,965	7,140	-16.5
Income tax payables	4.14	340	267	27.3
Other financial liabilities	4.14	162	237	-31.6
Other liabilities	4.14	5	3	66.7
Deferred tax liabilities	4.4	154	119	29.4
Total non-current liabilities		**8,238**	**9,394**	**-12.3**
Provisions	4.12	599	223	> 100
Financial debt	4.10	225	121	86.0
Trade payables	4.13	1,014	794	27.7
Income tax payables	4.14	155	232	-33.2
Other financial liabilities	4.14	419	401	4.5
Other liabilities	4.14	286	273	4.8
Total current liabilities		**2,698**	**2,044**	**32.0**
Total shareholders' equity and liabilities		**13,427**	**13,546**	**-0.9**

[1)] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

4. Consolidated statement of cash flows

No. 025

in € millions	2013	2012	Change in %
Operating activities			
EBIT	982	1,413	-30.5
Interest paid	-624	-593	5.2
Interest received	8	9	-11.1
Income taxes paid	-385	-226	70.4
Dividends received	163	81	> 100
Depreciation, amortization and impairments	652	618	5.5
(Gains) losses on disposal of assets	1	-1	-
Other non-cash items	-4	-21	-81.0
Changes in:			
• Inventories	-101	55	-
• Trade receivables	-109	-27	> 100
• Trade payables	230	-52	-
• Provisions for pensions and similar obligations	-45	-45	0.0
• Other assets, liabilities and provisions	415	2	> 100
Cash flows from operating activities [1]	**1,183**	**1,213**	**-2.5**
Investing activities			
Proceeds from disposals of intangible assets and property, plant and equipment	15	29	-48.3
Capital expenditures on intangible assets	-18	-35	-48.6
Capital expenditures on property, plant and equipment	-554	-825	-32.8
Investments in other financial investments	-4	-3	33.3
Other investing activities	7	2	> 100
Cash used in investing activities	**-554**	**-832**	**-33.4**
Financing activities			
Dividends paid to non-controlling interests	-1	-1	0.0
Receipts from loans	27	395	-93.2
Repayments of loans	-649	-449	44.5
Acquisitions in stages	0	-13	-100
Dividends paid to Schaeffler Verwaltungs GmbH	0	-79	-100
Other financing activities [2]	-115	-194	-40.7
Cash used in financing activities	**-738**	**-341**	**> 100**
Net increase (decrease) in cash and cash equivalents	**-109**	**40**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	-24	-4	> 100
Cash and cash equivalents as at beginning of period	433	397	9.1
Cash and cash equivalents as at end of period	**300**	**433**	**-30.7**

[1] Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2013 amount to EUR 1,807 m (prior year: EUR 1,806 m).
[2] Including payments to the shareholder, Schaeffler Verwaltungs GmbH, of EUR 85 m (prior year: EUR 227 m)

See Note 5.3 to the consolidated financial statements for further detail.

5. Consolidated statement of changes in shareholders' equity

No. 026

in € millions	Share capital	Reserves	Accumulated other comprehensive income (loss) [1]				Subtotal	Non-controlling interests	Total
			Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses			
Balance as at January 01, 2012 before IAS 19 (rev. 2011) adjustments	**500**	**1,324**	**118**	**-131**	**0**	**-150**	**1,661**	**53**	**1,714**
Change in accounting policy – IAS 19 (rev. 2011)		-13				13	0		0
Balance as at January 01, 2012 after IAS 19 (rev. 2011) adjustments	**500**	**1,311**	**118**	**-131**	**0**	**-137**	**1,661**	**53**	**1,714**
Net income		872					872	12	884
Other comprehensive income (loss)			-43	129	2	-420	-332	-4	-336
Change in accounting policy – IAS 19 (rev. 2011)		-2				3	1		1
Total comprehensive income (loss) for the period	**0**	**870**	**-43**	**129**	**2**	**-417**	**541**	**8**	**549**
Transactions with shareholders									
Capital increase		131					131		131
Dividends		-300					-300	-1	-301
Total amount of transactions with shareholders		**-169**					**-169**	**-1**	**-170**
Other items from equity-accounted investees recognized directly in shareholders' equity		15					15		15
Balance as at December 31, 2012	**500**	**2,027**	**75**	**-2**	**2**	**-554**	**2,048**	**60**	**2,108**
Balance as at January 01, 2013 before IAS 19 (rev. 2011) adjustments	**500**	**2,042**	**75**	**-2**	**2**	**-570**	**2,047**	**60**	**2,107**
Change in accounting policy – IAS 19 (rev. 2011)		-15				16	1		1
Balance as at January 01, 2013 after IAS 19 (rev. 2011) adjustments	**500**	**2,027**	**75**	**-2**	**2**	**-554**	**2,048**	**60**	**2,108**
Net income		865					865	7	872
Other comprehensive income (loss)			-324	-4	-1	85	-244	-9	-253
Total comprehensive income (loss) for the period	**0**	**865**	**-324**	**-4**	**-1**	**85**	**621**	**-2**	**619**
Transactions with shareholders									
Dividends		-250					-250	-1	-251
Capital contribution		15					15		15
Total amount of transactions with shareholders		**-235**					**-235**	**-1**	**-236**
Other items from equity-accounted investees recognized directly in shareholders' equity		-14				14	0		0
Balance as at December 31, 2013	**500**	**2,643**	**-249**	**-6**	**1**	**-455**	**2,434**	**57**	**2,491**

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

See Note 4.9 to the consolidated financial statements for further detail.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 027

	Automotive		Industrial		Other		Total	
	01/01 – 12/31		01/01 – 12/31		01/01 – 12/31		01/01 – 12/31	
in € millions	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue	8,165	7,658	3,040	3,406	0	61 [1)]	11,205	11,125
Cost of sales	-5,947	-5,552	-2,082	-2,223	0	-61 [2)]	-8,029	-7,836
Gross profit	2,218	2,106	958	1,183	0	0	3,176	3,289
EBIT	736	997	246	416	0	0	982	1,413
• in % of revenue	9.0	13.0	8.1	12.2	-	-	8.8	12.7
Depreciation, amortization and impairments	-459	-432	-193	-186	0	0	-652	-618
Inventories [3)]	912	851	624	644	0	0	1,536	1,495
Trade receivables [3)]	1,196	1,127	480	499	0	0	1,676	1,626
Property, plant and equipment [3)]	2,375	2,431	994	1,084	0	0	3,369	3,515
Additions to intangible assets and property, plant and equipment	434	618	139	209	0	0	573	827

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

See Note 5.4 to the consolidated financial statements for further detail.

Notes to the consolidated financial statements

1. General Information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestrasse 1 – 3, 91074 Herzogenaurach. The company was founded as at September 29, 2009 and is registered in the Commercial Register of the Fuerth Local Court (HRB No. 13202). The consolidated financial statements of Schaeffler AG as at December 31, 2013 comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). Schaeffler is a supplier to the automotive and manufacturing sectors with operations worldwide.

1.2 Basis of preparation

The consolidated financial statements of the Schaeffler Group for the year ended December 31, 2013 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code). The term IFRS includes all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were prepared based on the same standards.

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

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

The statement of financial position is classified using the current/non-current distinction. Schaeffler classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period. Inventories are current assets even if they are not expected to be realized within twelve months after the end of the reporting period. Similarly, liabilities are classified as current if Schaeffler is contractually required to settle them within twelve months after the end of the reporting period.

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

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

Measurement bases

Assets and liabilities are generally measured on the basis of historical cost. The following assets and liabilities represent an exception, since they are measured at fair value:

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

Estimation uncertainty and management judgment

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

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

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

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

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

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

In 2013, there was no significant impact from changes in assumptions made in the past or from the resolution of previously existing uncertainties related to the above items.

1.3 Summary of significant accounting policies

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

Consolidation principles

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

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

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

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

Foreign currency translation

Foreign currency transactions

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

The income effect of currency translation is split between EBIT and financial result and each component is netted based on the underlying economic circumstances. Exchange gains and losses on operating receivables and payables and on derivatives entered into to hedge the related foreign exchange risk are presented within earnings before financial result, income from at equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives entered into to hedge the related foreign exchange risk are reflected in financial result.

Translation of foreign currency financial statements

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

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

No. 028

Currencies		Closing rate		Average rate	
1 € in		12/31/2013	12/31/2013	2013	2012
U.S.A.	USD	1.38	1.32	1.33	1.29
Japan	JPY	144.72	113.61	129.66	102.62
Hungary	HUF	297.04	292.30	296.94	289.32
Romania	RON	4.47	4.44	4.42	4.46

Revenue recognition and cost of sales

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

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

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

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

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

Research and development expenses

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

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

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

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

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

Goodwill

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

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

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

Other intangible assets

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

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

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

Property, plant and equipment

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

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

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

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

Leases

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

Impairments

Financial assets

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

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

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

Non-financial assets

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

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

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

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 then allocated to the other assets in the cash-generating unit.

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

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

Financial instruments

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

Non-derivative financial instruments

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

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

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

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

Inventories

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

Income taxes

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

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

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

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

Deferred tax liabilities arising on temporary differences associated with investments in subsidiaries and companies accounted for using the equity method 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

The Schaeffler Group provides post-employment benefits to its employees in the form of 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 expectations, including those related to anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets. If plan assets exceed the related pension obligation, the net pension asset is presented under other assets to the extent Schaeffler is entitled to a refund or reduction of future contributions to the fund.

The Schaeffler Group recognizes all actuarial gains and losses arising from defined benefit plans directly in accumulated other comprehensive income. Interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and included in financial income or financial expense on a net basis. As a result of the retrospective application of IAS 19 (rev. 2011), which became effective in the 2013 financial year, interest income for the prior year was reduced by EUR 30 m and the revised income on plan assets of EUR 26 m was offset against interest expense. The resulting difference was recognized in shareholders' equity as a reduction in reserves and an increase in accumulated other comprehensive income. Based on assumptions similar to those made in prior years, applying the net interest approach under IAS 19 (rev. 2011) has affected profit and loss for 2013 by approximately EUR 9 m.

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

Provisions

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

Provisions are measured at the best estimate of the amount required to settle the obligation. This estimate is subject to uncertainty.
Non-current provisions are recognized at present value by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest expense arising from unwinding the discount on the provision and the impact of any changes in discount rates are presented within financial result.

1.4 New accounting pronouncements

In 2013, the following Standards and amendments to Standards adopted by the European Union (EU) as European law were required to be applied for the first time:

No. 029

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment
IAS 1	Presentation of Financial Statements	07/01/2012	Presentation of other comprehensive income
IAS 12	Income Taxes	01/01/2013	Deferred taxes on investment property measured at fair value through profit or loss
IAS 19	Employee Benefits	01/01/2013	Changes resulting from IAS 19 rev. 2011
Annual Improvements 2009-2011		01/01/2013	Various improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34
IFRS 7	Financial Instruments: Disclosures	01/01/2013	Disclosures on financial assets and financial liabilities that are offset
IFRS 13	Fair Value Measurement	01/01/2013	Fair value measurement

The amendment to IAS 1 “Presentation of Financial Statements” changes the presentation in the statement of comprehensive income such that items that will be recycled to the consolidated income statement in subsequent periods are presented separately from those which will remain in other comprehensive income. Prior year information has been adjusted accordingly.

The amendments to IFRS 7 “Financial Instruments: Disclosures” result in additional disclosures about netting of financial assets and liabilities.

Schaeffler has adopted the accounting treatment required by IAS 19 (rev. 2011) starting in 2013. The new requirements of IAS 19 (rev. 2011) include replacing expected returns on plan assets and interest expense on the pension obligation by the newly introduced net interest approach. Under this approach, net interest expense or benefit to be recognized in income for the period is arrived at by multiplying the net pension obligation by the discount rate used to measure the gross pension obligation. The transition rules of IAS 19 (rev. 2011) require the amendments to the standard to be applied retrospectively. The amendments contained in IAS 19 (rev. 2011) do not significantly affect the Schaeffler Group's net income.

IFRS 13 mainly expands the note disclosures related to fair value measurements and does not have any further effect on the Schaeffler Group's earnings or its financial position or net assets.

The amendments to IAS 12 "Income Taxes" and the Annual Improvements 2011 do not significantly affect the Schaeffler Group's financial reporting.

The Schaeffler Group is not yet required to apply the following Standards and amendments to Standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2013.

No. 030

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
IAS 32	Financial Instruments: Presentation	01/01/2014	Offsetting financial assets and liabilities	none
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	01/01/2014	Amendments to disclosure of information about the recoverable amount of impaired assets that is based on fair value less costs of disposal	none
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	01/01/2014	Continuation of hedge accounting under certain circumstances	none
IFRS 10	Consolidated Financial Statements	01/01/2014	Replaces the corresponding requirements of IAS 27	none
IFRS 11	Joint Arrangements	01/01/2014	Replaces IAS 31	none
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	Disclosure of interests in other entities	Expanded disclosures regarding all investments and unconsolidated structured entities
Transition Guidance (Amendments to IFRS 10, 11 and 12)		01/01/2014	Amendments to transition guidance	none
Investment Entities (Amendments to IFRS 10, 12 and IAS 27)		01/01/2014	Definition of and requirements for investment entities	none
IAS 27	Separate Financial Statements	01/01/2014	Guidance on separate financial statements; elimination of guidance on consolidation (IFRS 10)	none
IAS 28	Investments in Associates and Joint Ventures	01/01/2014	Integration of accounting for joint ventures and relocation of disclosure requirements to IFRS 12	none

The Schaeffler Group has adopted the amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets” early. As a result of the adoption of this amendment, the Schaeffler Group has amended its recoverable amount disclosures for non-financial assets. No other Standards or amendments to Standards were applied early.
In addition, the IASB and the IFRS Interpretations Committee have issued new Standards, Interpretations, and amendments to existing Standards 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. None of these were adopted early.

No. 031

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
IFRIC 21	Levies	01/01/2014	Accounting for levies imposed by governments	none
IAS 19	Defined Benefit Plans: Employee Contributions	07/01/2014	Amendments to accounting of contributions from employees or third parties	none
Annual Improvements to IFRS 2010-2012		07/01/2014	Various improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38	none to minor
Annual Improvements to IFRS 2011-2013		07/01/2014	Various improvements to IFRS 1, IFRS 3, IFRS 13, and IAS 40	none to minor
IFRS 9	Financial Instruments	-	Accounting for financial instruments: Classification, measurement, impairment, hedge accounting	Accounting for financial instruments and changes to related disclosures [1)]
IFRS 9	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	-	Amendments to hedge accounting and accounting for financial instruments	Hedge Accounting [1)]
Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)		-	Changes to mandatory effective date and transition guidance	Date of initial application and disclosures

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

2. Principles of consolidation

2.1 Scope of consolidation

In 2013, the Schaeffler Group includes, in addition to Schaeffler AG, 158 (prior year: 159) subsidiaries; 55 (prior year: 54) companies are domiciled in Germany and 103 (prior year: 105) in other countries.

No significant changes have occurred since December 31, 2012.

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

In the consolidated financial statements as at December 31, 2013, seven (prior year: nine) investments (including three joint ventures; prior year: three) are accounted for at equity.

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

2.2 Investments in equity-accounted investees

Investments in equity-accounted investees consist almost entirely of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, which is accounted for at equity in the consolidated financial statements. The shares in Continental AG, Hanover, are held indirectly via this company. Schaeffler Beteiligungsholding GmbH & Co. KG holds 68,390,458 shares (prior year: 72,290,458 shares) or 34.19 % (prior year: 36.14 %) of the voting interest in Continental AG as at December 31, 2013.

Originally, the investment in Continental AG was held directly by Schaeffler AG. Schaeffler AG transferred these shares to Schaeffler Beteiligungsholding GmbH & Co. KG at their carrying amount on September 30, 2011 and has accounted for them as part of its equity-accounted investment in Schaeffler Beteiligungsholding GmbH & Co. KG since then.

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

No. 032

in € millions	2013	2012
Revenue (01/01 - 12/31)	33,331	32.736
Net income [1) 2)] (01/01 - 12/31)	2,010	1,990
Assets [2)] (as at 12/31)	26,821	27,450
Liabilities [2)] (as at 12/31)	17,499	19,294

[1)] Including non-controlling interests.
[2)] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

2.3 Income from at equity-accounted investees

The income from at equity-accounted investees totaling EUR 801 m (prior year: EUR 554 m) results almost entirely from measuring the investment in Continental AG (held indirectly) using the equity method. The Schaeffler Group's share of depreciation, amortization and impairments on fair value adjustments and its share of Continental AG's net income, excluding impairment losses Continental AG has recognized on goodwill but including special items realized through the purchase price allocation and net of offsetting deferred tax effects, result in income after tax of EUR 611 m. The effect on Schaeffler AG's net income is as follows:

No. 033

in € millions	2013	2012
Depreciation, amortization and impairments of fair value adjustments	-136	-237
Share of net income or loss of Continental AG	687	681
Goodwill impairment loss recognized by Continental AG	23	27
Effect before income taxes	**574**	**471**
Deferred taxes	34	66
Effect on income before special items [1)]	**608**	**537**
Special items [1)]		
• Adjustment of impairment losses on investments in associated companies	3	0
• Reversal of cash flow hedges existing at the time of the PPA	0	7
• Recognition of Continental AG pension obligations at fair value	0	9
Effect on income after special items [1)]	**611**	**553**

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

In September 2013, the Schaeffler Group sold 3.9 million shares (representing a 1.95 % interest) in Continental AG at a price of EUR 122.50 per share resulting in a gain on sale of EUR 187 m.

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

The Schaeffler Group's share of other comprehensive loss of Continental AG amounts to EUR 84 m (prior year: EUR 1 m).

In addition, an adjustment to reflect the use of uniform group wide valuation methods for pension obligations of EUR 26 m (prior year: EUR 184 m), changes in cash flow hedges of EUR 0 m (prior year: EUR 7 m), and the proportional elimination of accumulated other income (loss) of EUR 5 m (prior year: EUR 0 m) in connection with the disposal of shares in Continental AG also had a negative effect on other comprehensive income (loss).

In total, these items have decreased shareholders' equity by EUR 115 m net of tax (prior year: EUR 193 m).

In addition, Schaeffler's share of the impact of acquisitions in stages made by Continental AG has changed reserves by EUR 0 m (prior year: increase of EUR 15 m) without affecting net income.

Nature and extent of significant restrictions

Due to the improvement in its rating, Continental AG's ability to pay dividends was not restricted by debt covenants as at December 31, 2013.

Market capitalization

Based on a share price of EUR 159.40 per share (prior year: EUR 87.59 per share), the fair value of the Continental AG shares held by Schaeffler Beteiligungsholding GmbH & Co. KG (34.19 %, prior year: 36.14 %) was EUR 10,901 m (prior year: EUR 6,332 m) on December 31, 2013.

3. Notes to the consolidated income statement

3.1 Revenue

No. 034

in € millions	2013	2012
Revenue from the sale of goods	10,996	10,957
Other revenue	209	168
Total	**11,205**	**11,125**

Revenue from the sale of goods consists of sales of goods to customers net of early payment discounts. Other revenue primarily includes EUR 113 m (prior year: EUR 88 m) in revenue from services (e. g. for research and development), as well as EUR 92 m (prior year: EUR 71 m) from the sale of tools and special machines.

3.2 Other Income

No. 035

in € millions	2013	2012
Exchange gains	35	0
Reversal of provisions	1	1
Reduction of allowances	3	4
Gains on disposal of assets	3	5
Miscellaneous income	28	25
Total	**70**	**35**

Foreign exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate. The netting of foreign exchange gains and losses has resulted in a net exchange gain in 2013 which arose primarily from settled foreign exchange contracts hedging the Schaeffler Group's exposure to the U.S. Dollar.

3.3 Other expenses

No. 036

in € millions	2013	2012
Exchange losses	0	44
Increase in allowances	6	9
Losses on disposal of assets	4	4
Miscellaneous expenses	406	37
Total	**416**	**94**

The increase in miscellaneous expenses is primarily due to EUR 380 m in special items related to the ongoing EU antitrust proceedings. The proceedings relate to the investigations of possible violations of antitrust law in connection with the sale of rolling bearings for automotive applications in Europe.

3.4 Personnel expense and headcount

The number of employees at December 31, 2013 was 78,559, 3.2 % higher than the prior year level of 76,099. In 2013, the Schaeffler Group had an average of 77,359 employees (prior year: 75,893) and 532 temporary staff (prior year: 627).

No. 037

Average number of employees by region [1]	2013	2012
Europe	52,228	52,039
North America	7,656	7,087
South America	4,313	4,528
Asia/Pacific	13,162	12,239
Total	**77,359**	**75,893**

[1] Presentation based on the regional structure in effect until December 31, 2013.

No. 038

Average number of employees by functional area	2013	2012
Production	60,647	59,172
Research and development	6,039	6,098
Selling	6,023	6,047
General administration	4,650	4,576
Total	**77,359**	**75,893**

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

No. 039

in € millions	2013	2012
Wages and salaries	2,836	2,664
Social security contributions	533	521
Pensions and similar benefit expenses	76	67
Total	**3,445**	**3,252**

The increase in personnel expense in 2013 is mainly attributable to pay increases arising from local collective agreements, the targeted expansion of capacity, primarily in production and in general administration, and expenses related to personnel-related structural measures.

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

3.5 Financial Result

The Schaeffler Group's financial result improved by EUR 238 m to EUR -442 m (prior year: EUR -680 m) in 2013.
Financial result comprises financial income of EUR 217 m (prior year: EUR 23 m) and financial expenses of EUR 659 m (prior year: EUR 703 m).

No. 040

	2013		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-465	0	-465
Fair value changes and compensation payments on derivatives	-99	114	15
Foreign exchange gains and losses	0	88	88
Amortization of cash flow hedge accounting reserve	2	0	2
Interest income and expense on pensions and partial retirement obligations	-50	0	-50
Other	-47	15	-32
Total	**-659**	**217**	**-442**

	2012		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-523	0	-523
Fair value changes and compensation payments on derivatives	-6	8	2
Foreign exchange gains and losses	-10	3	-7
Amortization of cash flow hedge accounting reserve	-72	0	-72
Interest income and expense on pensions and partial retirement obligations [2]	-57	0	-57
Other	-35	12	-23
Total	**-703**	**23**	**-680**

[1] Incl. transaction costs.
[2] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.

Interest expense on financial debt of EUR 465 m (prior year: EUR 523 m) for 2013 includes interest paid and accrued on the Group's external financing arrangements of EUR 388 m (prior year: EUR 453 m) and expenses of EUR 52 m (prior year: EUR 47 m) relating to transaction costs. Interest expense on shareholder loans due to Schaeffler Verwaltungs GmbH is also included here. The decrease in interest expense compared to the prior year is primarily attributable to principal repayments and improvements in debt terms in connection with the refinancing transactions completed during the year.

Changes in the fair value of and compensation payments on derivatives resulted in net gains of EUR 15 m (prior year: EUR 2 m). The amount consists largely of favorable changes in the value of embedded derivatives and unfavorable changes in the value of cross-currency derivatives.

Net foreign exchange gains on financial assets and liabilities amounted to EUR 88 m (prior year: losses of EUR 7 m) and resulted primarily from translating financial debt denominated in U.S. Dollar into the Group's reporting currency Euro (see Note 1.3). This financial debt is hedged using cross-currency derivatives, and the resulting offsetting impact is included in "Fair value changes and compensation payments on derivatives".

Additional income of EUR 2 m (prior year: expense of EUR 72 m) arose from amortizing the cash flow hedge accounting reserve related to interest rate hedging instruments. As this income is economically related to the interest expense on the Group's financial debt, it is also presented within interest expense.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 50 m (prior year: EUR 57 m). See Note 4.11 for further detail on pensions.

Other items generated net expenses of EUR 32 m (prior year: EUR 23 m).

3.6 Income from at equity-accounted investees

The 2013 income from at equity-accounted investees of EUR 801 m (prior year: EUR 554 m) relates almost entirely to the investment in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG.

See Note 4.3 for details of the change in investments in equity-accounted investees.

3.7 Income taxes

Income taxes consist of the following:

No. 041

in € millions	2013	2012
Current income taxes	317	383
Deferred income taxes [1]	152	22
Income taxes [1]	**469**	**405**

[1] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

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

The average domestic tax rate for corporations was 28.1 % in 2013 (prior year: 27.9 %). This tax rate consists of corporation tax, including the solidarity surcharge, of 15.9 % (prior year: 15.9 %) as well as the average trade tax rate of 12.2 % (prior year: 12.0 %). Partnerships located in Germany are only subject to trade tax.

Current income tax benefit related to prior years amounts to EUR 23 m (prior year: expense of EUR 12 m) in 2013. In 2013, Schaeffler incurred EUR 49 m in deferred tax expense related to prior years (prior year: EUR 0 m).

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

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expense to income tax expense as reported in the consolidated income statement. The calculation for 2013 is based on the Schaeffler Group's 28.0 % (prior year: 28.0 %) effective combined trade and corporation tax rate including solidarity surcharge.

No. 042

in € millions	2013	2012
Net income before tax [1]	1,341	1,287
Expected tax expense [1]	**376**	**360**
Addition/reduction due to deviating local tax bases	7	10
Foreign/domestic tax rate differences	-6	-5
Change in tax rate and law	-1	0
Non-recognition of deferred tax assets	38	-1
Non-deductible expenses	247	196
Income (loss) from at equity-accounted investees	-224	-154
Taxes for previous years	26	12
Other	6	-13
Reported tax expense [1]	**469**	**405**

[1] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

Non-deductible expenses consist mainly of interest expense that is not tax deductible because of the interest deduction cap rules in Germany. As it is unlikely that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on these carryforwards. Non-deductible expenses also include special items related to the ongoing investigations of the EU antitrust authorities (see Notes 3.3 and 4.12) that are not tax deductible.

The income from at equity-accounted investees included in consolidated net income (see Notes 2.2 and 3.6) resulted in a reconciling item of EUR 224 m (prior year: EUR 154 m).

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

No. 043

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Advance payments	Total
Historical cost					
Balance as at January 01, 2012	**483**	**1,002**	**221**	**0**	**1,706**
Additions	0	22	13	0	35
Disposals	0	-7	0	0	-7
Transfers	0	0	2	0	2
Foreign currency translation	0	0	0	0	0
Balance as at December 31, 2012	**483**	**1,017**	**236**	**0**	**1,736**
Balance as at January 01, 2013	**483**	**1,017**	**236**	**0**	**1,736**
Additions	0	10	8	0	18
Disposals	0	-17	0	0	-17
Transfers	0	0	0	0	0
Foreign currency translation	0	-2	0	0	-2
Balance as at December 31, 2013	**483**	**1,008**	**244**	**0**	**1,735**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2012	**0**	**986**	**167**	**0**	**1,153**
Depreciation	0	14	22	0	36
Disposals	0	-7	0	0	-7
Transfers	0	0	0	0	0
Foreign currency translation	0	0	0	0	0
Balance as at December 31, 2012	**0**	**993**	**189**	**0**	**1,182**
Balance as at January 01, 2013	**0**	**993**	**189**	**0**	**1,182**
Depreciation	0	11	23	0	34
Disposals	0	-17	0	0	-17
Transfers	0	0	0	0	0
Foreign currency translation	0	-2	0	0	-2
Balance as at December 31, 2013	**0**	**985**	**212**	**0**	**1,197**
Net carrying amounts					
As at January 01, 2012	**483**	**16**	**54**	**0**	**553**
As at December 31, 2012	**483**	**24**	**47**	**0**	**554**
As at January 01, 2013	**483**	**24**	**47**	**0**	**554**
As at December 31, 2013	**483**	**23**	**32**	**0**	**538**

At the end of 2013, intangible assets purchased from third parties have a net carrying amount of EUR 23 m (prior year: EUR 24 m). Additions totaled EUR 10 m (prior year: EUR 22 m) in 2013.

Capitalized development costs included in internally generated intangible assets decreased to EUR 11 m (prior year: EUR 21 m) as a result of EUR 10 m (prior year: EUR 11 m) in amortization in 2013.

Internally generated intangible assets include EUR 21 m (prior year: EUR 26 m) in internally generated software, mainly relating to the implementation of ERP systems. In 2013, additions and transfers of EUR 8 m (prior year: EUR 15 m) are offset by amortization of EUR 13 m (prior year: EUR 11 m).

Amortization of internally generated intangible assets totaling EUR 34 m (prior year: EUR 36 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 10 m (prior year: EUR 12 m), research and development expenses EUR 5 m (prior year: EUR 5 m), selling expenses EUR 3 m (prior year: EUR 5 m), and administrative expenses EUR 16 m (prior year: EUR 14 m).

Internally generated intangible assets with a carrying amount of EUR 5 m (prior year: EUR 7 m) are not yet subject to amortization. They relate to ongoing projects for internally generated software.

Research and development expenses of EUR 611 m (prior year: EUR 593 m) were recognized in profit or loss in 2013.

Goodwill

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

The Schaeffler Group tests its goodwill for impairment at least annually using the approach described under Note 1.3. The key assumption underlying the forecast are sustainable growth rates for the Automotive segment which are higher than the assumed performance of the market as a whole. Similarly, the Schaeffler Group is expecting stable growth rates for the Industrial segment. The forecast takes into account programs aimed at sustainably increasing efficiency across all costs, enabling the Schaeffler Group to maintain its EBITDA margin (ratio of earnings before financial result, income from at equity-accounted investees, income taxes, depreciation, amortization, and impairment losses to revenue) at its current level in the coming years.

For purposes of determining the recoverable amount, cash flows beyond the detailed forecasting horizon of 2016 are based on an annual growth rate of 1.0 % (prior year: 0.5 %) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 14.64 % (prior year: 15.03 %) as the weighted average cost of capital for the Automotive segment and 14.68 % (prior year: 15.25 %) for the Industrial segment. This corresponds to a post-tax interest rate of 10.15 % for the Automotive segment (prior year: 10.29 %) and 10.11 % for the Industrial segment (prior year: 10.43 %).

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

As the value in use of the cash-generating units exceeds their carrying amount both for 2013 and the prior year, they are not impaired. Even adjusting an assumption underlying the forecasted cash flows, e. g. by reducing forecasted EBIT by 15 % or increasing the cost of capital by 5 % does not result in an impairment loss.

4.2 Property, plant and equipment

No. 044

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2012	**2,088**	**5,971**	**846**	**509**	**9,414**
Additions	71	428	73	220	792
Additions from first consolidation of subsidiaries	0	0	0	0	0
Disposals	-8	-133	-40	-6	-187
Transfers	54	283	6	-345	-2
Foreign currency translation	-3	-39	-1	-2	-45
Balance as at December 31, 2012	**2,202**	**6,510**	**884**	**376**	**9,972**
Balance as at January 01, 2013	**2,202**	**6,510**	**884**	**376**	**9,972**
Additions	31	202	62	260	555
Additions from first consolidation of subsidiaries	3	4	5	1	13
Disposals	-10	-125	-54	-4	-193
Transfers	20	205	9	-234	0
Foreign currency translation	-37	-146	-15	-10	-208
Balance as at December 31, 2013	**2,209**	**6,650**	**891**	**389**	**10,139**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2012	**996**	**4,394**	**682**	**14**	**6,086**
Depreciation	72	442	68	0	582
Additions from first consolidation of subsidiaries	0	0	0	0	0
Impairments	0	0	0	0	0
Impairment reversals	-2	0	0	-14	-16
Disposals	-3	-120	-38	0	-161
Transfers	0	5	-5	0	0
Foreign currency translation	-2	-32	0	0	-34
Balance as at December 31, 2012	**1,061**	**4,689**	**707**	**0**	**6,457**
Balance as at January 01, 2013	**1,061**	**4,689**	**707**	**0**	**6,457**
Depreciation	74	466	73	0	613
Additions from first consolidation of subsidiaries	1	2	3	0	6
Impairments	0	0	0	5	5
Impairment reversals	0	0	0	0	0
Disposals	-6	-120	-51	0	-177
Transfers	0	2	-2	0	0
Foreign currency translation	-15	-107	-12	0	-134
Balance as at December 31, 2013	**1,115**	**4,932**	**718**	**5**	**6,770**
Net carrying amounts					
As at January 01, 2012	**1,092**	**1,577**	**164**	**495**	**3,328**
As at December 31, 2012	**1,141**	**1,821**	**177**	**376**	**3,515**
As at January 01, 2013	**1,141**	**1,821**	**177**	**376**	**3,515**
As at December 31, 2013	**1,094**	**1,718**	**173**	**384**	**3,369**

At EUR 555 m (prior year: EUR 792 m), additions to property, plant and equipment for 2013 were below the prior year level.

Investment in property, plant and equipment focused on Germany, China, Korea and India, Slovakia, Hungary, and the U.S.

Impairment losses of EUR 16 m recognized in 2008 and 2009 on a then incomplete building at the plant in Yinchuan, China, were reversed in 2012 as the production building has since been put into operation. In the consolidated income statement, the reversal is included in cost of sales. In 2013, cost of sales includes an impairment loss of EUR 5 m related to a currently unused production building in Brazil.

At December 31, 2013, property, plant and equipment was not pledged as collateral for bank loans (prior year: EUR 9 m).

4.3 Investments in equity-accounted investees

No. 045

in € millions	12/31/2013	12/31/2012
Schaeffler Beteiligungsholding GmbH & Co. KG	5,081	5,037
Other	4	3
Total	**5,085**	**5,040**

The increase in the carrying amount of the investment in Schaeffler Beteiligungsholding GmbH & Co. KG is almost entirely the result of accounting for the interest in Continental AG, which is held indirectly, using the equity method. The increase in the carrying amount of EUR 501 m from accounting for the investment at equity during the year was partially offset by decreases of EUR 294 m from the disposal of shares and EUR 163 m related to the Continental AG dividend.

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

At December 31, 2013, the investment in Schaeffler Beteiligungsholding GmbH & Co. KG of EUR 5,081 m (prior year: EUR 5,037 m) was pledged as collateral for bank loans.

4.4 Deferred tax assets and liabilities

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

No. 046

	12/31/2013		12/31/2012	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	1	-12	2	-16
Property, plant and equipment	78	-129	70	-139
Financial assets	4	-35	1	-21
Inventories	76	-5	75	-5
Trade receivables and other assets	53	-122	41	-69
Provisions for pensions and similar obligations	267	-87	246	-43
Other provisions and other liabilities	179	-204	175	-96
Loss carryforwards	16	0	24	0
Other	2	-6	4	-4
Deferred taxes (gross)	**676**	**-600**	**638**	**-393**
Netting	-446	446	-274	274
Deferred taxes, net	**230**	**-154**	**364**	**-119**

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 2013, the Schaeffler Group used an average trade tax rate of 12.2 % (prior year: 12.0 %) and a combined tax rate of 28.1 % (prior year: 27.9 %) including corporation tax, solidarity surcharge, and trade tax, and the applicable local tax rates were used for foreign entities.

In 2013, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 18 m (prior year: EUR 12 m). Recovery of deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2013, Schaeffler had gross loss carryforwards of EUR 158 m (prior year: EUR 152 m) for corporation tax and EUR 319 m (prior year: EUR 28 m) for trade tax, including EUR 107 m (prior year: EUR 89 m) in corporation tax losses and EUR 294 m (prior year: EUR 5 m) in trade tax losses for which no deferred taxes have been recognized.

In addition, the group had gross carryforwards under the interest deduction cap, net of prior year adjustments, of EUR 766 m (prior year: EUR 683 m) at the end of the reporting period. These carryforwards have not been recognized as defferred tax asset since it is not probable that these carryforwards will be utilized in the foreseeable future. As a result, a potential loss of the interest carryforwards as a result of an internal reorganization of the group structure in 2012 would not have a material impact. Interest expense of EUR 110 m was not tax deductible in 2013 because of the interest deduction cap. The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred taxes have been recognized on EUR 3,420 m (prior year: EUR 3,320 m) in undistributed profits of certain subsidiaries as distribution of these profits is not intended. Instead, these profits are continually reinvested.

At December 31, 2013, the cumulative amount of deferred taxes recognized in accumulated other comprehensive income is EUR 158 m (prior year: EUR 194 m) and mainly relates to derivatives and pensions and similar obligations.

4.5 Inventories

No. 047

in € millions	12/31/2013	12/31/2012
Raw materials and supplies	294	304
Work in progress	399	386
Finished goods and merchandise	840	801
Advance payments	3	4
Total	**1,536**	**1,495**

Inventories of EUR 7,877 m (prior year: EUR 7,698 m) were recognized in cost of sales in the consolidated income statement during the reporting period 2013.

In 2013, Schaeffler recognized a valuation allowance of EUR 217 m (prior year: EUR 209 m) on inventories. All identifiable risks were taken into account in determining the valuation allowance to write down inventories to net realizable value.

4.6 Trade receivables

No. 048

in € millions	12/31/2013	12/31/2012
Trade receivables	1,676	1,626

Trade receivables are classified as current.

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

No. 049

in € millions	12/31/2013	12/31/2012
Impairment allowances as at January 01	**23**	**18**
Additions	6	9
Allowances used to cover write-offs	-3	-1
Reversals	-3	-3
Impairment allowances as at December 31	**23**	**23**

Trade receivables past due are summarized as follows:

No. 050

in € millions		12/31/2013	12/31/2012
Carrying amount		**1,676**	**1,626**
Not past due		**1,572**	**1,513**
Past due	up to 60 days	91	101
	61 - 120 days	8	6
	121 - 180 days	3	2
	181 - 360 days	1	2
	> 360 days	1	2

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

No. 051

		Past due			
in € millions	up to 60 days	61–120 days	121–180 days	181–360 days	> 360 days
December 31, 2013					
Gross	92	11	5	4	14
Impairment allowance	1	3	2	3	13
Net	**91**	**8**	**3**	**1**	**1**
December 31, 2012					
Gross	102	9	5	6	13
Impairment allowance	1	3	3	4	11
Net	**101**	**6**	**2**	**2**	**2**

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

At December 31, 2013, trade receivables of EUR 862 m (prior year: EUR 788 m) were pledged as collateral for bank loans.

Please refer to Note 5.5 for related party receivables.

4.7 Other financial assets, other assets, and income tax receivables

No. 052

in € millions	12/31/2013	12/31/2012
Other financial assets	325	197
Other assets	200	184
Income tax receivables	154	124

At December 31, 2013, income tax receivables amount to EUR 154 m (prior year: EUR 124 m), including non-current balances of EUR 12 m (prior year: EUR 17 m).

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

No. 053

in € millions	12/31/2013 Non-current	12/31/2013 Current	12/31/2013 Total	12/31/2012 Non-current	12/31/2012 Current	12/31/2012 Total
Other financial assets						
Loans receivable and financial receivables	7	0	7	17	0	17
Marketable securities	9	0	9	6	0	6
Derivative financial assets	189	60	249	67	47	114
Miscellaneous financial assets	1	59	60	1	59	60
Total	**206**	**119**	**325**	**91**	**106**	**197**
Other assets						
Pension asset	42	0	42	46	0	46
Tax receivables	1	116	117	2	87	89
Miscellaneous assets	16	25	41	11	38	49
Total	**59**	**141**	**200**	**59**	**125**	**184**

Non-current derivative financial assets consist of derivatives embedded in the SFA (Syndicated Senior Term Loan and Revolving Credit Facilities Agreement). The current portion of derivative financial assets represents fair values of derivatives the Schaeffler Group uses to economically hedge currency risk.

Current miscellaneous financial assets consist largely of amounts due from employees, claims for damages, and deposits paid.

Current and non-current miscellaneous assets mainly include downpayments made.

Default risk primarily affects other financial assets and is reflected in appropriate impairment allowances amounting to EUR 1 m (prior year: EUR 1 m) at December 31, 2013.

At December 31, 2013, other financial assets, other assets, and income tax receivables totaling EUR 89 m (prior year: EUR 82 m) were pledged as collateral for bank loans.

4.8 Cash and cash equivalents

At December 31, 2013, cash and cash equivalents amount to EUR 300 m (prior year: EUR 433 m) and primarily consist of bank balances.

At December 31, 2013, cash and cash equivalents of EUR 36 m (prior year: EUR 147 m) were pledged as collateral for bank loans.

4.9 Shareholders' equity

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

No. 054

in € millions	12/31/2013	12/31/2012
Share capital	500	500
Reserves [1]	2,643	2,027
Accumulated other comprehensive income (loss) [1]	-709	-479
Equity attributable to shareholders of the parent company	**2,434**	**2,048**
Non-controlling interests	57	60
Total shareholders' equity	**2,491**	**2,108**

[1] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

Schaeffler AG's share capital ("Grundkapital") remains at EUR 500,025,000 at December 31, 2013. It is divided into 500,025,000 registered no-par-value shares (prior year: 500,025,000 no-par-value shares), all of which are held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up, Schaeffler AG has no authorized or contingent capital, and there are no resolutions with respect to these types of capital.

Schaeffler AG's annual general meeting in March 2013 resolved to pay a dividend of EUR 250 m (or EUR 0.50 per share) for the year 2012. In December 2013, Schaeffler Verwaltungs GmbH waived its right to receive EUR 15 m of the dividend, increasing reserves by the same amount. The remaining liability resulting from the declaration of the dividend has increased the loan payable by Schaeffler AG to Schaeffler Verwaltungs GmbH by EUR 235 m to EUR 437 m (see Note 4.10).

A dividend for 2013 of EUR 250 m will be proposed to the annual general meeting.

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

No. 055

	Accumulated other comprehensive income (loss) [1]				Subtotal	Non-controlling interests	Total
in € millions	Translation reserve	Hedging reserve	Fair value reserve	Reserve for actuarial gains and losses			
2012							
Foreign currency translation differences for foreign operations	-35				-35	-4	-39
Net gain on hedge of net investment in foreign operations	2				2		2
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		37			37		37
Net changes in fair value of cash flow hedging instruments reclassified to profit or loss, net of tax		92			92		92
Net changes in fair value of available-for-sale financial assets, net of tax			1		1		1
Defined benefit plan actuarial losses, net of tax				-236	-236		-236
Effects of equity-accounted investees	-10		1	-184	-193		-193
Total other comprehensive income (loss), net of tax	**-43**	**129**	**2**	**-420**	**-332**	**-4**	**-336**
Change in accounting policy – IAS 19 (rev. 2011)				3	3		3
Total other comprehensive income (loss), net of tax after IAS 19 (rev. 2011) adjustments	**-43**	**129**	**2**	**-417**	**-329**	**-4**	**-333**
2013							
Foreign currency translation differences for foreign operations	-174				-174	-9	-183
Net gain on hedge of net investment in foreign operations	35				35		35
Effective portion of changes in fair value of cash flow hedging instruments, net of tax		-13			-13		-13
Net changes in fair value of cash flow hedging instruments reclassified to profit or loss, net of tax		9			9		9
Net changes in fair value of available-for-sale financial assets, net of tax			-1		-1		-1
Defined benefit plan actuarial gains, net of tax				15	15		15
Effects of equity-accounted investees	-185			70	-115		-115
Total other comprehensive income (loss), net of tax	**-324**	**-4**	**-1**	**85**	**-244**	**-9**	**-253**

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

The following is a discussion of the various reserves:

(1) Translation reserve

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

(2) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. Other comprehensive income includes EUR -13 m (prior year: EUR 37 m) in fair value changes of hedging instruments and EUR 9 m (prior year: EUR 92 m) that were reclassified to profit or loss when realized (gross: EUR 13 m, deferred tax: EUR -4 m; prior year: gross: EUR 128 m, deferred tax: EUR -36 m).

(3) 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.

(4) Reserve for actuarial gains and losses

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

Non-controlling interests represent interests in the equity of consolidated subsidiaries held by third parties. Other comprehensive income of non-controlling interests relates to currency translation (EUR -9 m; prior year: EUR -4 m).

4.10 Current and non-current financial debt

No. 056

in € millions	12/31/2013 Total	12/31/2013 Due in up to 1 year	12/31/2013 Due in more than 1 year	12/31/2012 Total	12/31/2012 Due in up to 1 year	12/31/2012 Due in more than 1 year
Financial debt	**6,190**	225	5,965	**7,261**	121	7,140

At December 31, 2013, the Schaeffler Group had financial debt of EUR 6,190 m (prior year: EUR 7,261 m), consisting of EUR 5,965 m (prior year: EUR 7,140 m) in non-current financial debt and EUR 225 m (prior year: EUR 121 m) in current financial debt, both accounted for at amortized cost.

The refinancing arrangements completed and bonds issued in 2013 significantly affected the Schaeffler Group's financial debt. At December 31, 2013, the company's debt consists of three loan tranches with a total principal equivalent to approximately EUR 2,260 m obtained from banks and institutional investors (Syndicated Senior Term Loan and Revolving Credit Facilities Agreement; SFA) as well as seven bond issues totaling the equivalent of approximately EUR 3,540 m.

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

No. 057

Tranche	Currency	Face value in millions 12/31/2013	Face value in millions 12/31/2012	Carrying amount in € millions 12/31/2013	Carrying amount in € millions 12/31/2012	Coupon 12/31/2013	Coupon 12/31/2012	Maturity
Senior Term Loan B1	EUR	-	504	-	501	-	Euribor + 4.75 %	-
Senior Term Loan C [1]	EUR	299	525	292	510	Euribor + 3.75 % [2]	Euribor + 5.00 %	01/27/2017
Senior Term Loan C [3]	USD	1,699	1,500	1,213	1,120	Libor + 3.25 % [4]	Libor + 4.75 %	01/27/2017
Senior Term Loan D [5]	EUR	730	2,446	713	2,410	Euribor + 2.875 % [6]	Euribor + 4.00 %	06/30/2016
Revolving Credit Facility [7]	EUR	1,000	1,000	-9	-10	Euribor + 2.875 % [6]	Euribor + 4.00 %	06/30/2016

[1] Since March 18, 2013, previously Senior Term Loan B2 EUR.
[2] Euribor floor of 1.00 % (December 31, 2012: 1.50 %).
[3] Since March 18, 2013, previously Senior Term Loan B2 USD.
[4] Libor floor of 1.00 % (December 31, 2012: 1.25 %).
[5] Since April 22, 2013, previously Senior Term Loan A.
[6] Since November 21, 2013 (December 31, 2012: 4.00 %).
[7] EUR 49 m (December 31, 2012: EUR 57 m) were drawn down as at December 31, 2013, primarily in the form of letters of credit.

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

No. 058

		12/31/2013	12/31/2013	12/31/2012		
ISIN	Currency	Face value in millions	Carrying amount in € millions		Coupon	Maturity
XS0741938624	EUR	800	788	785	7.75 %	02/15/2017
US806261AC75	USD	600	428	446	7.75 %	02/15/2017
XS0801261156	EUR	326	323	322	6.75 %	07/01/2017
XS0923613060	EUR	600	595	-	4.25 %	05/15/2018
XS0741939788	EUR	400	398	398	8.75 %	02/15/2019
US806261AA10	USD	500	361	378	8.50 %	02/15/2019
US806261AE32	USD	850	612	-	4.75 %	05/15/2021

The differences between face value and carrying amount represent unamortized transaction costs. The carrying value of the revolving credit facility consists entirely of unamortized transaction costs.
Other financial liabilities (Note 4.14) also include EUR 71 m (prior year: EUR 64 m) in bond interest accrued up to December 31, 2013.

In addition, financial debt also includes a shareholder loan granted by Schaeffler Verwaltungs GmbH to Schaeffler AG with a carrying amount of EUR 437 m (prior year: EUR 287 m) as well as a loan due from INA Beteiligungsverwaltungs GmbH to Schaeffler Holding GmbH & Co. KG with a carrying amount of EUR 6 m (prior year: EUR 36 m).

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

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

4.11 Provisions for pensions and similar obligations

The post-employment benefits provided by the Schaeffler Group to its employees include both defined benefit plans and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit pension plans are reflected in the statement of financial position. Provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans

The Schaeffler Group grants its employees various types of pension benefits.

The defined benefit pension obligations largely cover beneficiaries in Germany and most of them are unfunded. These obligations include individual contractual pension commitments made to members of management as well as additional general pension promises. The type and amount of these promises are governed by the related pension schemes. Amounts are calculated based on years of service and salary levels.

The Schaeffler Group also has 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, but not before the employee has reached the age of 60, either in full or in installments. Deferred compensation is invested in specific funds with restricted access.

Additional significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2013, approximately 89 % (prior year: 88 %) of pension obligations in the U.S. and the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom), respectively, and no further benefits are earned.

The company has also introduced pension plans in other countries based on local legal requirements.

Obligations similar to pensions reflect commitments of Canadian subsidiaries to provide medical benefits. The closed plans are being wound down and the remaining net obligations taken together are not material to the consolidated financial statements.

Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented in the statement of financial position as at December 31, 2013 as follows:

No. 059

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	1,398	38	5	75	1,516
Provisions for obligations similar to pensions	0	0	0	0	0
Provisions for pensions and similar obligations	**1,398**	**38**	**5**	**75**	**1,516**
Pension asset (plan assets net of related liabilities)	34	0	8	0	42
Net defined benefit obligation	**1,364**	**38**	**-3**	**75**	**1,474**

	12/31/2012				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	1,386	70	2	95	1,553
Provisions for obligations similar to pensions	0	0	0	0	0
Provisions for pensions and similar obligations	**1,386**	**70**	**2**	**95**	**1,553**
Pension asset (plan assets net of related liabilities)	31	0	15	0	46
Net defined benefit obligation	**1,355**	**70**	**-13**	**95**	**1,507**

The defined benefit obligation and plan assets as at December 31, 2013 amounts to the following:

No. 060

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	693	62	0	177	932
Present value of defined benefit obligation (deferred members)	115	31	102	8	256
Present value of defined benefit obligation (pensioners)	750	72	51	37	910
Present value of defined benefit obligations (total)	**1,558**	**165**	**153**	**222**	**2,098**
Fair value of plan assets	194	127	156	150	627
Change due to asset ceiling	0	0	0	-3	-3
Net pension obligation recognized in the statement of financial position	**1,364**	**38**	**-3**	**75**	**1,474**
Other employee benefits similar to pensions	0	0	0	0	0
Net defined benefit obligation	**1,364**	**38**	**-3**	**75**	**1,474**

	12/31/2012				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	688	75	0	179	942
Present value of defined benefit obligation (deferred members)	82	38	94	7	221
Present value of defined benefit obligation (pensioners)	754	77	52	41	924
Present value of defined benefit obligations (total)	**1,524**	**190**	**146**	**227**	**2,087**
Fair value of plan assets	169	120	159	132	580
Change due to asset ceiling	0	0	0	0	0
Net pension obligation recognized in the statement of financial position	**1,355**	**70**	**-13**	**95**	**1,507**
Other employee benefits similar to pensions	0	0	0	0	0
Net defined benefit obligation	**1,355**	**70**	**-13**	**95**	**1,507**

The net defined benefit liability as at December 31, 2013 can be reconciled as follows:

No. 061

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability/asset as at January 01, 2012	**1,038**	**58**	**-1**	**77**	**1,172**
Benefits paid	-58	-1	0	-6	-65
Service cost	20	1	0	15	36
Net interest on net defined benefit liability [1)]	49	2	0	4	55
Employer contributions	0	-9	-5	-4	-18
Employee contributions	0	1	0	0	1
Transfers in/out	0	1	0	0	1
Remeasurement of net defined benefit liability [1)]	306	18	-7	8	325
Changes in foreign exchange rates	0	-1	0	1	0
Net defined benefit liability/asset as at December 31, 2012	**1,355**	**70**	**-13**	**95**	**1,507**
Net defined benefit liability/asset as at January 01, 2013	**1,355**	**70**	**-13**	**95**	**1,507**
Benefits paid	-58	0	0	-7	-65
Service cost	32	0	0	13	45
Net interest on net defined benefit liability [1)]	45	2	-1	4	50
Employer contributions	-9	-3	0	-23	-35
Employee contributions	0	0	0	0	0
Transfers in/out	0	2	0	0	2
Remeasurement of net defined benefit liability [1)]	-2	-30	11	-4	-25
Changes in foreign exchange rates	1	-3	0	-3	-5
Net defined benefit liability/asset as at December 31, 2013	**1,364**	**38**	**-3**	**75**	**1,474**

[1)] Prior year amount restated for initial application of IAS 19 (rev. 2011): Net interest on net defined benefit liability for 2012 has been reduced by EUR 4 m and remeasurement of net defined benefit liability for 2012 has been increased by EUR 4 m.

Funding requirements for defined benefit plans are generally met from operating cash flow, taking into account any local legal funding requirements regarding the pension obligation.

Movements in defined benefit obligation

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

No. 062

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01, 2012	**1,188**	**166**	**137**	**190**	**1,681**
Benefits paid	-61	-8	-4	-14	-87
Current service cost	20	1	0	12	33
Past service cost	0	0	0	3	3
Interest cost	57	7	7	9	80
Employee contributions	8	1	0	1	10
Gains (-) / losses – changes in financial assumptions	310	18	9	24	361
Gains (-) / losses – changes in demographic assumptions	0	8	6	-1	13
Gains (-) / losses – experience adjustments	1	0	-12	-1	-12
Changes in foreign exchange rates	1	-3	3	4	5
Present value of defined benefit obligations as at December 31, 2012	**1,524**	**190**	**146**	**227**	**2,087**
Present value of defined benefit obligations as at January 01, 2013	**1,524**	**190**	**146**	**227**	**2,087**
Benefits paid	-61	-7	-4	-14	-86
Current service cost	31	0	0	13	44
Past service cost	1	0	0	0	1
Interest cost	52	7	6	8	73
Employee contributions	9	1	0	1	11
Gains (-) / losses – changes in financial assumptions	1	-23	8	-8	-22
Gains (-) / losses – changes in demographic assumptions	0	5	0	0	5
Gains (-) / losses – experience adjustments	1	0	0	5	6
Changes in foreign exchange rates	0	-8	-3	-10	-21
Present value of defined benefit obligations as at December 31, 2013	**1,558**	**165**	**153**	**222**	**2,098**

Movements in and types of plan assets

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

No. 063

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01, 2012	**150**	**108**	**138**	**113**	**509**
Benefits paid	-3	-7	-4	-8	-22
Interest income on plan assets	8	5	7	5	25
Employee contributions	8	0	0	1	9
Employer contributions	0	9	5	4	18
Transfers in/out	0	-1	0	0	-1
Return on plan assets excluding interest income [1]	5	8	10	14	37
Impact of asset ceiling	0	0	0	0	0
Changes in foreign exchange rates	1	-2	3	3	5
Fair value of plan assets as at December 31, 2012	**169**	**120**	**159**	**132**	**580**
Fair value of plan assets as at January 01, 2013	**169**	**120**	**159**	**132**	**580**
Benefits paid	-3	-7	-4	-7	-21
Interest income on plan assets	7	5	7	4	23
Employee contributions	9	1	0	1	11
Employer contributions	9	3	0	23	35
Transfers in/out	0	-2	0	0	-2
Return on plan assets excluding interest income [1]	4	12	-3	4	17
Impact of asset ceiling	0	0	0	-3	-3
Changes in foreign exchange rates	-1	-5	-3	-7	-16
Fair value of plan assets as at December 31, 2013	**194**	**127**	**156**	**147**	**624**

[1] Prior year amount restated for initial application of IAS 19 (rev. 2011): Interest income has been reduced by EUR 4 m and return on plan assets excluding interest income has been increased by EUR 4 m.

In 2013, for the first time, the recognized plan assets of a Canadian pension plan were limited to the amount of the defined benefit obligation, representing the present value of the economic benefits of the plan assets to the Schaeffler Group as at the reporting date (asset ceiling). As a result, plan assets of this plan were reduced by EUR 3 m in 2013.

The actual return on plan assets for 2013 amounts to EUR 40 m (prior year: EUR 62 m). The Schaeffler Group expects to make contributions to plan assets of EUR 21 m (prior year: EUR 25 m) in 2014.

Plan assets before application of the asset ceiling consist of the following:

No. 064

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Equity instruments	87	77	41	24	229
Debt instruments	31	46	56	69	202
Real estate	0	4	0	12	16
Cash	21	0	59	2	82
(Reimbursement) insurance policies	55	0	0	43	98
Other (incl. reimbursement insurance)	0	0	0	0	0
Total	**194**	**127**	**156**	**150**	**627**

	12/31/2012				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Equity instruments	52	71	33	39	195
Debt instruments	48	45	126	37	256
Real estate	0	4	0	12	16
Cash	23	0	0	3	26
(Reimbursement) insurance policies	46	0	0	40	86
Other (incl. reimbursement insurance)	0	0	0	1	1
Total	**169**	**120**	**159**	**132**	**580**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset liability studies are prepared at regular intervals for the funded defined benefit plans in the United Kingdom and in the U.S., and the investment policy of each fund is based on the applicable study and any local legal requirements.

Comprehensive income

The following summarizes the various amounts recognized in comprehensive income for defined benefit plans:

No. 065

	2013					2012				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	31	0	0	13	44	20	1	0	12	33
Past service cost	1	0	0	0	1	0	0	0	3	3
• plan amendments	1	0	0	0	1	0	0	0	3	3
Service cost	**32**	**0**	**0**	**13**	**45**	**20**	**1**	**0**	**15**	**36**
Interest cost	52	7	6	8	73	57	7	7	9	80
Interest income [1]	-7	-5	-7	-4	-23	-8	-5	-7	-5	-25
Net interest on net defined benefit liability/asset	**45**	**2**	**-1**	**4**	**50**	**49**	**2**	**0**	**4**	**55**
Gains (-)/losses – changes in financial assumptions	1	-23	8	-8	-22	310	18	9	24	361
Gains (-)/losses – changes in demographic assumptions	0	5	0	0	5	0	8	6	-1	13
Gains (-)/losses – experience adjustments	1	0	0	5	6	1	0	-12	-1	-12
Return on plan assets excluding interest income [1]	-4	-12	3	-4	-17	-5	-8	-10	-14	-37
Impact of asset ceiling	0	0	0	3	3	0	0	0	0	0
Remeasurements of net defined benefit liability/asset	**-2**	**-30**	**11**	**-4**	**-25**	**306**	**18**	**-7**	**8**	**325**
Total comprehensive income on defined benefit obligations	**75**	**-28**	**10**	**13**	**70**	**375**	**21**	**-7**	**27**	**416**

[1] Prior year amount restated for initial application of IAS 19 (rev. 2011): Net interest on net defined benefit liability for 2012 has been reduced by EUR 4 m and remeasurement of net defined benefit liability for 2012 has been increased by EUR 4 m.

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

No. 066

	2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	17	0	0	7	24
Research and development expenses	5	0	0	1	6
Selling expenses	3	0	0	1	4
Administrative expenses	7	0	0	4	11
Included in EBIT	**32**	**0**	**0**	**13**	**45**
Interest expense	52	7	6	8	73
Interest income on plan assets	-7	-5	-7	-4	-23
Included in financial result	**45**	**2**	**-1**	**4**	**50**
Total	**77**	**2**	**-1**	**17**	**95**

	2012				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	10	0	0	10	20
Research and development expenses	4	0	0	1	5
Selling expenses	1	0	0	3	4
Administrative expenses	5	1	0	1	7
Included in EBIT	**20**	**1**	**0**	**15**	**36**
Interest expense	57	7	7	9	80
Interest income on plan assets	-8	-5	-7	-5	-25
Included in financial result	**49**	**2**	**0**	**4**	**55**
Total	**69**	**3**	**0**	**19**	**91**

Duration

The weighted average duration of defined benefit obligations is 15.4 years (prior year: 16.1 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 15.6 years (prior year: 16.0 years), 11.0 years (prior year: 14.2 years), and 23.6 years (prior year: 23.0 years), respectively.

Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

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

No. 067

	2013				
	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	3.5 %	4.8 %	4.5 %	3.8 %	**3.7 %**
Future salary increases	3.3 %	n.a. [1]	n.a. [1]	3.3 %	**3.3 %**
Future pension increases	1.8 %	1.3 %	3.2 %	1.1 %	**1.9 %**

	2012				
	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	3.5 %	3.8 %	4.5 %	3.4 %	**3.6 %**
Future salary increases	3.3 %	n.a. [1]	n.a. [1]	3.3 %	**3.3 %**
Future pension increases	1.8 %	2.5 %	3.0 %	1.2 %	**1.8 %**

[1] The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Mortality assumptions are based on published statistics and country-specific mortality tables. The “RICHTTAFELN 2005 G” mortality tables developed by Professor Dr Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which include appropriate assumptions to take into account future increases in life expectancy in particular.

Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions. The calculation does not take into account correlations between the various assumptions.

In accordance with IAS 19.173, prior year amounts are omitted, as this information is disclosed for the first time.

No. 068

		2013				
		Change in present value of defined benefit obligation				
in € millions		Germany	U.S.A.	United Kingdom	Other countries	**Total**
Discount rate	Plus 1.0 %	-209	-18	-32	-22	**-281**
	Minus 1.0 %	270	22	44	36	**372**
Future salary increases	Plus 1.0 %	147	n.a. [1]	n.a. [1]	16	**163**
	Minus 1.0 %	-131	n.a. [1]	n.a. [1]	-10	**-141**
Future pension increases	Plus 1.0 %	25	0	19	12	**56**
	Minus 1.0 %	-30	0	-16	-34	**-80**

[1] The pension plans in the U.S. and in the United Kingdom have been closed since 2006 and 2009, respectively, and structured such that future salary increases will not affect the amount of the net liability.

Another key parameter in the measurement of the Schaeffler Group's pension obligations is life expectancy. An increase in life expectancy in the most significant countries by one year would lead to an increase in the present value of the corresponding obligation by EUR 67 m in Germany, EUR 10 m in the U.S., and EUR 5 m in the United Kingdom.

Risk

The Schaeffler Group is exposed to various risks regarding its defined benefit obligations. In addition to actuarial risk, these primarily include financial risk related to plan assets.

The return on plan assets is assumed to be the same as the discount rates, which are determined based on AA-rated corporate bonds. If actual returns are less than the discount rates assumed, the net defined benefit obligation increases.

Relatively low interest rate levels during the in 2012 reporting period have brought the present value of the defined benefit obligation to a relatively high level. A further decline in interest rates would lower the applicable discount rates, which in turn would result in an additional increase in the pension obligation.

The majority of the plans is exposed to inflation risk, since these are final-pay plans and, therefore, they are directly affected by salary trends. An increase in salaries would thus drive up the net defined benefit obligation.

Where plan benefits include the payment of a life-long pension, an increase in life expectancy can result in an increase in the net defined benefit obligation.

Defined contribution pension plans

In 2013, Schaeffler incurred EUR 12 m (prior year: EUR 12 m) in expenses related to defined contribution plans. At EUR 8 m (prior year: EUR 8 m), the majority of this amount relates to plans in the U.S.

4.12 Provisions

No. 069

in € millions	Employee benefits	Restruc-turing	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 01, 2012	**135**	**1**	**63**	**23**	**14**	**51**	**287**
Change in accounting policy – IAS 19 (rev. 2011)	-1	0	0	0	0	0	-1
Balance as at January 01, 2012 after IAS 19 (rev. 2011) adjustments	**134**	**1**	**63**	**23**	**14**	**51**	**286**
Additions	71	0	68	20	8	37	204
Utilizations	-91	0	-21	-4	-4	-35	-155
Reversals	-16	0	-19	-1	-1	-4	-41
Interest expense	6	0	0	0	0	0	6
Foreign currency translation	0	0	0	-1	-1	0	-2
Balance as at December 31, 2012	**104**	**1**	**91**	**37**	**16**	**49**	**298**
Balance as at January 01, 2013	**104**	**1**	**91**	**37**	**16**	**49**	**298**
Additions	76	0	44	14	4	404	542
Utilizations	-49	-1	-43	-3	-4	-19	-119
Reversals	-1	0	-11	-5	-2	-2	-21
Interest expense	1	0	0	0	0	0	1
Foreign currency translation	0	0	-1	-1	-2	-2	-6
Balance as at December 31, 2013	**131**	**0**	**80**	**42**	**12**	**430**	**695**

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

No. 070

in € millions	12/31/2013 Non-current	12/31/2013 Current	12/31/2013 Total	12/31/2012 Non-current	12/31/2012 Current	12/31/2012 Total
Employee benefits [1]	82	49	131	58	46	104
Restructuring	0	0	0	0	1	1
Warranties	0	80	80	2	89	91
Other taxes	0	42	42	0	37	37
Liability and litigation risks	0	12	12	0	16	16
Other	14	416	430	15	34	49
Total	**96**	**599**	**695**	**75**	**223**	**298**

[1] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4 for details.

Employee benefits: Provisions for employee benefits consist primarily of EUR 39 m in provisions for personnel-related structural measures at the company's Schweinfurt and Wuppertal locations and EUR 55 m (prior year: EUR 71 m) in provisions for partial retirement and long-term flextime accounts, net of the related plan assets.

Obligations under partial retirement arrangements are measured at present value based on actuarial principles. Present values are calculated based on the "RICHTTAFELN 2005 G" mortality tables developed by Professor Dr Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH. The discount rate used 0.75 % (prior year: 0.75 %) at December 31, 2013, and future salary increases for employees currently in the working phase are assumed to be 3.25 % (prior year: 3.25 %). The provision for employee benefits also includes provisions for long-time service awards and other personnel and payroll-related provisions, particularly for early retirement, death, and temporary assistance benefits, obligations arising from the adjustment funds, and provisions based on the collective bargaining agreement with the metalworking and electrical engineering industry in Germany (German Entgeltrahmenabkommen, ERA).

Warranties: Warranty provisions are recognized on a case-by-case basis for each sales transaction or, in cases involving a large population of items, using the expected value method. Warranty provisions of EUR 36 m (prior year: EUR 43 m) relate to significant warranty claims in the Industrial division. An expected reimbursement of EUR 24 m (prior year: EUR 10 m) for warranty expenses incurred has been recognized in other assets.

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

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

Other: At the reporting date, other provisions consist primarily of provisions for the ongoing investigations of the EU antitrust authorities in connection with possible agreements violating antitrust law in the automotive industry. As the EU antitrust authorities are expected to issue a decision in 2014, the resulting risk of a potential penalty was reflected in a provision of EUR 380 m recognized in December 2013.
In addition, this category includes provisions for environmental risks, document retention and other items to be provided for, such as provisions for inventors' bonuses and contributions.

4.13 Trade payables

At December 31, 2013, the Schaeffler Group has trade payables of EUR 1,014 m (prior year: EUR 794 m), all of which are current. The amount includes EUR 57 m (prior year: EUR 40 m) in notes payable at December 31, 2013. The Schaeffler Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 4.15.

4.14 Other financial liabilities, other liabilities and income tax payables

No. 071

in € millions	12/31/2013	12/31/2012
Other financial liabilities	581	638
Other liabilities	291	276
Income tax payables	495	499

At December 31, 2013, income tax payables amount to EUR 495 m (prior year: EUR 499 m), including non-current balances of EUR 340 m (prior year: EUR 267 m).

Other financial liabilities and other liabilites consist of the following:

No. 072

in € millions	12/31/2013 Non-current	12/31/2013 Current	12/31/2013 Total	12/31/2012 Non-current	12/31/2012 Current	12/31/2012 Total
Other financial liabilities						
Amounts payable to staff	0	189	189	0	176	176
Derivative financial liabilities	152	15	167	224	16	240
Miscellaneous financial liabilities	10	215	225	13	209	222
Total	**162**	**419**	**581**	**237**	**401**	**638**
Other liabilities						
Social security contributions payable	3	38	41	3	36	39
Advance payments received	0	31	31	0	26	26
Other tax payables	0	81	81	0	83	83
Miscellaneous liabilities	2	136	138	0	128	128
Total	**5**	**286**	**291**	**3**	**273**	**276**

Amounts payable to staff consist primarily of profit sharing accruals.

Derivative financial liabilities include forward exchange contracts and cross-currency swaps used to economically hedge the Schaeffler Group's currency risk. The decrease is mainly due to the early termination of interest rate derivatives in order to adjust the Schaeffler Group's interest rate hedging portfolio to the current requirements related to the Group's financing arrangements.

Miscellaneous financial liabilities primarily include accrued selling costs (customer bonuses, rebates, early-payment discounts) and interest.

Social security contributions payable consist mainly of unpaid contributions to social security schemes, while miscellaneous liabilities primarily contain accrued vacation and overtime accounts.

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

No. 073

		12/31/2013		12/31/2012	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	1,676	1,676	1,626	1,626
Other investments [1]	AfS	14	-	14	-
Other financial assets					
• Marketable securities	AfS	9	9	6	6
• Other loans receivable [2]	LaR	68	68	103	103
• Derivatives designated as hedging instruments	n.a.	42	42	30	30
• Derivatives not designated as hedging instruments	HfT	207	207	84	84
Cash and cash equivalents	LaR	300	300	433	433
Financial liabilities, by class					
Financial debt	FLAC	6,190	6,761	7,261	7,727
Trade payables	FLAC	1,014	1,014	794	794
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	104	104	213	213
• Derivatives not designated as hedging instruments	HfT	63	63	27	27
• Other financial liabilities [2]	FLAC	414	414	170	170
Summary by category					
Available-for-sale financial assets (AfS)		23	-	20	-
Financial assets held for trading (HfT)		207	-	84	-
Loans and receivables (LaR)		2,044	-	2,162	-
Financial liabilities at amortized cost (FLAC)		7,618	-	8,225	-
Financial liabilities held for trading (HfT)		63	-	27	-

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

The carrying amounts of trade receivables, other loans receivable, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. Other investments include investments (shares in incorporated companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2013 , and no (partial) disposals are planned for the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of money market fund units.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. The Schaeffler Group uses cross-currency swaps as hedging instruments here. Forward exchange contracts are also used to hedge currency risk. Interest rate risk is hedged using interest rate caps and swaps. The fair value of derivatives is calculated using recognized valuation models with all significant inputs observable in the market.

The carrying amounts of trade payables and other financial liabilities are assumed to represent their fair value.

Please refer to the notes on the various balance sheet line items for the amount of financial assets pledged as collateral. Financial and non-financial assets of the Schaeffler Group have been pledged on the basis of the SFA (see Note 4.10). Collateral has generally been provided for the term of the SFA and may be enforced if the creditors are entitled to call the debt, for instance if financial covenants are not met.

Financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes 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). Classification is based on the method used to determine fair value. According to the levels of the hierarchy, the fair value of a financial instrument is determined using the following inputs:

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

- Level 2: Determined using a valuation method for which all significant inputs are based on observable market data. In addition to the existing forward exchange contracts, cross-currency swaps and interest rate caps, this level also includes the company's financial debt and embedded derivatives accounted for separately from their host instrument. All of these financial instruments are measured using recognized valuation models based on input variables observable in the market. The fair value of financial debt is the present value of expected future cash flows, discounted using risk-adjusted discount rates in effect at the end of the reporting period.

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

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

No. 074

in € millions	Level 1	Level 2	Total
December 31, 2013			
Marketable securities	9		9
Derivatives designated as hedging instruments		42	42
Derivatives not designated as hedging instruments		207	207
Total financial assets	**9**	**249**	**258**
Financial debt		6,761	6,761
Derivatives designated as hedging instruments		104	104
Derivatives not designated as hedging instruments		63	63
Total financial liabilities	**0**	**6,928**	**6,928**
December 31, 2012			
Marketable securities	6		6
Derivatives designated as hedging instruments		30	30
Derivatives not designated as hedging instruments		84	84
Total financial assets	**6**	**114**	**120**
Financial debt		7,727	7,727
Derivatives designated as hedging instruments		213	213
Derivatives not designated as hedging instruments		27	27
Total financial liabilities	**0**	**7,967**	**7,967**

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. No transfers between levels were made during the period.

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

No. 075

	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation	**2013**	**2012**
Available-for-sale financial assets	1				1	1
Financial assets and liabilities held for trading	-189	280			91	113
Loans and receivables	7		4	-17	-6	-1
Financial liabilities at amortized cost	-465			102	-363	-521
Total	**-646**	**280**	**4**	**85**	**-277**	**-408**

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

The net gain on financial assets and liabilities held for trading of EUR 91 m (prior year: EUR 113 m) relates entirely to derivatives. EUR 38 m (prior year: EUR 106 m) of this net gain is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in gains of EUR 113 m (prior year: EUR 128 m).

Net foreign exchange gains on loans and receivables and financial liabilities accounted for at amortized cost amount to EUR 85 m (prior year: EUR 7 m). The impairment loss on financial assets classified as loans and receivables consists of an impairment reversal of EUR 3 m (prior year: EUR 4 m) and an impairment loss of EUR 6 m (prior year: EUR 9 m) and relates entirely to the trade receivables class. Impairment reversals on financial assets in the other loans receivable class amounted to EUR 6 m (prior year: impairment loss of EUR 13 m).

Derivative financial instruments and hedging activities

Overview

Due to its global business activities and the resulting financing requirements, the Schaeffler Group is exposed to the following risks:

(1) Liquidity risk

(2) Counterparty risk

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

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

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

Using derivative financial instruments to manage risk is one component of Schaeffler's risk management system. Nominal values and fair values of derivative financial instruments as at the reporting date were as follows:

No. 076

	12/31/2013		12/31/2012	
in € millions	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,353	60	1,643	47
thereof: hedge accounting	787	42	1,202	30
Interest rate hedging				
Interest rate cap	400	0	2,488	0
thereof: hedge accounting	0	0	0	0
Financial liabilities				
Currency hedging				
Forward exchange contracts	712	15	665	16
thereof: hedge accounting	310	4	138	7
Cross currency swap	2,020	152	1,293	44
thereof: hedge accounting	1,070	100	609	26
Interest rate hedging				
Interest rate swap	0	0	3,500	179
thereof: hedge accounting	0	0	3,500	179

Please refer to the "Report on opportunities and risks" for further details of financial risk management.

(1) Liquidity risk

The risk that the Schaeffler Group will not be able to meet its financial obligations as they become due is referred to as liquidity risk. The Schaeffler Group's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they come 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 chief financial officer.

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

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

No. 077

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2013					
Non-derivative financial liabilities	**7,618**	**9,291**	**1,941**	**5,528**	**1,822**
• Financial debt	6,190	7,863	521	5,520	1,822
• Trade payables	1,014	1,014	1,014		
• Other financial liabilities	414	414	406	8	0
Derivative financial liabilities	**167**	**149**	**25**	**95**	**29**
Total	**7,785**	**9,440**	**1,966**	**5,623**	**1,851**
December 31, 2012					
Non-derivative financial liabilities	**8,225**	**9,978**	**1,747**	**7,345**	**886**
• Financial debt	7,261	9,014	796	7,338	880
• Trade payables	794	794	794		
• Other financial liabilities	170	170	157	7	6
Derivative financial liabilities	**7,967**	**252**	**144**	**108**	
Total	**16,192**	**10,230**	**1,891**	**7,453**	**886**

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

Schaeffler has access to an additional line of credit of EUR 1,000 m which bears interest at Euribor plus 287.5 basis points.

(2) Counterparty risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is called counterparty risk. This risk is primarily inherent in trade receivables and other financial assets.

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

Please refer to Note 1.3 for further details of the treatment of impairments on loans and receivables.

The maximum counterparty risk at the reporting date, excluding collateral, is represented by the carrying amount of the corresponding financial asset (see Table No. 075).

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

Trade receivables in the Automotive division are subject to a concentration of risk with respect to several OEMs (see Note 5.4).

(3) Market risk

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

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

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

No. 078

	Carrying amount	
in € millions	12/31/2013	12/31/2012
Variable interest instruments	**2,212**	**4,555**
• Financial debt	2,212	4,555
Fixed interest instruments	**3,978**	**2,706**
• Financial debt	3,978	2,706

The Schaeffler Group enters into interest rate caps and swaps to minimize its exposure to changes in interest rates on the variable interest debt under the SFA. At year-end, Schaeffler has interest rate caps on hand.

During the year, the company settled interest rate swaps with a nominal amount of EUR 3,500 m used to economically hedge variable interest debt early and terminated the cash flow hedge relationship. The related changes in fair value recognized in other comprehensive income without affecting net income up to November 21, 2013 amount to EUR 6 m and are amortized to net income over the remaining term of the hedged item, which ends on June 30, 2014. As a result, interest income of EUR 1 m has been recognized in 2013.

The equity reserve of EUR -286 m accumulated up to November 20, 2009 for a terminated cash flow hedge relationship is being amortized to profit or loss using the effective interest method. In 2013, this resulted in interest expense of EUR 37 m (prior year: EUR 72 m).

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

No. 079

in € millions	2013	2012
Balance as at January 01	**2**	**-122**
Additions	-33	52
Reclassified to income statement		
• to financial income	0	0
• to financial expense	36	72
Balance as at December 31	**5**	**2**

Sensitivity to interest rates

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that interest rates cannot fall below 0 %. With regard to variable interest instruments, a shift in the yield curve of 100 Bp as at December 31, 2013 would affect (increase/decrease) net income and shareholder's equity as follows.

No. 080

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2013				
Variable interest instruments	-8	1		
Interest rate derivatives not designated as hedging instruments	-30	55		
Total	**-38**	**56**	**0**	**0**
As at December 31, 2012				
Variable interest instruments	10	-10		
Interest rate derivatives designated as hedging instruments	0	0	54	-54
Interest rate derivatives not designated as hedging instruments	4	15		
Total	**14**	**5**	**54**	**-54**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. The change in net income and shareholders' equity from interest rate derivatives is entirely due to changes in fair value. The impact of interest rate derivatives not designated as hedging instruments on net income would be EUR -30 m and EUR 55 m, respectively, including the impact of embedded derivatives of EUR -31 m and EUR 55 m, respectively, as well as the impact of interest rate derivatives of EUR 1 m and EUR 0 m, respectively.

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

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

No. 081

in € millions	USD	JPY	HUF	RON
December 31, 2013				
Estimated currency risk from operations	1026	44	-115	-167
Forward exchange contracts	-608	-40	86	177
Remaining currency risk from operations	**418**	**4**	**-29**	**10**
December 31, 2012				
Estimated currency risk from operations	942	85	-110	-194
Forward exchange contracts	-762	-78	81	149
Remaining currency risk from operations	**180**	**7**	**-29**	**-45**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance organization. Thus, this exposure represents the difference between recognized hedged items and hedged items in the form of expected future foreign currency cash flows that have not yet been recognized on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 5.3) is monitored by Schaeffler's finance organization. The most significant currency risk exposure in these countries arises on the U.S. Dollar and amounts to an estimated EUR -225 m (prior year: EUR -174 m).

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using forward exchange contracts.

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.

Portions of the company's external financial debt denominated in a currency other than the functional currency are hedged using cross-currency swaps with a nominal amount of USD 2,650 m. Changes in the fair value of these cross-currency swaps, which are not subject to hedge accounting, (nominal amount of USD 1,250 m; prior year: USD 900 m) were recognized directly in profit or loss in 2013.

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

Cash Flow hedges

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

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

No. 082

in € millions	2013	2012
Balance as at January 01	**23**	**-56**
Additions	-9	23
Reclassified to income statement		
• to other income	23	0
• to other expense	0	56
Balance as at December 31	**37**	**23**

The Schaeffler Group also applies cash flow hedge accounting to the foreign currency hedge of its bonds issued in U.S. Dollar using cross-currency swaps with a nominal amount of USD 1,400 m (prior year: USD 800 m). As a result, accumulated other comprehensive income as at December 31, 2013 includes accumulated losses of EUR 23 m (prior year: EUR 25 m) representing the effective portion of fair value changes on designated financial instruments. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2014 to 2021.

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

No. 083

in € millions	2013	2012
Balance as at January 01	**-24**	**0**
Additions	-74	-26
Reclassified to income statement		
• to financial income	0	0
• to financial expense	51	2
Balance as at December 31	**-47**	**-24**

Net investment hedge

The Schaeffler Group hedges the foreign exchange risk of part of its investment in its U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollars (principal of USD 999 m; prior year: USD 900 m) under a net investment hedge. This reduces the group's translation risk on the U.S. subsidiaries. As a result, accumulated other comprehensive income includes accumulated foreign exchange gains of EUR 42 m (prior year: EUR 2 m) on designated financial debt as at December 31, 2013. The hedging relationship did not produce any ineffectiveness that would have had to be recognized separately. Investments in the Group's other subsidiaries are not hedged.

Sensitivity to foreign exchange rates

The sensitivity analysis for currency risk from operations is based on a hypothetical 10 % weakening of the Euro against each of the significant foreign currencies as of December 31, 2013. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk and assumes that all other variables, particularly interest rates, remain constant.

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

No. 084

	12/31/2013		12/31/2012	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	14	-61	3	-86
JPY	-3	0	-3	-6
HUF	0	8	-6	9
RON	0	18	-16	16

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31, 2013 would have had the same but opposite effect, again holding all other variables constant.

The sensitivity analysis for currency risk from financing activities is based on a hypothetical 10 % weakening of the Euro against the U.S. Dollar as at December 31, 2013. The analysis covers foreign currency financial debt and derivative financial instruments used to hedge foreign currency risk related to financing and assumes that all other variables, particularly interest rates, remain constant.

No. 085

	12/31/2013		12/31/2012	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-192	-72	-142	-75
Foreign exchange gains and losses on derivatives	192	21	144	23
Total	**0**	**-51**	**2**	**-52**

Other price risk: Other price risk 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.

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.

Offsetting financial assets and financial liabilities

As at December 31, 2013, the Schaeffler Group holds derivative financial assets and liabilities which are not required to be offset in accordance with IAS 32.42, but which are subject to an enforceable master netting arrangement or similar agreement that may result in their net settlement upon insolvency.

The following summary presents these financial assets and liabilities in accordance with IFRS 7.13C:

No. 086

in € millions	12/31/2013	12/31/2012
Financial assets		
Gross amount of financial assets	249	114
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	249	114
Amounts subject to master netting arrangements		
Derivatives	-56	-45
Net amount of financial assets	193	69
Financial liabilities		
Gross amount of financial liabilities	167	240
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	167	240
Amounts subject to master netting arrangements		
Derivatives	-56	-45
Net amount of financial liabilities	111	195

4.16 Capital structure

The Schaeffler Group's shareholders' equity (including non-controlling interests in consolidated subsidiaries) rose by EUR 383 m to EUR 2,491 m in 2013 (prior year: EUR 2,108 m). The equity ratio (ratio of shareholders' equity to total assets) was 18.6 % (prior year: 15.6 %) at December 31, 2013.

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

Under these financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.10). Compliance with these financial covenants is continually monitored at group level. The inputs to the calculation of the financial covenants are defined in detail in the loan agreements and cannot be derived directly from amounts in the consolidated financial statements.

The Schaeffler Group has complied with the financial covenants as required by its financing agreements both in 2013 and in 2012, and, based on its forecast, also expects to comply with these covenants in subsequent years.

In addition to the financial covenants contained in the financing agreements, the Schaeffler Group regularly determines financial indicators. One important such indicator is the ratio of net debt to EBITDA (earnings before financial result, income from at equity-accounted investees, income taxes, depreciation, amortization, and impairment losses), which is calculated as follows:

No. 087

in € millions	12/31/2013	12/31/2012
Current financial debt	225	121
Non-current financial debt	5,965	7,140
Total financial debt	**6,190**	**7,261**
Shareholder loans	443	323
Total financial debt excluding shareholder loans	**5,747**	**6,938**
Cash and cash equivalents	300	433
Total liquidity	**300**	**433**
Total net financial debt	**5,890**	**6,828**
Net financial debt excluding shareholder loans	**5,447**	**6,505**
Earnings before financial result, income from at equity-accounted investees, income taxes, depreciation and amortization (EBITDA) [1)]	**1,634**	**2,031**
Net financial debt excluding shareholder loans to EBITDA ratio [2)]	**3.3**	**3.2**

[1)] EBITDA 2013 incl. special items (provision for EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m).
[2)] Financial debt to EBITDA ratio 2013 – excluding special items (see footnote 1) see Note 2.4 to the group management report for further detail.

4.17 Leases

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

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

No. 088

in € millions	12/31/2013	12/31/2012
Less than one year	48	46
Between one and five years	53	52
More than five years	5	3
Total	**106**	**101**

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

In 2013, expenses of EUR 71 m (prior year: EUR 68 m) related to operating rental and lease agreements were recognized in profit or loss.

5. Other disclosures

5.1 Commitments

At December 31, 2013, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment in the amount of EUR 177 m (prior year: EUR 164 m). These commitments are expected to be settled as follows:

No. 089

in € millions	12/31/2013	12/31/2012
Less than one year	164	117
Between one and five years	13	47
Total	**177**	**164**

5.2 Contingent liabilities

No. 090

in € millions	12/31/2013	12/31/2012
Supplementary payment under Renewable Energy Sources Act	6	0
Other	13	37
Total	**19**	**37**

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

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling and plain bearings, particularly for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are among the entities subject to these investigations. Schaeffler is cooperating with the investigating authorities and supports their work. During the year, the investigations of the EU antitrust authorities have become sufficiently concrete for the Schaeffler Group to recognize a provision in its consolidated financial statements in December 2013 (see Note 4.12). The risk remains that, along with the EU antitrust authorities, other antitrust authorities will

also impose penalties and that third parties may claim damages. Various plaintiffs in the U.S. and in Canada have already filed class action suits. The amount of potential penalties or subsequent claims is uncertain, but could be significant.

5.3 Additional disclosures on the consolidated statement of cash flows

Amounts reported by foreign subsidiaries are translated using average monthly exchange rates. Liquid funds, on the other hand, are measured using the exchange rate at the reporting date, as is the case in the balance sheet.

Changes in balance sheet items shown in the statement of cash flows cannot be derived directly from the balance sheet as they have been adjusted for the impact of foreign currency translation.

At December 31, 2013, cash and cash equivalents amount to EUR 300 m (prior year: EUR 433 m), including EUR 151 m (prior year: EUR 154 m) held by subsidiaries in Argentina, Brazil, China, Chile, Colombia, India, South Korea, South Africa, Taiwan, Thailand, the Philippines, Venezuela, and Vietnam. These subsidiaries are subject to exchange controls and other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

The repricing and full prepayment of tranches B2 EUR and B2 USD completed in March 2013 using newly obtained loan tranches C EUR and C USD was largely non-cash in nature. The financing transactions completed in April 2013 to refinance the company's SFA – such as placing bonds with institutional investors and replacing existing loans with new loan agreements – were also largely non-cash in nature. Only transaction costs paid for these arrangements are included in cash flows from operating activities.

As a result of the dividend paid by Continental AG, Schaeffler Beteiligungsholding GmbH & Co. KG paid a dividend of EUR 162 m (prior year: EUR 80 m) (see Note 4.3) to Schaeffler AG. In the statement of cash flows, the dividend is shown in cash flows from operating activities under dividends received. The dividend received was used to repay bank debt as required by the SFA which is shown as a cash outflow from financing activities.

Special items of EUR 380 m related to the ongoing EU antitrust proceedings have reduced EBIT and increased other provisions. Thus, they have not affected cash flows from operating activities increased in 2013; the related cash outflow is expected in 2014.

5.4 Segment Reporting

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

Schaeffler's operating segments are reported in a manner consistent with the internal reporting provided to the Schaeffler Group executive board. The Schaeffler Group is divided into the two segments Automotive division and Industrial division as described below, each focusing on a specific worldwide group of customers. 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 primarily manufacturers of passenger cars and commercial vehicles (OEM), automotive suppliers (Tier 1 and Tier 2) as well as companies focusing on the distribution of spare parts for passenger cars and commercial vehicles (aftermarket). Products range from wheel bearings as well as chassis and steering components through transmission systems and developments to engine components and valve control systems.

Industrial: Product and service business with manufacturers of investment goods. Specifically, these customers operate in the production machinery, power transmission, wind power, construction machinery/tractors, consumer goods, heavy industries, rail way and power generation and in the industrial aftermarket sectors. The business with customers in the aerospace industry is also included in this segment. The key products of this segment are rolling and plain bearings, linear guidance systems and direct drives.

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

The amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and impairments are reported based on the current allocation of customers to segments. The allocation of customers to divisions is reviewed at least annually and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer structure. Gains on transactions between operating segments are not included.

No. 091

Reconciliation to earnings before income taxes in € millions	2013	2012
EBIT Automotive [1]	736	997
EBIT Industrial [1]	246	416
EBIT	**982**	**1,413**
Financial result [2]	-442	-680
Income from at equity-accounted investees	**801**	**554**
Earnings before income taxes [2]	**1,341**	**1,287**

[1] Prior year information presented based on 2013 segment structure.
[2] Prior year amounts restated for initial application of IAS 19 (rev. 2011), see Note 1.4. for details.

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

Significant customers

In 2013, Schaeffler generated revenue of EUR 1,397 m (prior year: EUR 1,358 m) from one key customer, representing approximately 12.5 % (prior year: 12.2 %) of total group revenue and approximately 17.1 % (prior year: 17.7 %) of Automotive segment revenue.

Information about geographical areas

No. 092

	Revenue [1]		Non-current assets [2]	
in € millions	2013	2012	12/31/2013	12/31/2012
Europe	6,226	6,228	2,525	2,681
• thereof Germany	2,794	2,926	1,541	1,640
North America	1,833	1,759	398	382
South America	526	561	107	156
Asia/Pacific	2,620	2,577	877	850
• thereof Greater China	1,190	1,098	545	491
Total	**11,205**	**11,125**	**3,907**	**4,069**

[1] Revenue by customer location. Prior year information presented based on 2013 segment structure.
[2] Non-current assets consist of property, plant and equipment and intangible assets.

5.5 Related parties

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler are related parties of the Schaeffler Group.

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

The Schaeffler Group's related companies include the immediate and ultimate parent companies of Schaeffler AG. Schaeffler AG's immediate parent company is Schaeffler Verwaltungs GmbH. The ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG (IHO). These related companies are referred to as "parent IHO companies" below. Related companies also include companies other than Schaeffler AG that are controlled by Schaeffler AG's parent companies.

In 2013 and 2012, Schaeffler Group companies had various business relationships with the parent IHO companies. These include fees for bank guarantees of bills of exchange and various services recharged to the Schaeffler Group as well as shareholder loans from a parent IHO company. Shareholder loans consist of the loans from Schaeffler Verwaltungs GmbH discussed in Note 4.10.

Schaeffler AG's annual general meeting in March 2013 resolved to pay a dividend of EUR 250 m (or EUR 0.50 per share) for the year 2012 (see Note 4.9).

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

No. 093

	Receivables		Payables	
in € millions	**12/31/2013**	**12/31/2012**	**12/31/2013**	**12/31/2012**
Parent IHO companies	1	0	446	324

No. 094

	Expenses		Income	
in € millions	**2013**	**2012**	**2013**	**2012**
Parent IHO companies	23	21	3	108

The Continental AG Group companies are also related to the Schaeffler Group.

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

In addition, on August 20, 2008, the Schaeffler Group entered into an investor agreement with Continental AG. The agreement stipulates, among other things, that Schaeffler AG commit itself to restricting its investment in Continental AG to 49.99 % until August 31, 2012 and to compensating Continental AG for certain tax disadvantages resulting from Continental AG losing the ability to utilize certain tax loss carryforwards. This investor agreement was terminated on May 13, 2013 effective in May 2014.

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

No. 095

	Receivables		Payables	
in € millions	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Continental Group companies	12	10	12	4

No. 096

	Expenses		Income	
in € millions	2013	2012	2013	2012
Continental Group companies	49	34	97	91

Related parties of the Schaeffler Group include the members of the Schaeffler Group's executive board: Klaus Rosenfeld, Dr Juergen M. Geissinger (until October 04, 2013), Wolfgang Dangel (until December 31, 2013), Professor Dr Peter Gutzmer, Oliver Jung, Kurt Mirlach, Robert Schullan, Norbert Indlekofer, Professor Dr Peter Pleus, and Dr Gerhard Schuff (until September 30, 2013).

The Schaeffler Group's related parties also encompass the members of the supervisory board of Schaeffler AG, who, in addition to Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler, include the following: Juergen Baensch (since July 11, 2013), Professor Dr Hans-Joerg Bullinger, Dr Eckhard Cordes, Dr Hubertus Erlen, Professor Dr Bernd Gottschalk, Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr Siegfried Luther, Thomas Moelkner, Wolfgang Mueller (until July 11, 2013), Tobias Rienth, Stefanie Schmidt, Dirk Spindler, Robin Stalker, Salvatore Vicari, Juergen Wechsler, Dr Otto Wiesheu, and Juergen Worrich.

Members of the supervisory board of Schaeffler AG and of the executive board of the Schaeffler Group and parties related to them have acquired bonds issued in 2013 by Schaeffler Finance B.V. totaling EUR 3 m (prior year: EUR 5 m) in 2013 and have received EUR 0,3 m (prior year: EUR 0,2 m) in interest on these bonds. At December 31, 2013, members of the supervisory board of Schaeffler AG and of the executive board of the Schaeffler Group held bonds issued by Schaeffler Finance B.V. with a principal totaling EUR 6 m (prior year: EUR 5 m).

No advances or loans were granted to members of the Schaeffler Group's executive board or Schaeffler AG's supervisory board.

Total remuneration of the Schaeffler Group's executive board for the year was EUR 26 m (prior year: EUR 23 m).

Short-term employee benefits of EUR 18 m (prior year: EUR 21 m) were paid to members of the Schaeffler Group's executive board.

Total remuneration paid to the statutory board of directors of Schaeffler AG established under stock corporation law in return for the performance of their duties in accordance with section 314 (6(a) (1) HGB was EUR 13 m in 2013 (prior year: EUR 13 m).

Post-employment benefit expenses of EUR 3 m (prior year: EUR 2 m) were recognized for members of the Schaeffler Group's executive board.
Termination benefit expenses of EUR 5 m (prior year: EUR 0 m) were recognized for members leaving the Schaeffler Group's executive board in 2013.

Short-term benefits paid to members of Schaeffler AG's supervisory board amounted to EUR 1 m (prior year: EUR 1 m).

Former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies received remuneration of EUR 5 m in 2013 (prior year: EUR 0 m), representing the termination benefits paid to members who left the Schaeffler AG executive board in 2013.

Provisions for pension obligations, net of related plan assets, for former members of the executive board (and their surviving dependants) of the company and its legal predecessor companies amount to EUR 6 m at December 31, 2013 (prior year: EUR 3 m).

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2013 and required to be disclosed by section 314 (1)(9) HGB total EUR 4,099 thousand (prior year: EUR 4,354 thousand) and consist of EUR 2,140 thousand (prior year: EUR 1,660 thousand) for financial statement audit services, EUR 1,036 thousand (prior year: EUR 885 thousand) for other attestation services, EUR 690 thousand (prior year: EUR 346 thousand) for tax advisory services, and EUR 233 thousand (prior year: EUR 1,463 thousand) for other services.

These fees were paid for services rendered to Schaeffler AG and its German subsidiaries. KPMG AG Wirtschaftsprüfungsgesellschaft is considered the auditor.

5.7 Events after the reporting period

No material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after December 31, 2013.

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

The parent company is Schaeffler AG, which is based in Herzogenaurach.

No. 097

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated **I. Germany (55)**			
AS Auslandsholding GmbH	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Buehl	DE	100.00
Duerkopp Maschinenbau GmbH	Schweinfurt	DE	100.00
Egon von Ruville GmbH	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100.00
FAG Industrial Services GmbH	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH	Schweinfurt	DE	100.00
Gesellschaft fuer Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstuecksverwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
IFT Ingenieurgesellschaft fuer Triebwerks-Technik mbH	Clausthal-Zellerfeld	DE	100.00
INA – Drives & Mechatronics AG & Co. KG (since March 01, 2014: INA – Drives & Mechatronics GmbH & Co. KG)	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Buehl mbH	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst-, GmbH	Herzogenaurach	DE	100.00
KWK Verwaltungs GmbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH	Buehl	DE	100.00
LuK GmbH & Co. KG	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG	Unna	DE	100.00

LuK Vermoegensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschaeftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
REDON Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.90
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100.00
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG (since March 01, 2014: Schaeffler Elfershausen GmbH & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Engineering GmbH	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien GmbH & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente AG & Co. KG (since March 01, 2014: Schaeffler Motorenelemente GmbH & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Fuenf GmbH & Co. KG (since January 01, 2014: Schaeffler Technologies GmbH & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH	Herzogenaurach	DE	100.00
Unterstuetzungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100.00

II. Foreign (103)

Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Grico Invest GmbH	Chur	CH	100.00
Hydrel GmbH	Romanshorn	CH	100.00

INA Invest GmbH	Horn	CH	100.00
Octon G.m.b.H.	Horn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100.00
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100.00
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100.00
Schaeffler Colombia Ltda.	Bogotá	CO	100.00
INA Lanskroun, s.r.o.	Lanskroun	CZ	100.00
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
RODISA, S.L.	Elgoibar	ES	100.00
Schaeffler Iberia, S.L.U.	Barcelona	ES	100.00
Schaeffler Finland Oy	Espoo	FI	100.00
FAG France SAS	Chatillon	FR	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Leamington Spa.	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LuK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
FAG Bearings India Ltd.	Mumbai	IN	51.33
FAG Roller Bearings Private Ltd.	Mumbai	IN	87.83
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Madras	IN	100.00
FAG Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Japan Co., Ltd.	Yokohama	JP	100.00
Schaeffler Ansan Corporation	Ansan-shi	KR	100.00

Schaeffler Korea Corporation	Seoul	KR	100.00
INA Mexico S.A. de C.V.	Mexico City	MX	100.00
LuK Puebla, S.A. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S.A. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Oslo	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Gestfag SGPS. LDA	Caldas da Rainha	PT	100.00
INA Rolamentos Lda.	Porto	PT	100.00
Schaeffler Portugal S.A.	Caldas da Rainha	PT	100.00
SC Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Manufacturing Rus OOO	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
INA Kysuce, spol. s.r.o.	Kysucke Nove Mesto	SK	100.00
INA Skalica spol. s.r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100.00
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100.00
Schaeffler Ukraine GmbH	Kiev	UA	100.00
FAG Bearings LLC	Danbury	US	100.00
FAG Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LUK-Aftermarket Services, LLC	Valley City	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
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.	Bien Hoa City	VN	100.00
ABCOM Holdings (Proprietary) Limited	Port Elizabeth	ZA	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

B. Associated companies/Joint ventures
I. Germany (4)

Contitech-INA Beteiligungsgesellschaft mbH [1]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [1]	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
Schaeffler Beteiligungsholding GmbH & Co. KG [1] [2]	Herzogenaurach	DE	100.00

II. Foreign (3)

Colinx, LLC	Greenville	US	20.00
Eurings Zrt.	Debrecen	HU	37.00
Roland Corporate Housing LLC	Cheraw	US	49.00

[1] Joint ventures accounted for using the equity method.
[2] Schaeffler Beteiligungsholding GmbH & Co. KG holds 34.19 % of the voting interest in Continental AG, Hanover.

5.9 Preparation of consolidated financial statements

The executive board of Schaeffler AG prepared the consolidated financial statements on March 10, 2014 and released them for submission to the supervisory board of Schaeffler AG. The supervisory board of Schaeffler AG is responsible for examining and approving the consolidated financial statements.

Herzogenaurach, March 10, 2014

The Executive Board

Members of the supervisory board

Georg F. W. Schaeffler
Chairman

Maria-Elisabeth Schaeffler
Vice chairman

Juergen Wechsler*
Vice chairman

Juergen Baensch* (since July 11, 2013)
Professor Dr Hans-Joerg Bullinger
Dr Eckhard Cordes
Dr Hubertus Erlen
Professor Dr Bernd Gottschalk
Jochen Homburg*
Franz-Josef Kortuem
Norbert Lenhard*
Dr Siegfried Luther
Thomas Moelkner*
Wolfgang Mueller* (until July 11, 2013)
Tobias Rienth*
Stefanie Schmidt*
Dirk Spindler*
Robin Stalker
Salvatore Vicari*
Dr Otto Wiesheu
Juergen Worrich*

* Employee representative

Members of the executive board

Klaus Rosenfeld [1)]
Chief Executive Officer (since October 05, 2013) and
Chief Financial Officer

Dr Juergen M. Geissinger [1)] (until October 04, 2013)
Chief Executive Officer

Wolfgang Dangel [1)] (until December 31, 2013)
Automotive

Professor Dr Peter Gutzmer [1)]
Chief Technology Officer

Norbert Indlekofer [3)]
CEO Automotive

Oliver Jung [2)]
Chief Operating Officer

Kurt Mirlach [1)]
Human Resources

Professor Dr Peter Pleus [3)]
CEO Automotive

Dr Gerhard Schuff (until September 30, 2013)
Purchasing

Robert Schullan [1)]
CEO Industrial

[1)] Member of the executive board of Schaeffler AG.
[2)] Member of the executive board of Schaeffler AG since October 01, 2013.
[3)] Member of the executive board of Schaeffler AG since January 01, 2014.

Independent Auditors' Report

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by the Schaeffler AG, Herzogenaurach, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and the notes, together with the group management report for the business year from January 01, 2013 to December 31, 2013. 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 Wirtschaftsprüfer [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 12, 2014

KPMG AG

Wirtschaftsprüfungsgesellschaft

Becker

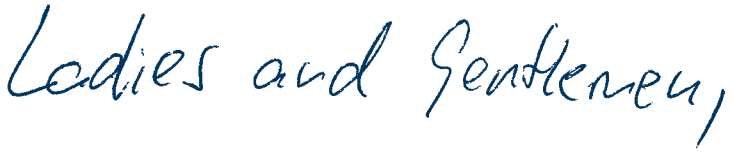
Wirtschaftsprüfer

Sailer

Wirtschaftsprüfer

Report of the supervisory board

Georg F. W. Schaeffler



During the past year, the supervisory board has performed the duties mandated by law, the company's articles of association, and its internal rules of procedure and has provided advice to the executive board and supervised its activities. It was directly involved on a timely basis in all decisions that were of fundamental importance to the company, and provided advice to the executive board on significant decisions. During the year, the executive board fully and regularly informed the supervisory board in written and oral reports about all budgeting matters relevant to the company, about the company's strategy, and about significant transactions of the company and the group as well as the related risks and opportunities. The supervisory board was continually updated in detail about revenue and earnings trends of the group and the divisions as well as about the financial position of the company.

All members of the supervisory board were also available for consultations with the executive board between meetings. The chairman of the supervisory board kept in contact regularly with the executive board and particularly with the chief executive officer, and obtained information about current issues and developments at the company on an ongoing basis.

There was one change in the composition of the supervisory board in 2013. Wolfgang Mueller, employee representative, left the supervisory board and the audit committee. He was replaced by Juergen Baensch, who was appointed by the court on July 11, 2013. Juergen Baensch was appointed to the audit committee on August 26, 2013.

The composition of the executive board also changed during the year. Oliver Jung, previously in charge of Development of Production Methods, was appointed to the Schaeffler AG executive board effective October 01, 2013 and in this role has taken on responsibility for the Operations function. On October 04, 2013, the previous CEO Dr Juergen M. Geissinger left the company. Chief Financial Officer Klaus Rosenfeld took over as Schaeffler AG CEO in addition to his current role. At the end of 2013, Wolfgang Dangel, member of the statutory board of directors in charge of Automotive, left the Schaeffler Group to pursue other career opportunities. Norbert Indlekofer and Professor Dr Peter Pleus, previously in charge of Automotive, were appointed to the Schaeffler AG executive board effective January 01, 2014 to jointly head up the Automotive division. Norbert Indlekofer is responsible for Transmission Systems and the Automotive Aftermarket. He also assumed responsibility for Procurement, Logistics and Research and Development within the Automotive division. Professor Dr Peter Pleus heads up Engine and Chassis Systems and is also responsible for Global Key Account Management.

No conflicts of interest of any supervisory board members became known during the year. The supervisory board believes that it had a sufficient number of independent members at all times.

Main activities

The supervisory board held four regularly scheduled meetings and two extraordinary meetings in 2013 which were attended, with a few exceptions, by all members of the supervisory board. In addition, two resolutions were passed in writing.

In its meeting on March 20, 2013, the supervisory board dealt with the company's separate financial statements as at and for the year ended December 31, 2012, the consolidated financial statements, and the dependency report. The supervisory board adopted the separate financial statements as at and for the year ended December 31, 2012 and approved the consolidated financial statements.
On April 04, 2013, the supervisory board passed a resolution in writing to create an ad hoc committee in connection with the planned issue of high-yield bonds (Euro/U.S. Dollar) totaling EUR 1.25 bn.

At its meeting on June 14, 2013, the supervisory board discussed the interim report as at March 31, 2013 and obtained information about the Schaeffler Group's initiative "Consistently global".
Juergen Baensch was elected to the audit committee in a resolution passed in writing on August 26, 2013.

In an extraordinary meeting on September 16, 2013, the supervisory board dealt with the sale of Continental AG shares by Schaeffler Beteiligungsholding GmbH & Co. KG.

At its September 27, 2013, meeting, the supervisory board addressed the interim report as at June 30, 2013, adjustments to the company's structure, and the report "Innovation as a driver of the Schaeffler Group's success". In addition, Oliver Jung was appointed to the Schaeffler AG executive board effective October 01, 2013.

In the extraordinary meeting on October 04, 2013, the supervisory board dealt with the departure of Dr Juergen M. Geissinger and appointed Klaus Rosenfeld CEO of Schaeffler AG. At its meeting on December 13, 2013, the supervisory board discussed the results of the third quarter 2013, the budget for 2014, adjustments to the company's structure, the logistics project, and the investigations related to the ongoing EU antitrust proceedings. Furthermore, Norbert Indlekofer and Professor Dr Peter Pleus were appointed to the executive board effective January 01, 2014.

Committees

The supervisory board has established an executive committee, an audit committee, and a committee in accordance with section 27 (3) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) to assist it in its work.

In addition, it established an ad hoc committee consisting of Jochen Homburg, Franz-Josef Kortuem, Norbert Lenhard, Dr Siegfried Luther, Wolfgang Mueller, Georg F. W. Schaeffler, Robert Stalker and Juergen Worrich on April 04, 2013.

There are no other committees.

The executive committee met four times during the year. These meetings were held and resolutions passed mainly to prepare for the meetings of the supervisory board and to discuss human resource issues. The executive committee approved the termination of the employment contract of a managing director of INA Beteiligungsgesellschaft mbH in a resolution passed in writing on September 20, 2013.

The audit committee held four regular meetings in 2013. The executive board updated the audit committee continually and in detail about revenue and earnings trends of the group and the divisions and about the financial position of the company. Before the quarterly financial reports were published, the audit committee extensively discussed and scrutinized these reports and the development of earnings as well as the forecast for the full year. The committee was involved with compliance and risk management and obtained information about the work of the Schaeffler Group's internal auditors. The audit committee satisfied itself that the internal control system, the risk management system, and internal audit are effective. It engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, ("KPMG") as auditors and defined the focal points for the audit. In addition, the audit committee dealt with the issuance of bonds, reporting projects of the company, and the economic and financial situation in the Euro region.

In its meetings on April 15, 17, and 21, 2013, the ad hoc committee defined the terms for the issuance of high-yield bonds.

The mediation committee established in accordance with section 27 (3) MitbestG did not meet in 2013.

Separate and consolidated financial statements 2013

As proposed by the supervisory board, the annual general meeting appointed KPMG as auditors of the separate financial statements and the dependency report of the company and of the consolidated financial statements on March 18, 2013. Prior to this, KPMG had confirmed to the supervisory board that there are no circumstances affecting their independence as auditors.

KPMG audited the separate financial statements as at December 31, 2013 prepared by the executive board in accordance with German commercial law, including the accounting records and the system of internal controls over financial reporting.

KPMG has also audited the report on relations with affiliated companies ("dependency report") prepared by the executive board in accordance with section 312 of the German Stock Companies Act ("Aktiengesetz" – AktG). The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2013 were prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to section 315a (1) HGB.

KPMG has also audited the consolidated financial statements and the group management report.

The auditors have issued unqualified audit opinions. KPMG has issued the following unqualified audit opinion on the dependency report in accordance with section 313 (3) AktG:

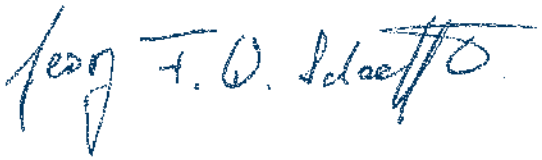
"In accordance with our conscientious audit and assessment, we confirm that

- the statements of fact in the report are correct,
- the consideration of the company in the course of the transactions listed in the report was not unreasonably high,
- the measures listed in the report are not the occasion for an assessment substantially different from that of the executive board".

The audit committee discussed the financial statement documents, the dependency report, and the long-form audit reports with the executive board and the auditors on March 18, 2014. The audit committee scrutinized the development of earnings for 2013, the financial position and net assets as at the reporting date and, particularly, provisions for risks. These issues were also dealt with in the supervisory board meeting convened to approve the financial statements on March 19, 2014. The required documents had been distributed to all members of the audit committee and the supervisory board in due time before these meetings to give the members sufficient opportunity to examine them. The auditor was present during the discussion. He reported on significant audit findings and was available to provide additional information to the audit committee and the supervisory board. Based on its own examinations of the separate financial statements, the management report, the dependency report (including the closing statement of the executive board), and the consolidated financial statements together with the group management report, and based on recommendations made by the audit committee, the supervisory board concurs with the result of the auditors' audits. There was no cause for objection, including objection to the closing statement on the dependency report prepared by the executive board. The supervisory board has approved the separate financial statements and the consolidated financial statements. The separate financial statements have thus been adopted.

2013 was an eventful year for the Schaeffler Group and all of its employees, who coped with it with extraordinary commitment and dedication. On behalf of the supervisory board, I would like to express my sincere gratitude to the members of the executive board, to management, and to all employees of Schaeffler AG as well as to all group companies for their dedication and their constructive teamwork.

On behalf of the supervisory board



Georg F. W. Schaeffler

Chairman
Herzogenaurach, March 19, 2014

Additional information

Financial glossary

A

AfS: Abbreviation for “Available for sale”.

Adjusted earnings measures: Adjustments relate entirely to the expense items discussed in the 2013 annual report.

C

Capital employed: Key balance sheet measure; capital employed by the entity. Represents the total of working capital; property, plant and equipment; and intangible assets.

Cash Flow: Net inflow of funds generated by an entity’s business activities. Used to assess an entity’s financial strength.

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

Covenants: Also called “financial covenants” or “financial ratios”; used to monitor compliance with loan agreements. If the agreed upon financial ratios are not met, the creditors can call the corresponding loans.

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

D

Debt to EBITDA ratio: Ratio of net financial debt to EBITDA.

Deferred taxes: Deferred tax assets and liabilities are calculated based on temporary differences between carrying amounts for financial reporting and for tax purposes. They include differences arising on consolidation, loss carryforwards and tax credits.

Defined benefit pension obligations: Pension obligations requiring the company to provide a promised benefit to current and former employees. Pension plans are either funded or unfunded. The obligations are valued based on entitlements earned by employees as at the end of the reporting period. This requires actuarial assumptions to be made, which are then adjusted in subsequent years.

Defined contribution pension obligations: Pension obligations where the company does not have any obligation beyond making contribution payments (synonym "defined contribution benefits").

Derivative financial instruments: Financial products whose value is predominantly driven by the price, price changes and expected prices of the underlying instrument (e. g. index, share or bond).

E

EBIT: Abbreviation for "earnings before interest and taxes": Earnings before financial result and income taxes.

EBITDA: Abbreviation for "earnings before interest, taxes, depreciation and amortization": Earnings before taxes, non-controlling interests, financial result, depreciation, amortization and impairment losses.

Effectiveness: The effectiveness of a hedging instrument is the degree to which changes in the fair value or the cash flows that are attributable to a hedged risk are offset by the hedging instrument.

Equity method: Method of accounting for investments in associated companies and joint ventures.

EURO MTF (Multilateral Trading Facility): An MTF is a trading platform similar to a stock exchange that brings together sell and buy orders for shares and other financial instruments, according to a defined set of rules resulting in trades.

F

Fair value: The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FLAC: Abbreviation for "Financial liability at amortized cost".

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

G

Goodwill: The amount by which the cost of a business combination exceeds the sum of the fair values of the individually identifiable assets and liabilities acquired.

H

Hedge accounting: Using financial instruments to hedge items recognized in the statement of financial position and future cash flows. Both effectiveness and documentation of the hedging relationship are prerequisites for reflecting hedging relationships in the financial statements.

HfT: Abbreviation for "Held for trading".

I

IAS: Abbreviation for "International Accounting Standards".

IASB: Abbreviation for "International Accounting Standards Board".

IFRIC: Abbreviation for "International Financial Reporting Standards Interpretation".

IFRS: Abbreviation for "International Financial Reporting Standards".

Impact of currency translation: Revenue and earnings figures are adjusted for currency fluctuations by translating revenue and earnings for both the current and the prior year reporting period using the same exchange rate.

Impairment test: Test to determine whether an asset is impaired by comparing the carrying amount of the asset with its fair value.

L

LaR: Abbreviation for “Loans and receivables”.

P

Purchase price allocation: Abbreviated “PPA”; identification and revaluation of all assets and liabilities acquired in a business combination or in connection with the acquisition of an investment in an associated company.

R

Rating: Assessment of a company’s creditworthiness made by rating agencies.

S

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

SIC: Abbreviation for the former “Standing Interpretations Committee”.

General glossary

A

Astraios: The world's largest and most powerful large-size bearing test rig; it enables large-size bearings of up to 15 tons and measuring up to 3.5 meters in diameter such as those used in wind power applications to be tested in realistic conditions using a comprehensive simulation program.

Automotive: As a reliable partner to nearly all automobile manufacturers and major suppliers, the Schaeffler Group's Automotive division offers expertise for the entire drive train: for engines, transmissions, chassis, and accessory units in passenger cars and commercial vehicles. The Automotive Aftermarket sector is represented worldwide in the spare parts business.

Axlebox bearings: The axlebox bearing supports the axlebox in the bogie or in the rail vehicle frame. Axlebox bearings are also referred to as axle bearings.

B

BBRTTS: The BBRTTS torque sensor bottom bracket unit determines the total torque from the sum of the pedal force from the right and left pedals, now providing even more riding pleasure, efficieny and range.

C

Car sharing: Organized sharing of the use of one or more cars.

E

eDifferential: The Schaeffler eDifferential supports the steering function and has a clearly positive effect on driving dynamics, safety, and driving comfort. eDifferentials can be used to hybridize vehicles powered by an internal combustion engine, giving customers the benefits of an all-wheel drive in addition to a hybrid drive.

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

eMobility Systems Division: Schaeffler has bundled its numerous activities relating to electric mobility in its "eMobility Systems Division", allowing it to follow a holistic approach that integrates the expertise of both the Automotive and Industrial divisions. The goal is to aggregate Schaeffler's wide-ranging expertise in one place and to access the market at the systems level.

E-Wheel Drive: The E-WheelDrive is a wheel hub drive that facilitates the development of forward-looking vehicle architectures and interior concepts, particularly in electric city vehicles. In addition to increasing useable space and improving maneuverability, further advantages of the eWheel Drive include its braking assistance function providing increased driving safety and its more rapid response.

I

Industrial: Division of the Schaeffler Group that includes the business with customers in the mobility, production machinery, energy and commodities, and aerospace sectors.

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

L

Lightweight balancer shaft with rolling bearing supports: A balancer shaft with rolling bearing supports that reduce friction, which significantly improves energy efficiency compared with the plain bearings used previously.

M

MOVE: Internal program used by Schaeffler to review processes and activities with respect to their contribution to value-added.

O

OEM: Original equipment manufacturer.

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

S

Schaeffler Academy: Schaeffler Academy combines all HR development activities at Schaeffler worldwide. It supports strategic corporate objectives, promotes a culture of lifelong learning and enables employees to achieve their personal and professional goals.

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

T

Thermal management module: The Schaeffler thermal management module is a temperature control unit for the entire drive train. It is integrated in a compact component manufactured from high-strength plastic and combines numerous functions. The thermal management module enables Schaeffler to help unlock greater potential through the optimization of internal combustion engines. This innovative module is key to reducing fuel consumption and CO_2 emissions by up to 4 %.

TSS-P: Schaeffler is working on developing the FAG-bogie frame monitoring system TSS-P specifically for locomotives, traction vehicles, and passenger transport. The basic module of this monitoring system contains sensors for monitoring temperature, acceleration, and speed.

U

UniAir/MultiAir-System: The world's first fully-variable electrohydraulic valve control system optimizes the internal combustion process. This results in significant reductions in fuel consumption and emissions, while improving the performance and response of engines.

List of tables

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March 2014

Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond Schaeffler's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Schaeffler does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

Variances for technical reasons

For technical reasons (e. g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

Rounding differences may occur.

This English version of the annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

Both language versions of the annual report can be downloaded from the internet at www.schaeffler-group.com/Investor Relations/Publications/Reports. An online version of the annual report is also available on our website.

Summary – 1st quarter 2012 to 4th quarter 2013

No. 098

	2012				2013			
in € millions	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Income statement								
Revenue	2,858	2,794	2,770	2,703	2,756	2,858	2,811	2,780
EBITDA	549	530	520	432	512	530	472	120
• in % of revenue	19.2	19.0	18.8	16.0	18.6	18.5	16.8	4.3
Adjusted EBITDA [1]							520	500
• in % of revenue							18.5	18.0
EBIT	401	379	364	269	355	369	314	-56
• in % of revenue	14.0	13.6	13.1	10.0	12.9	12.9	11.2	-2.0
Adjusted EBIT [2]							362	324
• in % of revenue							12.9	11.7
Net income [3]	**235**	**269**	**225**	**141**	**233**	**328**	**459**	**-155**
Statement of financial position								
Total assets	13,449	13,806	13,936	13,546	13,960	14,110	13,661	13,427
Shareholders' equity [4]	1,617	1,865	2,060	2,108	2,110	2,325	2,706	2,491
• in % of total assets	12.0	13.5	14.8	15.6	15.1	16.5	19.8	18.6
Net financial debt [5]	6,884	6,828	6,698	6,505	6,533	6,132	5,445	5,447
• Financial debt to EBITDA ratio [6]	3.2	3.2	3.2	3.2	3.3	3.1	2.8	3.3
• Financial debt to adjusted EBITDA ratio [6] [7]							2.7	2.6
Additions to intangible assets and property, plant and equipment [8]	235	224	199	169	103	101	116	253
Statement of cash flows								
Free cash flow [9]	-107	137	92	259	52	334	203	40
Employees								
Headcount (at end of reporting period)	74,948	75,868	76,656	76,099	76,186	76,840	77,850	78,559
Automotive [10]								
Revenue	1,933	1,904	1,918	1,903	1,988	2,088	2,053	2,036
EBIT	244	259	260	234	277	302	272	-115
• in % of revenue	12.6	13.6	13.6	12.3	13.9	14.5	13.2	-5.6
Adjusted EBIT [11]							287	265
• in % of revenue							14.0	13.0
Industrial [10]								
Revenue	908	870	839	789	768	770	758	744
EBIT	157	120	104	35	78	67	42	59
• in % of revenue	17.3	13.8	12.4	4.4	10.2	8.7	5.5	7.9
Adjusted EBIT [12]							75	
• in % of revenue							9.9	

[1] Adjusted EBITDA – excluding special items (personnel-related structural measures of EUR 48 m in Q3 2013 and provision EU antitrust proceedings of EUR 380 m in Q4 2013).
[2] Adjusted EBIT – excluding special items (see footnote 1).
[3] Attributable to shareholders of the parent company; prior year amount restated for initial application of net interest approach required by IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.
[4] Including non-controlling interests; prior year amount restated for initial application of net interest approach required by IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.
[5] Excluding shareholder loans.
[6] EBITDA based on the last twelve months.
[7] Financial debt to adjusted EBITDA ratio - excluding special items (see footnote 1).
[8] Additions to intangible assets and property, plant and equipment for the quarter.
[9] Free cash flow for the quarter.
[10] Prior year information based on 2013 segment structure.
[11] Adjusted EBIT – excluding special items (personnel-related structural measures of EUR 14.7 m in Q3 2013 and provision EU antitrust proceedings of EUR 380 m in Q4 2013).
[12] Adjusted EBIT – excluding special item (personnel-related structural measures of EUR 33.5 m in Q3 2013).

Multi-year comparison

No. 099

in € millions	2009	2010	2011	2012	2013
Income statement					
Revenue	7,336	9,495	10,694	11,125	11,205
EBITDA	1,103	2,097	2,243	2,031	1,634
• in % of revenue	15.0	22.1	21.0	18.3	14.6
Adjusted EBITDA [1]					2,062
• in % of revenue					18.4
EBIT	446	1,509	1,689	1,413	982
• in % of revenue	6.1	15.9	15.8	12.7	8.8
Adjusted EBIT [2]					1,410
• in % of revenue					12.6
Net income (loss) [3]	**-1,204**	**63**	**889**	**870**	**865**
Statement of financial position					
Total assets	12,608	13,344	12,989	13,546	13,427
Shareholders' equity [4]	2,852	3,341	1,714	2,108	2,491
• in % of total assets	22.6	25.0	13.2	15.6	18.6
Net financial debt [5]	6,131	5,711	6,668	6,505	5,447
• Financial debt to EBITDA ratio	5.6	2.7	3.0	3.2	3.3
• Financial debt to adjusted EBITDA ratio [6]					2.6
Additions to intangible assets and property, plant and equipment	325	386	846	827	573
Statement of cash flows					
Free cash flow	-1,400	566	319	381	629
Employees					
Headcount (at end of reporting period)	61,536	67,509	74,031	76,099	78,559

[1] Adjusted EBITDA – excluding special items (provision EU antitrust proceedings of EUR 380 m and personnel-related structural measures of EUR 48 m).
[2] Adjusted EBIT – excluding special items (see footnote 1).
[3] Attributable to shareholders of the parent company, comparative amount for 2012 restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.
[4] Including non-controlling interests, comparative amount for 2012 restated for initial application of IAS 19 (rev. 2011), see Note 1.4 to consolidated financial statements for details.
[5] Excluding shareholder loans.
[6] Financial debt to adjusted EBITDA ratio – excluding special items (see footnote 1).

Financial calendar 2014

March 20, 2014

Full Year Results 2013

May 21, 2014

Results for the first three months 2014

August 27, 2014

Results for the first six months 2014

November 20, 2014

Results for the first nine months 2014

All information is subject to correction and may be changed at short notice.

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