SCHAEFFLER

Annual Report 2014 | Mobility for tomorrow

Quality
Technology
Innovation

Key figures 2014

No. 001

in € millions	2014	2013		Change
Income statement				
Revenue	12,124	11,205	8.2	%
EBITDA	2,172	1,660	30.8	%
• in % of revenue	17.9	14.8	3.1	%-pts.
EBIT	1,523	1,008	51.1	%
• in % of revenue	12.6	9.0	3.6	%-pts.
Net income [1]	654	127	527	€ millions

in € millions	12/31/2014	12/31/2013		Change
Statement of financial position				
Total assets	11,617	8,387	38.5	%
Shareholders' equity [2]	258	-1,966	2,224	€ millions
• in % of total assets	2.2	-23.4	25.6	%-pts.
Net financial debt	5,778	5,447	6.1	%
• Net financial debt to EBITDA ratio	2.7	3.3		

in € millions	2014	2013		Change
Statement of cash flows				
Cash flows from operating activities	900	1,027	-127	€ millions
Capital expenditures (capex) [3]	857	572	285	€ millions
• in % of revenue (capex ratio)	7.1	5.1	2.0	%-pts.
Free cash flow [4]	48	473	-425	€ millions

Employees				
Headcount	82,294	78,258	5.2	%

Schaeffler AG (previously INA Beteiligungsgesellschaft mit beschränkter Haftung) is issuing its first consolidated financial statements and group management report as at December 31, 2014. As these documents do not formally continue the prior year consolidated financial statements and group management of Schaeffler AG (now Schaeffler Verwaltung Zwei GmbH) as at December 31, 2013, they are not fully comparable to those prior year documents.

[1] Attributable to shareholders of the parent company.
[2] Including non-controlling interests.
[3] Capital expenditures on intangible assets and property, plant and equipment.
[4] Including a one-time outflow of EUR 371 m for the EU antitrust penalty in 2014.

Automotive

in € millions	2014	2013		Change
Revenue	8,983	8,164	10.0	%
EBIT	1,234	683	80.7	%
• in % of revenue	13.7	8.4	5.3	%-pts.

Prior year information based on 2014 segment structure.

Industrial

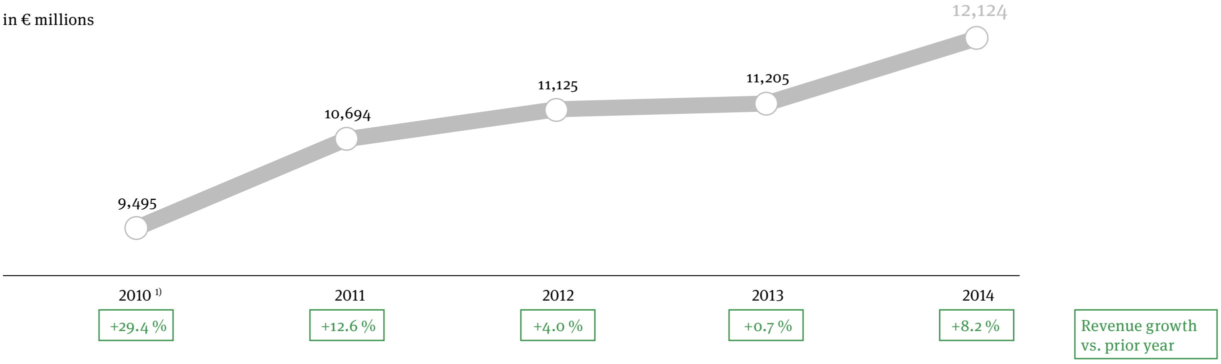
in € millions	2014	2013		Change
Revenue	3,141	3,041	3.3	%
EBIT	289	325	-11.1	%
• in % of revenue	9.2	10.7	-1.5	%-pts.

Prior year information based on 2014 segment structure.

2014 in numbers

Revenue trend

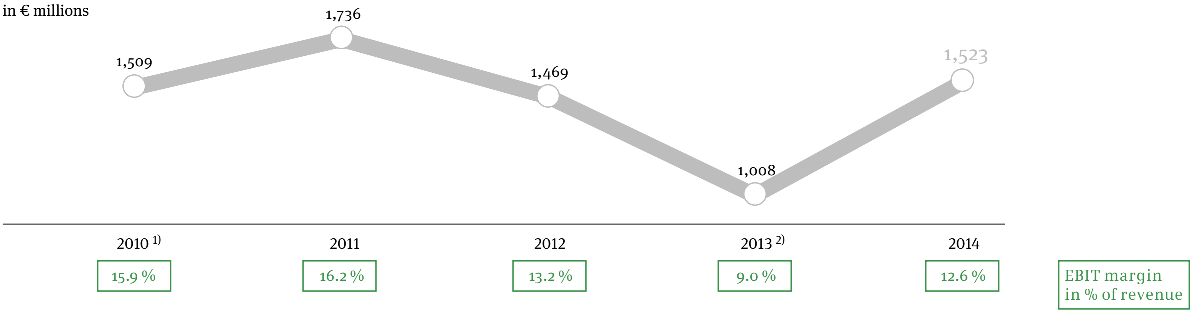
in € millions



[1] Amounts taken from 2010 Schaeffler Group consolidated financial statements.

EBIT trend (earnings before financial result, income from equity-accounted investees, and income taxes)

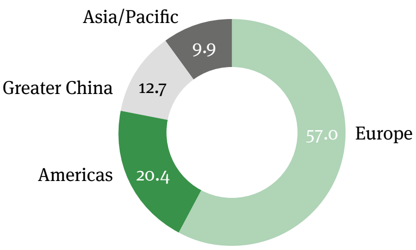
in € millions



[1] Amounts taken from 2010 Schaeffler Group consolidated financial statements.
[2] Includes one-time charge of EUR 380 m related to finalized EU antitrust proceedings.

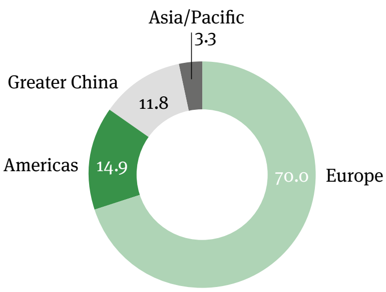
Revenue 2014 by region

in percent by market view



Headcount 2014 by region

in percent at December 31, 2014



Schaeffler Group at a glance

Highlights 2014

Continuing along growth:

Revenue increases to **EUR 12.1 bn**; fx-adjusted growth of 9 %

Earnings quality at high level:

EBIT margin at **12.6 %**

Free cash flow positive:

Free cash flow of **EUR 48 m** includes one-time outflow of EUR 371 m

Increased investments:

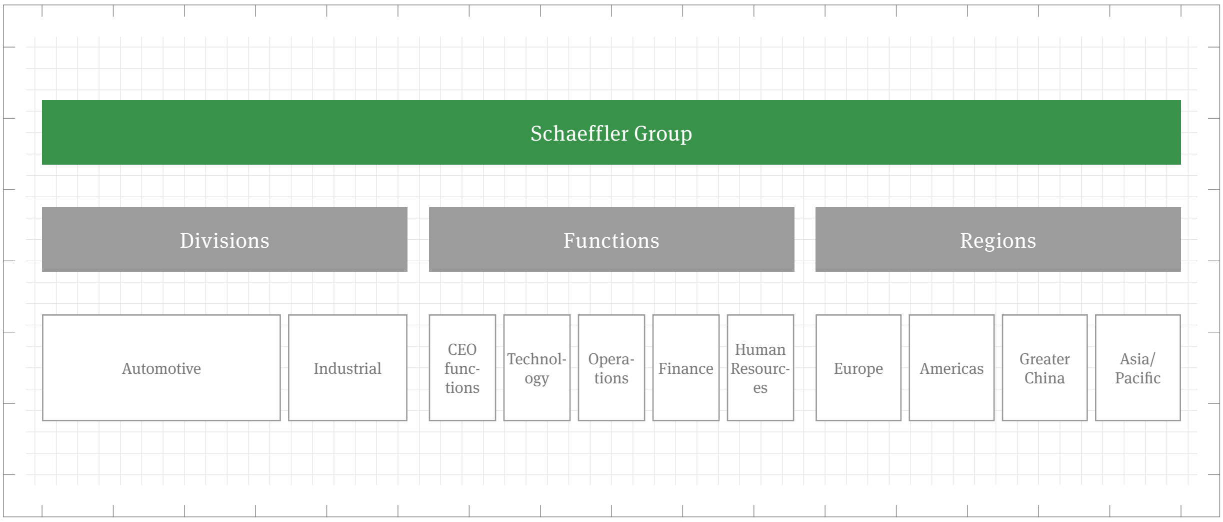
Capital expenditures at **EUR 857 m** (prior year: EUR 572 m);

Capex ratio at **7.1 %** of revenue (prior year: 5.1 %)

Company profile

The Schaeffler Group is a leading integrated global supplier to the automotive and industrial sectors. The company stands for top quality, outstanding technology and strong innovative ability. Its precision components and systems for engines, transmissions, and chassis as well as rolling and plain bearing solutions for numerous industrial applications make the Schaeffler Group a key contributor to the "Mobility for tomorrow."

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



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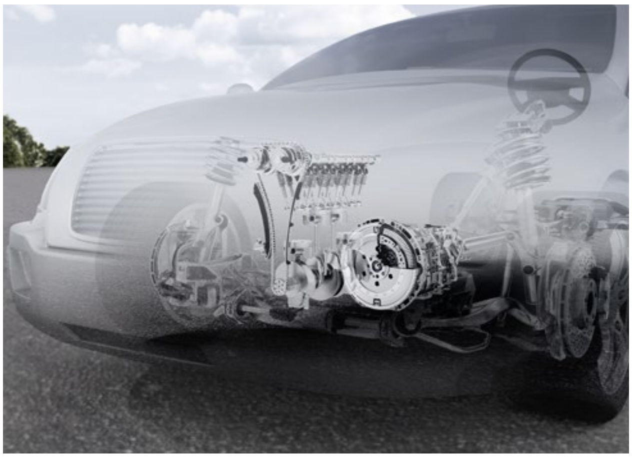
Schaeffler AG

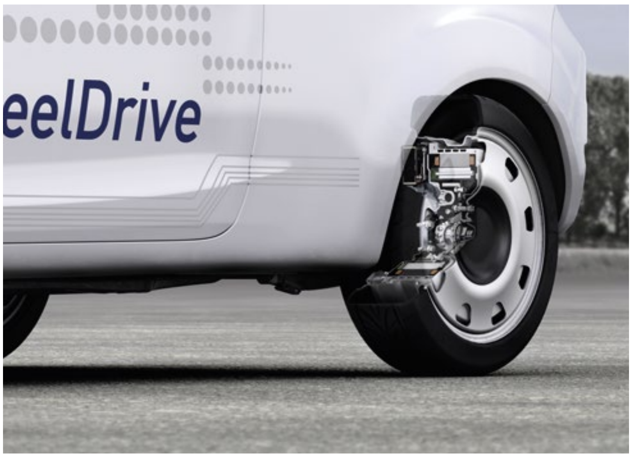
Quality – p. 20

Precise and reliable



Technology – p. 26

Successful and groundbreaking



Innovation – p. 32

Advanced and forward-looking

Contents

Important events in 2014

Q1

February – Herzogenaurach, Germany

/ Schaeffler joins record winner Porsche in running at Le Mans: A legend returns – and Schaeffler is part of its comeback. For the first time since 1988, Porsche competed in the top category of the iconic endurance race on June 14/15, 2014. Porsche fielded its newly developed 919 Hybrid LMP1 sports car in the FIA World Endurance Championship (WEC) with its seasonal highlight at Le Mans. Porsche and Schaeffler have been working together for many decades – in motorsports as well as on the production side.

/ Schaeffler and Continental identify extensive potential savings: Schaeffler and Continental have collaborated closely to develop a concept car that marks a new dimension in the hybridization of passenger cars with downsized gasoline engines. The joint project named "Gasoline Technology Car" (GTC) is proof of the kind of results this cooperation can achieve.

March – Schweinfurt, Germany

/ New Schaeffler Technology Centers – premium expertise worldwide: With four new certified Schaeffler Technology Centers (STC), Schaeffler strengthens its expertise in the regions, making even more comprehensive local technical support available to its customers. The new locations are Santiago (Chile), Seoul (South Korea), Sutton Coldfield (UK) and Braine-l'Alleud (Belgium). 25 Schaeffler Technology Centers worldwide are now providing premium knowledge locally and in immediate proximity to the customer.

Q2

April – Wooster, USA

/ Schaeffler innovation wins PACE Award: Schaeffler is named a 2014 Automotive News PACE (Premier Automotive Suppliers' Contribution to Excellence) Award winner in the "Product" category for its fuel-saving and vibration-reducing torque converter for rear wheel drive with centrifugal pendulum-type absorber.

May – Herzogenaurach, Germany

/ Schaeffler refinances approximately EUR 3.5 bn in debt: Schaeffler successfully completes a refinancing of EUR 3.5 bn of its existing debt. As part of this transaction, the company places four new bond issues totaling approximately EUR 2.0 bn and replaces institutional loans totaling EUR 1.5 bn with new loan tranches carrying more attractive terms. All tranches are significantly oversubscribed.

June – Herzogenaurach, Germany

/ Change in the Executive Board of Schaeffler AG: The Supervisory Board of the Schaeffler Group decides to appoint Klaus Rosenfeld Chief Executive Officer of Schaeffler AG for a further five years. At the same time, the contract with Chief Technology Officer Prof. Dr.-Ing. Peter Gutzmer is extended for another five-year term. He is also appointed Deputy Chief Executive Officer of Schaeffler AG.

Q3

August – Schweinfurt, Germany

/ Always in the right gear – wherever you are: Schaeffler presents an innovative new product for bicycles at EUROBIKE 2014: the automatic bicycle gearshift system FAG VELOMATIC. Whether in a conventional bike or in an e-bike, this gearshift system determines the optimum gear and shifting point based on the cadence, force, wheel speed, and gradient. This ensures excellent riding comfort with maximum flexibility. Thanks to open standards, this gearshift system is compatible with every type of bicycle and drive system.

August – Herzogenaurach, Germany

/ Schaeffler accelerates FIA Formula E development: Schaeffler will be on the grid in the new FIA Formula E as the exclusive technology partner of Team ABT Sportsline, with its logo featured on the cars of Daniel Abt and Lucas di Grassi. The series is held with fully electric vehicles and its inaugural event took place in Beijing (China) on September 13, 2014.

September – Berlin, Germany

/ Schaeffler at InnoTrans 2014: Under its InnoTrans 2014 theme, “lifecycle management,” Schaeffler focuses on monitoring lifecycle costs: products that can be operated economically throughout their entire operating life. To this end, Schaeffler offers solutions that include improved seals, intelligent relubrication units, and innovative mechatronic systems. Schaeffler’s expertise in the field of mechanical components provides the basis here.

Q4

October – Ulyanovsk, Russia

/ Celebrations mark the opening of Schaeffler’s first plant in Russia: Schaeffler opens its first manufacturing facility in Russia. The Schaeffler Group will deliver high-quality products to domestic and overseas automobile manufacturers and the railway industry from its new production plant in Ulyanovsk.

October – Herzogenaurach, Germany

/ Schaeffler honors its best suppliers: Schaeffler expects excellent quality, reliability, competitive cost structures, service, innovation, and a global presence from its suppliers. The company’s 14 best suppliers were presented with the Schaeffler Supplier Award for their performance in 2013 during a special ceremony.

November – Schweinfurt, Germany

/ Integrated bearing technology in medical applications: At Compamed 2014, Schaeffler exhibits innovative and proven solutions that meet both the high quality and safety requirements of medical technology applications and provide increased reliability and flexibility while also expanding the range of possible applications for medical equipment.

Message from the shareholders

Georg F. W. Schaeffler | Maria-Elisabeth Schaeffler-Thumann

Ladies and Gentlemen,

2014 was a successful year for the Schaeffler Group. For the first time, we generated over EUR 12 bn in revenue – all of our regions contributed to this growth. Thanks to our excellent global position and successful products, our Automotive division once again grew faster than worldwide automobile production. Our Industrial division also performed well, although the continuing worldwide reluctance to invest and the impact of currency translation prevented an even stronger recovery. We generated EUR 1.5 bn in EBIT, which puts us among the best of our international competitors. At the same time, we further improved the cost and terms of our financing agreements by refinancing our debt.

The Schaeffler Group is also well positioned for the year ahead, both in terms of its strategic direction and in terms of the group's management. To ensure the continuity of the company's development, Klaus Rosenfeld was appointed Chief Executive Officer of Schaeffler AG for another five years, while the contract with Chief Technology Officer, Prof. Dr.-Ing. Peter Gutzmer, was extended for another five-year term, as well. He was also appointed Deputy Chief Executive Officer. We have full confidence in our management and that we will be able to continue to reinforce the Group's global position in the coming years.

However, despite all of the globalization, the various countries and markets will continue to retain their own individuality in the future. Together, we are determined to shape "Mobility for tomorrow." We have already succeeded in getting numerous initiatives underway, but even more remains to be done. Mobility, too, will pose issues that are region-specific and that we need to address with tailored solutions in close partnership with our customers in order to hold our own in these markets. The Schaeffler Group has been doing this very successfully for decades. We are located wherever our customers are – with the right product for the right market. We operate development centers, manufacturing facilities, and distribution and service offices all over the world. One of our key strengths here is the high standard of quality we maintain around the globe and which our customers demand – worldwide, in the emerging markets just as in the classic industrialized economies.

In the coming years, we intend to maintain and further expand our excellent standard of quality, our technological leadership, and our extensive innovative ability. We are counting on the high level of commitment of all of our employees worldwide to achieve this goal. We would like to express our sincerest gratitude for their hard work and their constructive personal contribution to the success of our company.

Sincerely yours,

Maria-Elisabeth Schaeffler-Thumann

Georg F. W. Schaeffler

Introduction by the Chief Executive Officer

»Being a family-owned company, we plan for the long term. We not only preserve but continually enhance what the Schaeffler Group has stood for over many years: quality, technology, and innovation.«

Klaus Rosenfeld

Ladies and gentlemen,

The Schaeffler Group continued along its impressively successful course in 2014. Together, we look back on a year of growth that was not only above average, but also profitable. For the first time, we have generated over EUR 12.1 bn in total revenue, representing growth over the prior year of 9 % at constant currency. Meanwhile, our EBIT has improved to EUR 1,523 m, and at an EBIT margin of 12.6 %, we were able to maintain the quality of our earnings at the high level achieved in prior years. These two figures alone – 9 % revenue growth at constant currency and an EBIT margin of 12.6 % – demonstrate the Schaeffler Group's extraordinary strength as an integrated global supplier to the automotive and industrial sectors with more than 82,000 employees worldwide.

The positive revenue and earnings trends in 2014 are all the more encouraging and remarkable because we have initiated and implemented significant changes over the course of 2014. These include not only the implementation of our new strategic concept "Mobility for tomorrow" and our global "ONE Schaeffler" and "MOVE" programs, but also the realignment of our organizational and leadership structure as well as the change in our culture following the motto "transparency, trust, and teamwork."

Why were we successful despite these changes which naturally tied up significant internal resources? Because we always act with foresight and a sense of proportion in making these changes. Because, despite all of these changes, our focus is always on the customer. And because, being a family-owned company, we always plan for the long term, and we not only preserve but continually enhance what the Schaeffler Group has stood for over many years: quality, technology, and innovation.

The fact that we again registered more than 2,000 patents and received more than 50 quality awards in 2014 demonstrates the importance of these three success factors. We want to deliver on our promises. We want to continue to live up to this aspiration in the future, and therefore deliberately made it the theme of this annual report.

Let me summarize the key aspects and features of our 2014 business year:

1. “Mobility for tomorrow” – Our strategic concept

In the fourth quarter of 2014, the Schaeffler AG Board of Managing Directors agreed to review the strategic direction of the Schaeffler Group and to realign it where necessary. This has resulted in the strategic concept “Mobility for tomorrow,” which consists of four key focus fields: (1) eco-friendly drives, (2) urban mobility, (3) interurban mobility, and (4) energy chain. Based on this strategy framework, over the course of 2014 we worked on developing the “Mobility for tomorrow” concept further and on backing it with strategic initiatives which are operationalized in the “Schaeffler 2020” roadmap. We are explicitly following an integrated approach, pooling our expertise across divisions and regions. The wide acceptance with which our strategic concept was met by our customers and business partners as well as by our senior management and employees around the world confirms to us that we have chosen a promising route with “Mobility for tomorrow.”

2. “An integrated automotive and industrial supplier” – Our organizational and leadership structure

If we want to be successful with our new strategic concept, we have to shape an organizational and leadership structure that will support the implementation of that strategy in a logical manner. In other words: being successful as an integrated global supplier to the automotive and industrial sectors in the long run requires a structure that encourages and promotes teamwork across divisional, functional, and regional boundaries. Knowing this, we had decided in late 2013 to introduce a group-wide three-dimensional matrix model consisting of two divisions with six business divisions, various functions, and four regions. Over the course of 2014, we implemented and developed this model further. The first two levels of management are in place. We are deliberately relying on a uniform global structure, shorter decision-making processes, as well as more delegation and decentralized responsibility within clearly defined corridors. These are only possible with a more participative and performance-oriented leadership philosophy. More openness, more interaction, and more room for new creative ideas. We have laid the groundwork, and we will consistently follow this path in 2015.

3. “ONE Schaeffler” and “MOVE” – Our programs for the future

To promote the implementation of our integrated business model, harmonize our internal processes and structures, and thus realize additional potential efficiencies, we initiated the “ONE Schaeffler” program in the fourth quarter of 2013. As the name of the program indicates, it will help us pool our forces and close ranks across departmental and geographic boundaries. The program consists of 21 distinct initiatives with clear responsibilities and thus follows a convincing logic, but we are also implementing it in a very disciplined manner using a specifically developed project management approach. All 21 initiatives reached the implementation stage in 2014. One initiative has already been completed. The overall program is currently approximately 50 % complete, which is more than we had expected.

While the “ONE Schaeffler” program has a defined end date and is scheduled to be completed by the end of 2015, we are relying on “MOVE” as a Schaeffler Group program that has proven itself for many years. “MOVE” stands for “Mehr ohne Verschwendung” (“More without waste”), and is based on the principle of continuous improvement. How can we become leaner? How can we make our processes more efficient? Where are we wasting time and resources on non-value-added activities? These questions apply to all areas of the company. Not only to production or sales but, of course, also to research and development, purchasing, and administration. And over and over again. Supported by our global MOVE organization, we have been working for many years to achieve these objectives in order to secure and improve our profitability. While in 2014 the main focus was naturally on the “ONE Schaeffler” program, we will return our attention to our MOVE program and our continuous improvement approach again in the current year. To this end, we agreed on a MOVE roadmap containing six priorities in 2014 which we will implement in the coming years.

4. “Solid financing” – Our capital structure

Over the course of 2014, we further improved our capital structure at the Schaeffler AG level, completing one major refinancing transaction each in the first and second half of the year. Both transactions have helped reduce our borrowing cost, extend the maturity profile of our debt, and increase flexibility for future measures. As a result, we have a solid financial basis. In the coming years, we will concentrate on gradually and sustainably reducing our remaining debt and lowering our leverage ratio, i.e. the ratio of our net debt to EBITDA.

In addition to these refinancing transactions, we further improved the Schaeffler Group's company structure in 2014. Starting with the structural measures initiated in recent years, we completed various transformations towards the end of the year, realigning the group of companies consolidated by the Schaeffler Group. This has resulted in the 34% investment in Continental AG being no longer included in the Schaeffler Group's consolidated financial statements as of the end of 2014. Schaeffler AG and Continental AG (in which Schaeffler AG no longer holds an investment) will in future stand side by side on an equal footing. We believe that this new structure will help us to not only further improve our capital structure but also to further advance our cooperation with Continental AG. In other words: we want to and will be able to cooperate on an arm's length basis going forward, without any one party holding an investment in the other. This new structure should also prove useful for other conceivable cooperations.

5. "Transparency, trust, and teamwork" – Our leadership philosophy
We could not have successfully taken any of the above steps if we had not cooperated well as a team. This teamwork starts with the Executive Board and continues through to the first level of management. It is based on a common understanding that real teamwork is only possible where people trust each other, and that trust can only grow where we treat each other transparently, openly, and fairly. Over the course of 2014, we have come a long way along this road. However, we are aware that we have not yet reached our destination and that the change in culture initiated in late 2013 is an ongoing task and obligation.

In this annual report, we look back on a year 2014 full of hard work, but also full of successes. A year in which we made a great deal happen. My fellow board members and I believe that we have laid the groundwork to be able to stay our successful course in 2015. To this end, we have set ourselves ambitious targets for 2014. We are aware that we will once again be operating in a challenging global economic environment in 2015. We want to continue to grow profitably. To do this, we will focus on our customers even more in 2015. We want to get better and even more efficient. To achieve that, we will consistently implement our "ONE Schaeffler" and "MOVE" programs for the future. With our strategic concept, we want to help shape "Mobility for tomorrow" for our customers and with them. We will rely on what we have stood for over many years: quality, technology, and innovation.

Ladies and gentlemen, dear employees,
Following my first annual report as Chief Executive Officer of Schaeffler AG, I would like to use this annual report as an opportunity to thank our shareholders, the members of our Supervisory Board, my fellow board members, and you for the hard work, the support, and the trust you have given us in 2014. Mutual trust has to be earned over and over again. With this in mind, I look forward to working with you over the course of 2015 and the coming years.

Best regards,

Klaus Rosenfeld
Chief Executive Officer

Executive Board

Robert Schullan
CEO Industrial

Prof. Dr. Peter Pleus
CEO Automotive

Kurt Mirlach
Human Resources

Andreas Schick
CEO Asia/Pacific

Dr. Yilin Zhang
CEO Greater China

Prof. Dr.-Ing. Peter Gutzmer
Deputy Chief Executive Officer and
Chief Technology Officer

Mobility for tomorrow

/ How will mankind travel in the future, how will it transport goods? What resources will we use in transportation, and how much of them?

The Schaeffler Group is actively helping to shape the fast-paced developments relating to “Mobility for tomorrow.” We are developing products for internal combustion engines that are cleaner and more efficient than ever before. And we are driving new technologies forward that are taking hybrid vehicles and alternative drive systems to new dimensions.

Our product range runs the gamut from components and systems for automotive drivetrains to products for high-speed trains, from rolling bearings for solar power plants to innovative solutions for the aerospace industry. Welcome to the Schaeffler Group’s world!

What we stand for: quality, technology, and innovation

In physics, motion is clearly defined: It is a change in the position of an object in space over time. But motion is more. Moving your body – exercising – increases fitness levels and reduces health risks. Motion is also the backbone of our economy, our society – it marks the difference between stopping and starting.

Motion, mobility per se, is part of human nature. The Schaeffler Group is shaping this mobility. The company develops and manufactures precision products that move the world – in automotive drivetrains, in aircraft engines, in wind turbines, in in-line skates. However, to be successful as a reliable engineering partner worldwide, a company must also be able to move itself.

Three fundamental mindsets are at the Schaeffler Group's core: the commitment to quality, technology, and innovation. These fundamental attitudes are related to each other. When creating something new, you have to achieve top quality. When guaranteeing quality, you have to constantly question, learn, improve. This is the only way of becoming and remaining a leading technology group – especially in a challenging economic environment.

The Schaeffler Group has been delivering quality for more than 120 years because it is constantly renewing itself and continually offers new solutions to its customers' problems. The principles of thinking laterally, thinking differently, thinking anew are deeply rooted within the company. That is the only way to develop alternative and more efficient drive types or to expand the use of renewable energy sources in order to ensure "Mobility for tomorrow." Because we are convinced that mobility means progress.

The following pages will provide you, dear reader, with a brief look at some of the Schaeffler Group's 2014 mobility innovations. Or improvements. Or both.

Quality

Precise and reliable

SCHAEFFLER

/ Different markets – one objective

Books. Phones. Bicycles. Three examples among many. Three examples that demonstrate how markets have developed in completely different directions in recent years. Not long ago, most people were satisfied with a paperback, a mobile phone without Internet access, or a three-speed bicycle. In the age of the e-book, the demand for high-quality paper, bibliophile design, for beauty and weight is growing. Hardly anyone still uses a mobile phone that is not “smart.” And in the developed economies, the bicycle is turning from a mere means of transportation into a status symbol.

There are many reasons for this trend. Growing prosperity leads to growing – and more varied – demand. Globalization makes it easier to become familiar with different countries and their regional preferences and to quickly and easily order products from all over the world online. The Schaeffler Group’s benchmark is consistent top product safety across all applications in order to provide mobility for tomorrow: in the cities just as in long-distance transportation, energy-efficient, and eco-friendly drives. This ambitious quality standard ensures that defects do not occur to begin with. “Zero defects” – that is our declared objective. Whether in producing prototypes, in training staff, or in selecting the best materials. We are honored by the numerous awards we have once again won in 2014 for the way we live up to our quality standards, but even more so, they motivate us to do better.

Facts and numbers

Global certifications for quality management at nearly all Schaeffler locations:
/ ISO/TS 16949:2009
/ DIN EN ISO 9001:2008

/ Quality awards in 2014: **54**
/ Number of valid environmental certifications worldwide: **222**

Schaeffler Academy:
/ Approximately **5,000** continuing education courses in Germany
/ Approximately **2,900** trainees worldwide

www.schaeffler.com

Making the customer come back, not the product

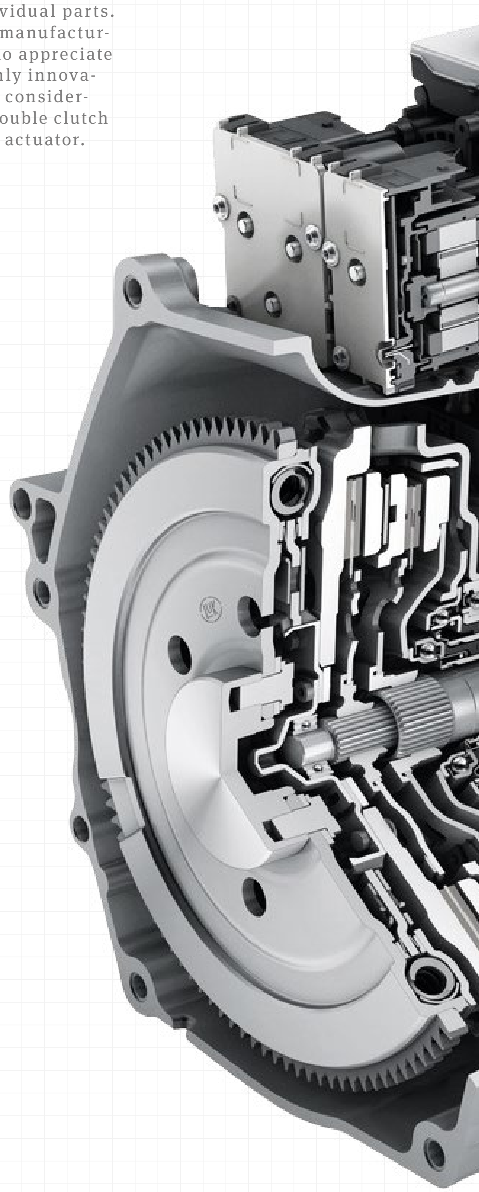
Long-term survival in the global market requires significant differentiation from competitors in terms of product quality. The Schaeffler Group has stood its ground as a leading technology company in the global markets for more than 120 years. This success both confirms the quality and value of Schaeffler's products and represents an enormous obligation. After all, the task we face is guaranteeing mobility for tomorrow for use by a growing number of people as they see fit – without inflicting damage on the planet or its inhabitants. That is why the Schaeffler Group strives to be not just good, but excellent, always.

→ **Tiny prototype**
Bearing solutions for in-line skates

Cronitect hybrid bearings provide the ultimate kick for more dynamics, smooth running, and fun in in-line skating. High-performance ceramic balls, plastic bearing cages, and hard, wear-resistant Cronitect raceways make all the difference to conventional bearings.

→ **One of the most complex components of today's car:**
The double clutch

It consists of over 500 individual parts. The number of automobile manufacturers and their customers who appreciate the advantages of this highly innovative technology has grown considerably. Shown here is a dry double clutch including hydraulic clutch actuator.



Right from the start

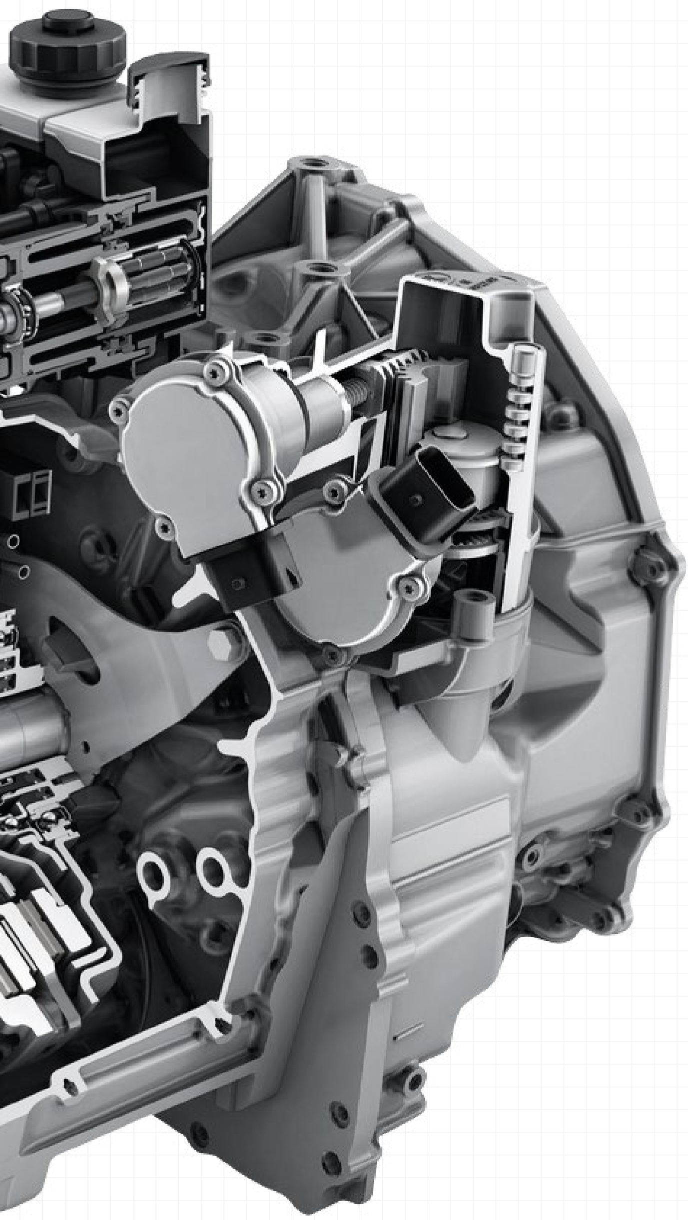
/ By the time an innovation is brought to market by the Schaeffler Group, it has gone through a complex process starting with near-mass production and functional prototypes manufactured at 26 locations worldwide. This involves internally developed tools whose increased efficiency has saved the company over EUR 100 m in consumable tool expenses over the last four years.

→ **Prototypes per year**
10,000+

→ **Employees in this field**
approx. 3,300

The basis of the best

/ A company is only as good as its employees – a truism, but true nonetheless. The Schaeffler Group invests in young talents – exemplified by its approximately 2,900 trainees worldwide – as well as in continuing professional education, and cooperates on practice-oriented degree programs with numerous universities. And it also celebrates its employees' anniversaries. The stage at a ceremony in Herzogenaurach in April 2014, for instance, held 253 staff with 6,835 combined years of experience, technical expertise, and loyalty.



The X-factor

Anniversary of a seal of quality: For ten years, X-life has been extending operating lives, increasing load carrying capacities, and helping to utilize space more effectively.

Longer operating life
Unchanged loads and space requirements result in a significantly longer operating life, extending running times and saving maintenance costs.

Increased load carrying capacity
Given unchanged required space and operating life, X-life raises load carrying capacity. This has increased the load rating of various bearings by up to three times.

More effective use of space
Once more, holding operating life and load carrying capacity constant results in less required space and less weight, facilitating the use of smaller and more lightweight machines.

Fighting piracy

/ In the arts, plagiarism is uncreative, in fashion it is annoying, but in engineering plagiarism can be lethal.

That is the reason why the Schaeffler Group consistently takes action against counterfeit products. As an example, several raids in cooperation with the local customs authorities in the US in the summer of 2014 which resulted in the seizure of rolling bearings worth more than 500,000 US dollars that were branded with Schaeffler's FAG logo.

Attention to the smallest detail

Long list

So where can you find Schaeffler products? And what would happen if their quality was not as high as it is? A few examples.

"Schaeffler, with its product brands INA, LuK, and FAG, is a renowned supplier to the automotive industry of high-precision products and systems for engines, transmissions, and chassis as well as a leading global provider of rolling bearing and plain bearing solutions and of linear and direct drive technology." This is how the Schaeffler Group describes itself in its press releases and publications.

An accurate and compact statement. But if you are among those who are unable to define the difference between a rolling bearing and a plain bearing off the top of their heads, you might ask yourself, "So what exactly is it that the Schaeffler Group does?"

For everything that moves

The answer is easy: The Schaeffler Group develops and manufactures products for everything that moves. First of all, there is the motor vehicle. Surveys indicate that every motor vehicle in the world contains an average of 60 Schaeffler parts, including, among others, the dual-mass flywheel. As early as in the early 1980s, Schaeffler replaced the fixed flywheel with a flywheel with two masses, the birth of the dual-mass flywheel (DMF). The two decoupled masses are linked by a spring damping system which reliably damps engine vibrations. The DMF also facilitates driving at fuel-efficient operating points, helping to reduce CO_2. This and other products for many other modes of transport, e.g. for aircraft and ship engines, and for wheel bearings in low-noise trains, facilitate mobility for today and tomorrow.

In addition, there is an almost infinite number of products that are essential to everyday life but that are hardly ever noticed, maybe because they are so small as to be almost invisible. The Schaeffler Group's smallest products are several millimeters in size – they ensure, for example, the smooth operation of in-line skates. Or possibly because they are so large that it is almost impossible to really take them in: An example are two custom-made large-size spherical plain bearings stabilizing the London Eye, currently the world's fourth-largest Ferris wheel – they compensate micro-movements caused by the wind.

What if ...?

In between the dwarfs and the giants among Schaeffler's products fall numerous components found in wind turbines and hydropower plants, machine tools, printing equipment, tunnel-driving systems, textile, food processing, and packaging machinery, and in a radiologist's office. And then there are various services such as installation, lubrication, alignment and condition monitoring, spare parts logistics, training, but also modern calculation tools to assist with bearing selection and documentation.

If all of these services and products – thousands of off-the-shelf catalogue items plus a multitude of customer-specific solutions – did not work, the world would be turning at a much slower pace. Failure of technological components would have wide-ranging consequences: Much less energy would be generated, whether conventional or renewable. International transport of both goods and people would no longer run smoothly. Housing and road construction would be affected, as would pumping liquids, and printing on paper. Not to speak of empty retail shelves. The list of examples could be expanded indefinitely – after all, the Schaeffler Group is a supplier to more than 60 different sectors.

Zero defects

To make sure that things never get to that point, the Schaeffler Group has made "zero defects" its declared objective. Its uniform worldwide quality management ensures adherence to high standards. We want to continually improve the quality level of our products by using state-of-the-art manufacturing technology, high-quality steel, machinery that can produce a significantly finer surface quality, engineers who research, develop, and are convinced that any product can always be improved upon. Our approach also includes having this quality level tested and monitored in regular and independent audits.

We pay attention to the smallest detail. The only reason: We want things that are moving today to still be moving tomorrow. Smoothly and with the highest quality.

→ **Success story**
In December 2014, the 100-millionth dual-mass flywheel (DMF) left the production line at the Schaeffler location in Bühl (Germany).

Technology

Successful and groundbreaking

/ From “simple” components to complete system solutions

Schaeffler’s products have always facilitated and aided mobility: For decades, they have been part of developments first in bicycles, then railways, some time later automobiles, and finally in aircraft, and have continually contributed to their improvement. In the course of this process, they have continually developed from “simple” components into complete system solutions.

One of many examples of outstanding innovation in the company’s 50-year history is the dual-mass flywheel (DMF), one of Schaeffler’s major contributions since the early 1980s. Recently, in December 2014, the 100-millionth dual-mass flywheel (DMF) left the production line in Bühl (Germany). A product which nobody really wanted at first finally emerged as a groundbreaking innovation for the automotive industry and has been continually adapted to meet the ever-expanding requirements since 1985. The integration in 2008 of a centrifugal pendulum-type absorber without impacting the design space was key to damping vibrations, thus ensuring the driving comfort of the generations of high torque engines automobile manufacturers have brought to market in subsequent years.

Whether in further developing the DMF or in other system solutions, today’s focus is on acting responsibly with respect to our remaining resources. The automotive industry is wondering, “Diesel engine, gasoline engine, gas engine, hybrid drive, or electric vehicle – which drive will dominate in future?” Although the hybrid and electric car are emerging as alternatives to the conventional fuel vehicle, the internal combustion engine is far from obsolete. This is where many small fuel-saving innovations are the key to success, together achieving substantial fuel savings, and consequently significantly reducing CO_2 emissions.

As there appears to be no single way forward that is appropriate to all brands, vehicle types and regions, the Schaeffler Group is working on a variety of technologies. Its concept cars demonstrate the entire range of its systems expertise. Schaeffler’s most recent innovation in this field is the 48-volt system concept car which uses an electric drivetrain to offset the inherent shortcomings of the internal combustion engine and to tap additional potential for efficiencies.

Facts and numbers

Company history:

/ 1946	Brothers Dr. Wilhelm Schaeffler and Dr. Ing. E. h. Georg Schaeffler found INA in Herzogenaurach, Germany
/ 1965	LuK Lamellen und Kupplungsbau GmbH is founded in Bühl, Germany (with INA as one of the investors)
/ 1999	The Schaeffler Group expands its expertise as a system supplier to the automotive industry by acquiring the remaining interest in LuK GmbH
/ 2001	Acquisition of FAG Kugelfischer Georg Schäfer AG, Schweinfurt, Germany
/ 2008	The Schaeffler Group acquires a strategic investment in Continental AG

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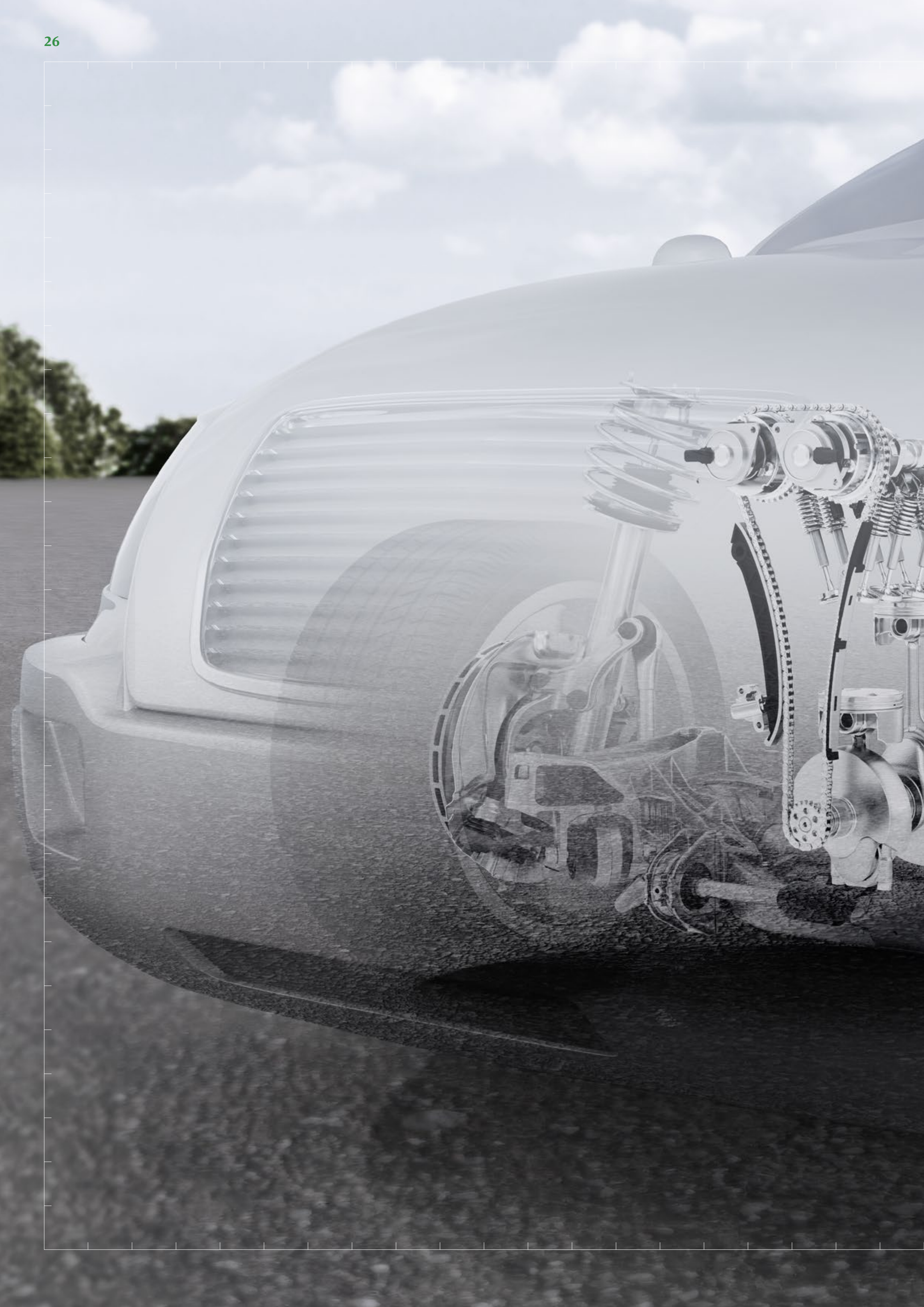
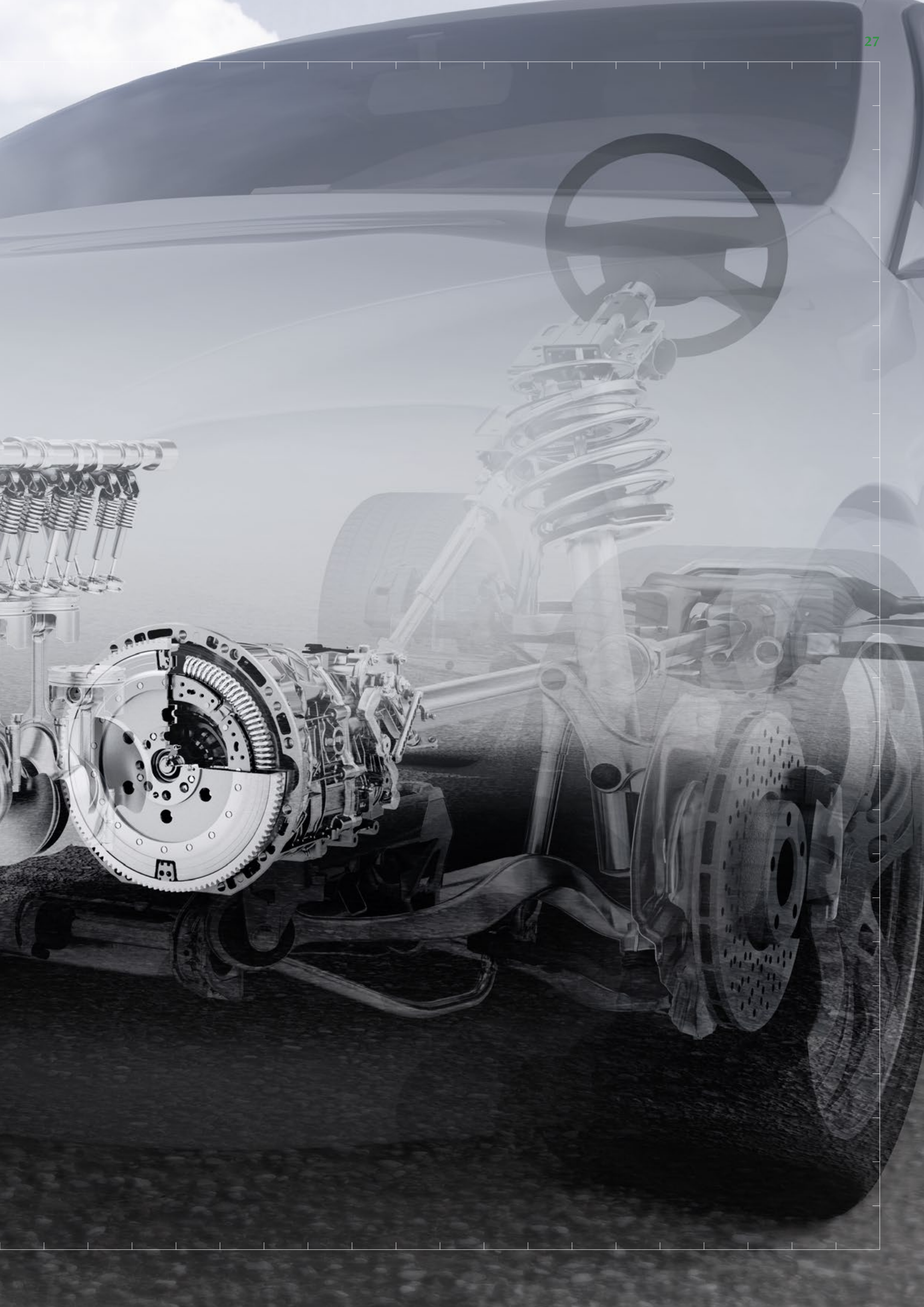
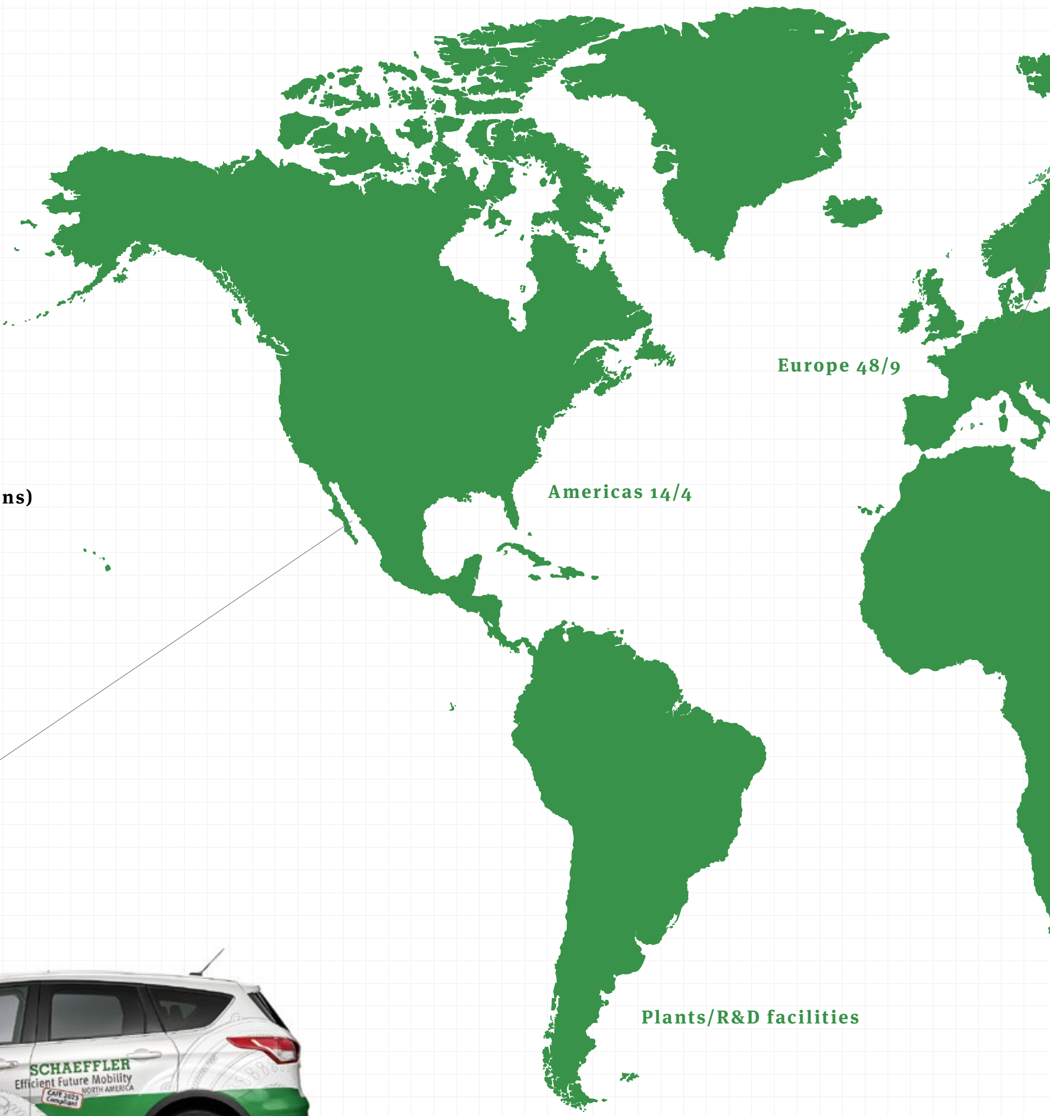




The right technology for every market

The mobile world is changing – however, it is changing differently in the city and in the country, in the industrialized nations and in the emerging regions. At the same time, hybrid vehicles represent the gradual transition from internal combustion engines to electric motors. To accommodate these different needs, the Schaeffler Group has developed different concept cars for the different markets. The region-specific fleet currently includes vehicles for the US, China, and India. The 48-volt system concept car Schaeffler has developed demonstrates the possibilities offered by the intelligent interaction of mechanics and electronics.



US

→ **Inhabitants (millions)**

319

→ **Cars per 1,000 inhabitants**

786

→ **Top issue**

Increasing efficiency

Concept car **Efficient Future Mobility North America**/
Products demonstrated in a mid-sized SUV include a four-wheel drive disconnect clutch, engine start-stop, and thermal management. The result: Fuel consumption is reduced by 14 to 15 %.

Europe

→ Inhabitants (millions)

743

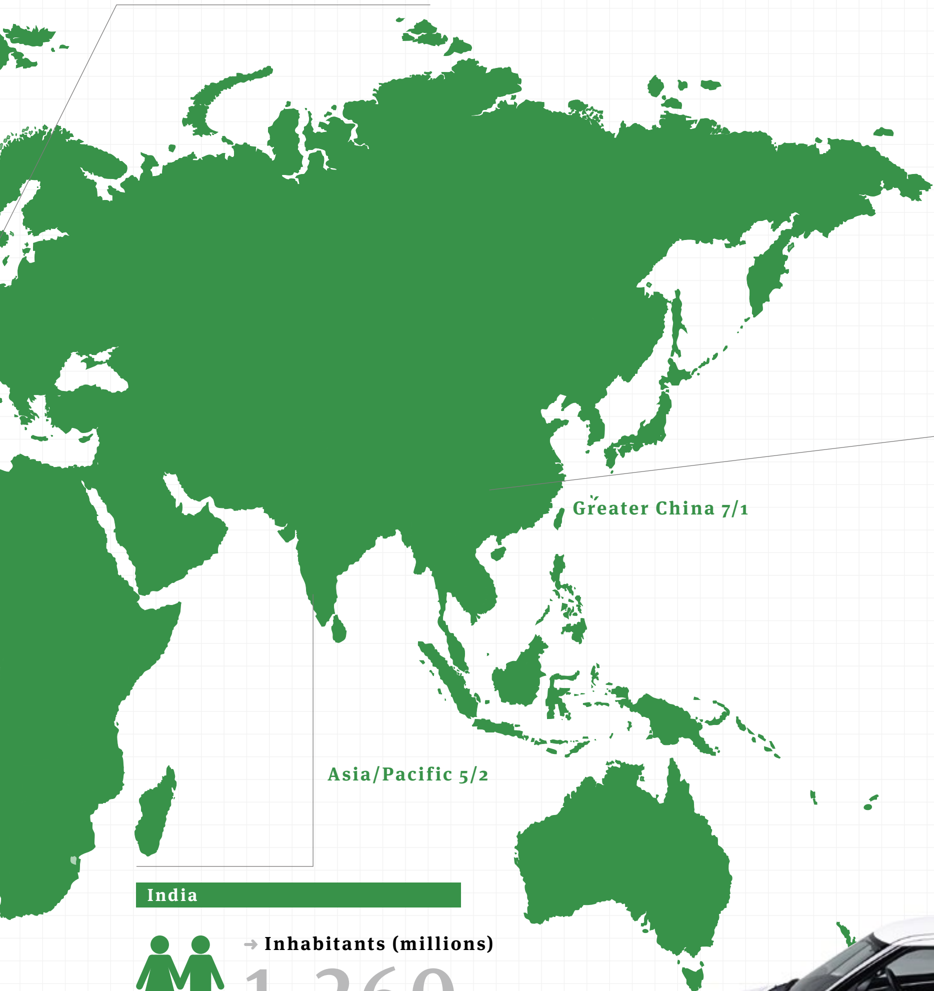
→ Cars per 1,000 inhabitants

483

→ Top issue

CO_2 reduction

Concept Car **Efficient Future Mobility China**/
In light of China's ambitious environmental targets, Schaeffler presented the concept car for that market in November 2014. It embodies Schaeffler's vision of fully hybrid drivetrains in the near future and combines a modular hybrid system with an efficient double clutch.



China

→ Inhabitants (millions)

1,367

→ Cars per 1,000 inhabitants

100

→ Top issue

Protecting the environment

India

→ Inhabitants (millions)

1,260

→ Cars per 1,000 inhabitants

12

→ Top issue

Small, fast, robust

Concept car **Efficient Future Mobility India**/
An electronic clutch management system (ECM), a variable camshaft phasing unit, and a thermal management module are installed in a small economical car with a manual transmission that is popular in India.

Diversity beats monotony

Today, looking toward the future and working for tomorrow as well as setting global trends, for instance by opening up new possibilities in the combination of mechanics and electronics, is more important than ever before. Not only is the population on this planet growing, and particularly the number of people who take mobility for granted, but this mobility is not without its consequences – global warming, gridlock, and the finite supply of fossil fuels, to name only three.

Ensuring movability and maneuverability

As an international mobility supplier, Schaeffler's focus across its divisions and regions is on the challenge of ensuring the movability and maneuverability of mankind into the future while reducing the impact on the environment and on people. Schaeffler's components are hidden in cars and motorcycles. They can do amazing things when combined intelligently.

The diversity of energy-efficient vehicle prototypes is driven by the diversity of the various markets. For instance, while Manhattan and Mecklenburg-West Pomerania have about the same population, they have extremely different characteristics: They differ enormously in terms of average age, traffic density, commuting distance, purchasing power, and many other factors. Therefore, the Schaeffler Group's concept cars are customized to the specific local customers' needs and wishes and, accordingly, are very individual in appearance.

One step ahead of the present

The aim of the 48-volt system concept car presented at the Schaeffler Symposium in Baden-Baden in April 2014 goes beyond the regional specialization of previous concept cars. Low-voltage hybrid systems offer cost-effective entry into the efficient world of hybrid vehicles.

Schaeffler has developed three variations of its 48-volt hybrid drive. One of these is the electric axle, an axle drive with an integrated electric motor. The 12 kW (16.3 hp) electric motor can be installed within the differential without any modifications to the vehicle body or chassis. An integrated single or two-speed transmission ensures a high starting torque (up to 1,500 Nm) and facilitates all-electric driving at speeds of up to 20 km/h. Equipped with an additional planetary gear set, the electric axle systematically distributes the torque between the wheels, a function known as "torque vectoring," which significantly increases the vehicle's agility.

But what about manual transmissions, which are still the norm, particularly in the smaller vehicle classes? For them, Schaeffler has developed the first hybrid module for vehicles with manual transmissions. The 48-volt electric motor is integrated parallel to the axis between the internal combustion engine and the transmission, and is driven by a belt. The internal combustion engine can be decoupled using a lockup one-way clutch between the electric motor and the internal combustion engine, enabling fully electric deceleration or maintaining a constant speed. The conventional starter clutch between the electric motor and the transmission is automated in order to ensure optimal comfort for the driver across all of the various modes of operation. This also significantly improves restarting behavior during start-stop.

Schaeffler's third type of 48-volt hybrid drive: A belt connects powerful electric motors to the crankshaft, a belt-driven starter generator. It can start the internal combustion engine and the electric motor can assist with acceleration. The vibrations occurring in the belt drive are eliminated by the belt pulley decoupler developed by Schaeffler. With the addition of an electromagnetic actuator, the starter generator can also drive the air-conditioning compressor when the engine is switched off.

Diversity with a common denominator

As diverse as the concept cars presented by Schaeffler to date are, they do, of course, have a common denominator. The ultimate goal of the expert knowledge concentrated in all of the prototypes is to significantly reduce the fuel consumption of these vehicles and, consequently, their emissions. Frequently, manufacturers are faced with having to meet legal requirements in this area in the near future. In other words: Around the globe, the issue is the efficient use of energy – and Schaeffler is working around the globe to achieve this goal as soon and as efficiently as possible.

Essay

"Mobility for tomorrow" – that is the Schaeffler Group's strategic concept. Over the course of this past year, we have used it to focus the growth strategy we have since consistently pursued. An update.

The Schaeffler 48-volt hybrid module

Key data
/ 48-volt mild hybridization offers cost-effective entry into the efficient world of hybrid vehicles
/ Fuel savings of approximately 15% through recuperation (recouping energy during deceleration)
/ Electric motor placed on the rear axle or the engine

Innovation

Advanced and forward-looking

SCHAEFFLER

/ Re-improving the wheel

Re-improving the wheel. There are terms that are used contrary to their actual meaning so often that, they almost seem to be devoid of any meaning at all. Take “revolutionary,” for instance, an adjective applied to chip packages and T-shirts alike. Similarly for “genius.” And what about “innovative”?

The word is derived from the Latin verb “innovare” which translates to “renew” in English. If “innovative” is simply translated as “new,” then it automatically applies to any product replacing a previous one.

However, the Schaeffler Group takes this term to refer to an idea that can be put into practice and that suggests a new approach to solving an existing problem. Thus, an innovation combines inventiveness and the will to succeed into a product, a methodology, a system, or a service.

Game-changers are not realized every day. But every day, the Schaeffler Group is working to systematically improve upon the state of the art. Progress is often made in the details and with the knowledge that many tiny parts will come together to one day form something great.

The electric wheel hub drive (E-Wheel Drive) clearly demonstrates Schaeffler’s innovative ability. Compactly concentrating the drive modules in the rim leaves more room inside the vehicle and increases its maneuverability. For electric vehicles, which may be mandatory in large cities in the future, the wheel hub drive creates previously unheard-of space savings.

Facts and numbers

/ Number of research and development facilities: **16**
/ Number of employees at these facilities: **approximately 6,400**
/ Number of inventions reported in 2014: **approximately 2,800**

www.schaeffler.com


eelDrive

An interview

Dirk Spindler (l.) completed a degree program in engineering and is the Senior Vice President R&D of Schaeffler's Industrial division; Uwe Wagner (r.), his counterpart in the Automotive division, also holds an engineering degree.

"Thinking laterally, thinking differently, thinking anew – to think ahead"

➜ Mr. Spindler, Mr. Wagner, you have both gotten numerous innovations off the ground in your divisions. When you look back at the history of mankind, which invention do you consider the most significant?

Dirk Spindler & Uwe Wagner (in unison) The wheel.

➜ That was to be expected. And in the Schaeffler Group's recent business year 2014?

Spindler There were so many. The novel Triondur CH coating system, the thermally robust cylindrical roller bearing TR … If I really had to choose one, I'd pick the turbines that float several meters below the surface of the ocean, utilizing ocean currents to generate energy, and that are robust, stainless, and practically maintenance-free, thanks to media lubricated rolling bearings. So they completely dispense with oil and grease, the water itself lubricates the bearings – a significant ecological advantage.

Wagner I'll take the easy way out: the Schaeffler E-Wheel Drive. These are highly integrated wheel hub drives where all components needed for driving, decelerating, and driving safety, such as the electric motor, power electronics, controller, brake, and cooling system, fit inside the wheel rim.

➜ Why is that the easy way out for you?

Wagner Because the automotive trade magazine "Auto Test" took the same view and named the E-Wheel Drive "Innovation of the Year."

➜ Schaeffler is considered one of the most innovative companies in the world …

Spindler … with approximately 2,800 inventions reported worldwide …

Wagner … We are pleased that the share of Schaeffler inventions reported outside Germany is steadily increasing.

➜ What do you think this success is based on?

Wagner There are numerous factors. As you know, the company can look back on a long history. The pioneering spirit has always been deeply engrained at Schaeffler. So innovative ability is a key part of Schaeffler's core.

Spindler And based on this core, over 6,000 employees in 16 research and development facilities are working closely with our customers on new technologically and economically convincing solutions.

Wagner However, innovation requires not only creative people, but also a culture that enables them to tap existing potential and utilize it efficiently. Thinking laterally, thinking differently, thinking anew in order to be able to think ahead – that's what we do every day.

Spindler For instance, we cultivate long-standing partnerships with many universities, institutions, and research facilities and organize events like our "Innovation Days," the "Schaeffler Symposium," and the "Forum of Inspiration."

Wagner And the key impetus is frequently provided by our customers. They naturally know best what exactly it is they need, and then our interdisciplinary teams of experts try to realize their ideas and meet their needs. This collaboration results in the development of approaches that sometimes go beyond the expertise of the individual participants.

➜ The media are currently full of stories about generation Y – well-educated technophiles who also look for more scope for development. Are you worried about new talent, about a slow-down in innovation?

Spindler Not at all. Both of Schaeffler's divisions have a wide variety of customers and products, so they offer a wide variety of tasks and challenges. Staff can actively contribute, help shape, develop, and implement ideas at 16 R&D facilities around the world. At these facilities, employees can become familiar with different cultures and mindsets – that, too, expands their horizons. Of course, being proactive is the key to this. But if I was a young engineer, I'd join Schaeffler.

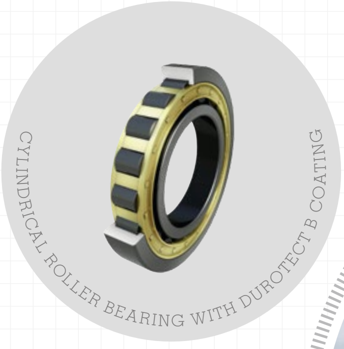
Wagner Which is what you did.

➜ And if you were granted a wish for an invention?

Spindler That's a tough one. Schaeffler's groundbreaking steps towards Industry 4.0 are impressive. Numerous integrated functions such as sensors generating data regarding the operating condition of machines and plants and helping to analyze them increasingly turn the rolling bearing component into a mechatronic system, helping to significantly increase plant operating lives and extend maintenance intervals.

Wagner My wish would be that we can continue to drive forward issues such as reducing fuel consumption, increasing efficiency, and progressively electrifying the drivetrain, and, at the same time, provide a fun and comfortable driving experience. And we are well on our way.

➜ Thank you very much for your time.



➜ Wind power
As wind turbines and their output are growing, their individual components have to bear increasingly higher loads. For surveying of wind farms, inspecting, or observing damaged turbines, the Schaeffler Group has developed the FAG WiProM, a mobile analyzing device that significantly simplifies investigations on location.

➜ That's a winner

A selection

/ PACE Award
Automotive News for the fuel-saving, vibration-reducing torque converter with centrifugal pendulum-type absorber

/ Supplier Quality Excellence Award 2013
General Motors for 24 Schaeffler plants

/ Excellent Quality Award
Murakami Seiki for Schaeffler Industrial Greater China

/ Silver Materialica Design + Technology Award 2014
for the Triondur CH coating system

/ Innovation of the Year
Auto Test for the E-Wheel Drive

/ Eurobike Award 2014
for automatic bicycle gearshift system

New and durable

/ In this fast-paced time, more than ever before, innovative ability – the ability to turn innovations into first-rate products – is a key success factor. Therefore, innovative ability is a key part of Schaeffler's core. As a forward-looking company, inventiveness and the will to succeed, two fundamental traits of the founders of our company, determine our actions even today. They are the cornerstone ensuring that our innovations have always made tomorrow a little better than today.

The Schaeffler Group is continually driving technological progress, again and again setting new standards.

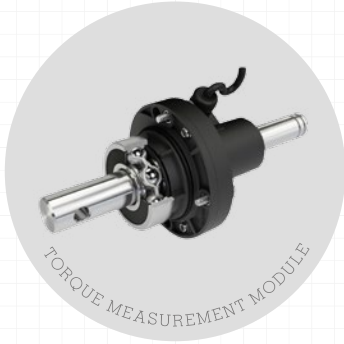
➜ Aerospace
While all forecasts indicate that air transport will continue to grow, net emissions of CO_2 are targeted to decrease by 50 % from their 2005 level by 2050. This translates to a goal of reducing fuel consumption by approximately 20 % for each new generation of aircraft. The Schaeffler Group's Aerospace sector is working on developments to help meet this target, including:

- *bearings with improved friction characteristics*
- *optimizing the weight of bearing systems by integrating components and functions*
- *increased speed capacity and improved bearing cooling*
- *bearing materials with increased performance to increase operating life and reliability*
- *sensors for monitoring bearings*
- *mechatronic bearing units*

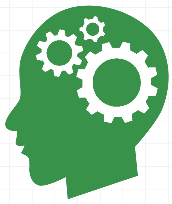
Long-term growth

/ Global megatrends are driving the long-term growth of the agricultural machinery sector. Since the area under cultivation is limited, however, the sector is working hard on solutions to increase the yield per hectare and the return on capital employed. By supplying components and modules, Schaeffler can make key contributions to increased efficiencies in agricultural engineering.

➜ **More precise spreading**
An innovative torque measurement module within the drivetrain measures and regulates the fertilizer flow rate, preventing incorrect dosing of valuable fertilizer.



➜ **Innovation Tractor**
In a joint project, Schaeffler is collaborating on solutions for future generations of tractors with John Deere, a leading manufacturer of agricultural machinery. The project focuses specifically on developments to reduce energy loss and emissions as well as to sensorize and control operating processes.



Competition for the best ideas

/ The seventh “Forum of Inspiration” was held at the Schaeffler Group’s head office in Herzogenaurach – with its own arena this time.

In the arena, employees from many different departments used booths to present novel ideas, discussing and further developing and specifying them with visitors. Upon leaving the arena, visitors then voted for the idea whose future potential they considered feasible. The winner turned out to be a new clutch for motorcycles.

Schaeffler on the capital markets

The Schaeffler Group has once more successfully completed several refinancing transactions in 2014. Existing debt of EUR 3.5 bn was refinanced successfully on May 08, 2014.

This refinancing further diversified the Schaeffler Group's financing sources, improved the maturity profile of its debt, and further lowered its borrowing cost. As part of this transaction, Schaeffler redeemed its 6.75 % Senior Secured Notes due in 2017 (ISIN: XS0801261156), its 8.75 % Senior Secured Notes due in 2019 (ISIN: XS0741939788), and its 8.5 % Senior Secured Notes due in 2019 (ISIN: USN77608AA00) all of which were issued in 2012. In addition, the company placed four new bond issues with a total principal of approximately EUR 2.0 bn, including three secured bond tranches but also the company's first unsecured bond tranche. The key terms of the bonds are as follows:

- Principal EUR 500 m; maturity 5 years; interest rate 2.75 %; secured
- Principal EUR 500 m; maturity 5 years; interest rate 3.25 %; unsecured
- Principal EUR 500 m; maturity 8 years; interest rate 3.50 %; secured
- Principal USD 700 m; maturity 7 years; interest rate 4.25 %; secured

The bonds were issued by Schaeffler Finance B. V. and are listed on the Euro MTF market of the Luxembourg Stock Exchange.

Performance of Schaeffler bonds

The Schaeffler Group had the following bonds outstanding at December 31, 2014

No. 002

ISIN	Currency	Face value in millions	Coupon	Maturity	Issued at (in %)	Price in % [1] 12/31/2014
XS0741938624	EUR	800	7.75 %	02/15/2017	98.981	112.50
US806261AC75	USD	600	7.75 %	02/15/2017	98.981	109.56
XS0923613060	EUR	600	4.25 %	05/15/2018	100.000	103.03
XS1067864881	EUR	500	3.25 %	05/15/2019	99.429	101.26
XS1067862919	EUR	500	2.75 %	05/15/2019	99.421	100.42
US806261AJ29	USD	700	4.25 %	05/15/2021	99.253	98.81
US806261AE32	USD	850	4.75 %	05/15/2021	100.000	100.94
XS1067864022	EUR	500	3.50 %	05/15/2022	100.000	102.11

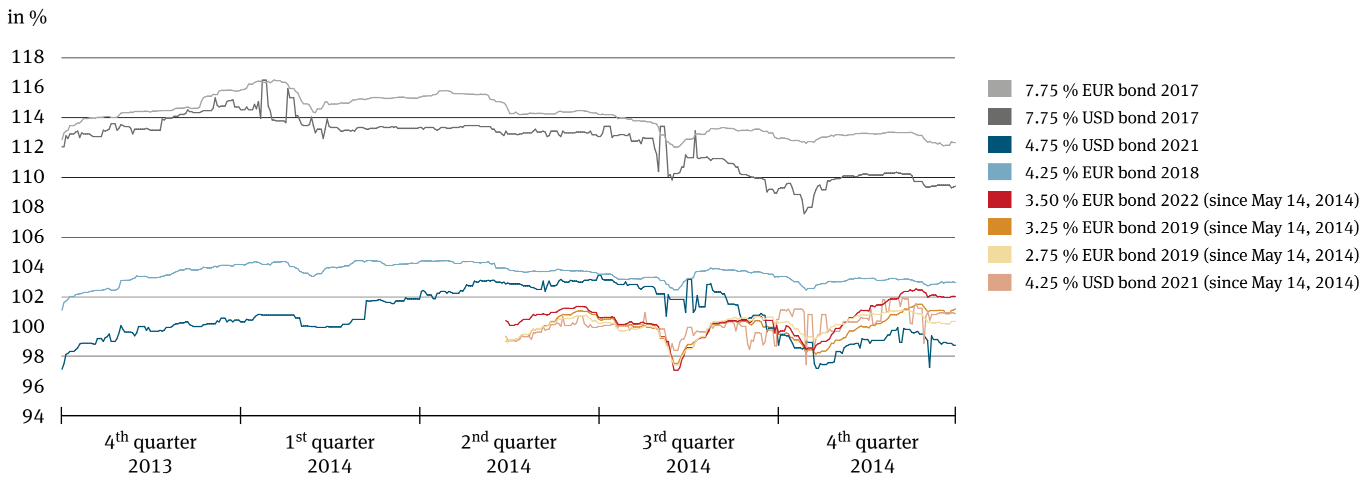
[1] Source: Bloomberg.

The corporate bond market was characterized by a high volume of new issues in 2014. Corporate bonds continued their positive trend in the fourth quarter of 2014. According to a PwC study, a total of EUR 142 bn in corporate bonds were issued in the German market during the fourth quarter of 2014. For 2014 as a whole, bond volumes increased by EUR 609 bn – a considerable recovery compared to the prior year. The average interest coupon on debt issues fell from 3.88 % in the fourth quarter of 2013 to 3.27 % in the fourth quarter of 2014.

The Schaeffler Group’s bonds fared very well in this environment. The EUR bond (ISIN: XS1067864022) bearing interest at 3.5 % and issued on May 08, 2014, as part of the agreement to refinance the company’s financial debt rose by 2.1 percentage points from its issue price to 102.11 %. The unsecured EUR bond (ISIN: XS1067864881) bearing interest at 3.25 % and also issued on May 08, 2014, rose by 1.8 percentage points to a price of 101.26 %.

Performance since 4th quarter 2013

Source: Bloomberg.



Schaeffler’s ratings

The Schaeffler Group’s ratings by rating agencies Moody’s and Standard & Poor’s are unchanged from the prior year. Moody’s transferred the Schaeffler Group company rating from Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) to Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) on October 06, 2014, and confirmed the rating of “Ba3” with a stable outlook on this basis. Standard & Poor’s has maintained its company rating for the Schaeffler Group at “BB-” with a stable outlook, still based on Schaeffler Verwaltung Zwei GmbH. The rating for the bonds issued by Schaeffler Finance B. V. depends on whether the bonds are secured. The secured bonds were rated “Ba2” by Moody’s and “BB-” by Standard & Poor’s, while the unsecured bonds issued in 2014 were rated “B1” by Moody’s and “B” by Standard & Poor’s.

The following summary shows the current ratings by the two rating agencies Moody’s and Standard & Poor’s:

No. 003

				12/31/2014
	Company		Bonds secured	Bonds unsecured
Rating agency	Rating	Outlook	Rating	Rating
Moody's	Ba3	stable	Ba2	B1
Standard & Poor's	BB-	stable	BB-	B

Combined management report in accordance with section 315 (3) HGB

In preparing the following management report, the company has chosen to combine the management report of Schaeffler AG with the management report for the Schaeffler Group.

Combined management report

Disclaimer in respect of forward-looking statements

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

Impact of currency translation

Revenue and earnings figures are adjusted for currency fluctuations by translating revenue and earnings using the same exchange rate for both the current and the prior year or comparison reporting period.

Prior year figure

Schaeffler AG (previously INA Beteiligungsgesellschaft mit beschränkter Haftung) is issuing its first consolidated financial statements and group management report as at December 31, 2014. As these documents do not formally continue the prior year consolidated financial statements and group management report of Schaeffler AG as at December 31, 2013 (now Schaeffler Verwaltung Zwei GmbH), they are not fully comparable to those prior year documents. The financial information (except for the consolidated statement of financial position) for 2013 provided in the consolidated financial statements and the group management report contained in this report was prepared by way of a carve out (see Note 1.2 to the consolidated financial statements), restating the Schaeffler Group's operations retrospectively as if the current group structure had already been in place prior to December 31, 2103.

1. Fundamental information about the group

1.1 Overview of the Schaeffler Group

The Schaeffler Group (also referred to as “Schaeffler” below) is a leading integrated global supplier to the automotive and industrial sectors. The company stands for top quality, outstanding technology and strong innovative ability. Its precision components and systems for engines, transmissions, and chassis as well as rolling and plain bearing solutions for numerous industrial applications make the Schaeffler Group a key contributor to the “Mobility for tomorrow.”

With its approximately 82,000 employees, Schaeffler is one of the largest family-owned technology companies in the world and its approximately 170 locations in 50 countries provide it with a network of manufacturing locations, research and development facilities, and distribution companies. The group’s 74 manufacturing locations form the foundation of its operations.

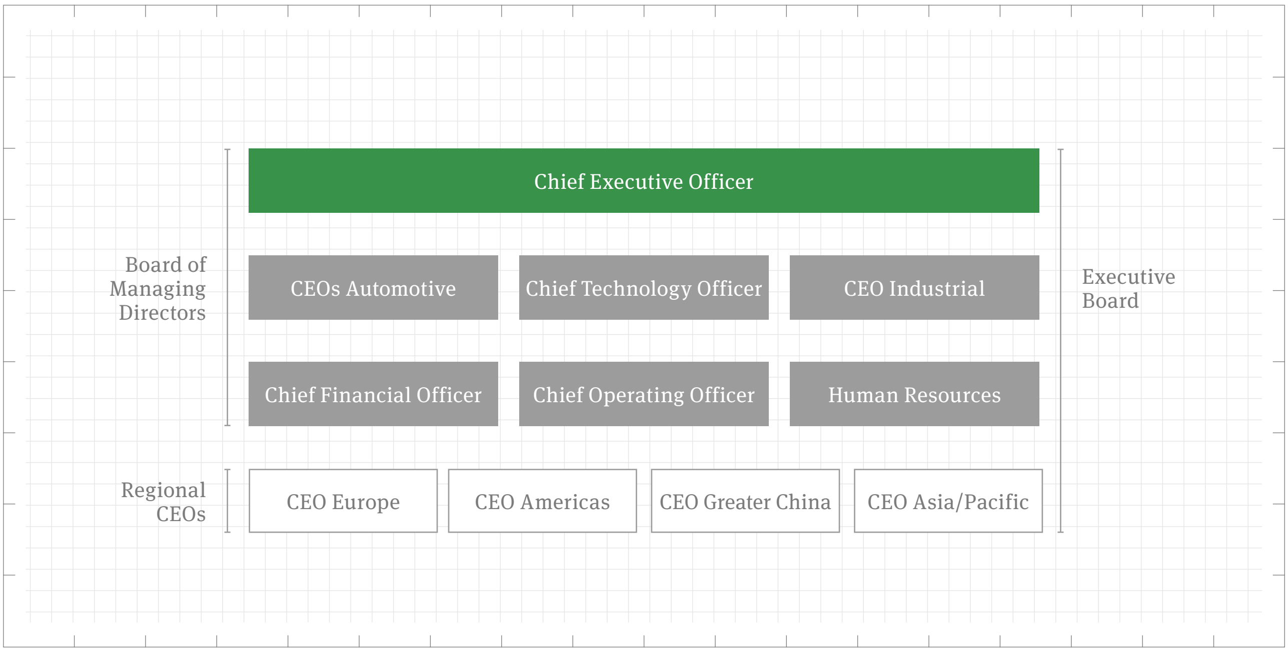
For years, the Schaeffler Group has been pursuing a growth strategy aimed at profitable above-market growth. At the core of this growth strategy is a firm determination to achieve top quality, technology, and innovative ability, in doing business with customers as well as in the group’s internal processes. Schaeffler developed its strategic concept “Mobility for tomorrow” in late 2013 based on the great megatrends driving its business. Under this concept, the Schaeffler Group focuses on the four focus fields “eco-friendly drives,” “urban mobility,” “interurban mobility,” and “energy chain.”

In the fourth quarter of 2014, the Schaeffler Group realigned its organizational and leadership structure and established a multi-dimensional matrix organization based on two divisions, five functions, and four regions.

The Schaeffler Group’s business is primarily managed based on its Automotive and Industrial divisions, which consist of several business divisions and business units. The divisions include both the OEM business and the aftermarket business. The Schaeffler Group’s organizational model includes the following five functions: CEO functions – Technology – Operations – Finance and Human Resources. Distribution is embedded directly in the Automotive and Industrial divisions. The third dimension are the group’s four regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a regional CEO.

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors consists of the Group CEO and the CEOs of the divisions and functions. The Board of Managing Directors 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 Board of Managing Directors. The Board of Managing Directors and the regional CEOs together represent the Schaeffler Group's Executive Board. In this manner, the Schaeffler Group's organizational structure is reflected in its leadership structure.

Leadership structure of the Schaeffler Group



In addition to Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung), a stock corporation ("Aktiengesellschaft") incorporated under German law with its registered office in Herzogenaurach that acts as the group's lead company, the Schaeffler Group includes 155 domestic and foreign subsidiaries as at December 31, 2014.

The group structure was realigned in 2014. As a result, this Schaeffler AG report covers a group of companies that differs from the one underlying the prior year report. As a direct result of the realignment, Schaeffler AG does not hold any direct or indirect investments in Continental AG.[1]

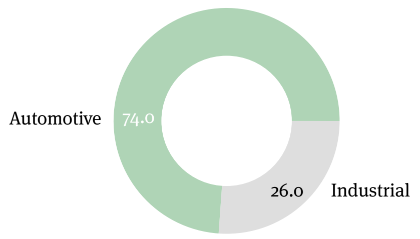
[1] See section 1.3 for details of changes in the group structure.

1.2 Business activities

Schaeffler develops and manufactures precision products for approximately 60 sectors around the world. Its technologically advanced components and systems are used in applications in machinery, plants, vehicles, and in aerospace. The group distributes its products and services to numerous automotive manufacturers and industrial customers.

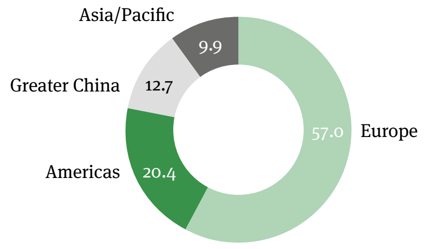
Revenue 2014 by division

in percent



Sales 2014 by region

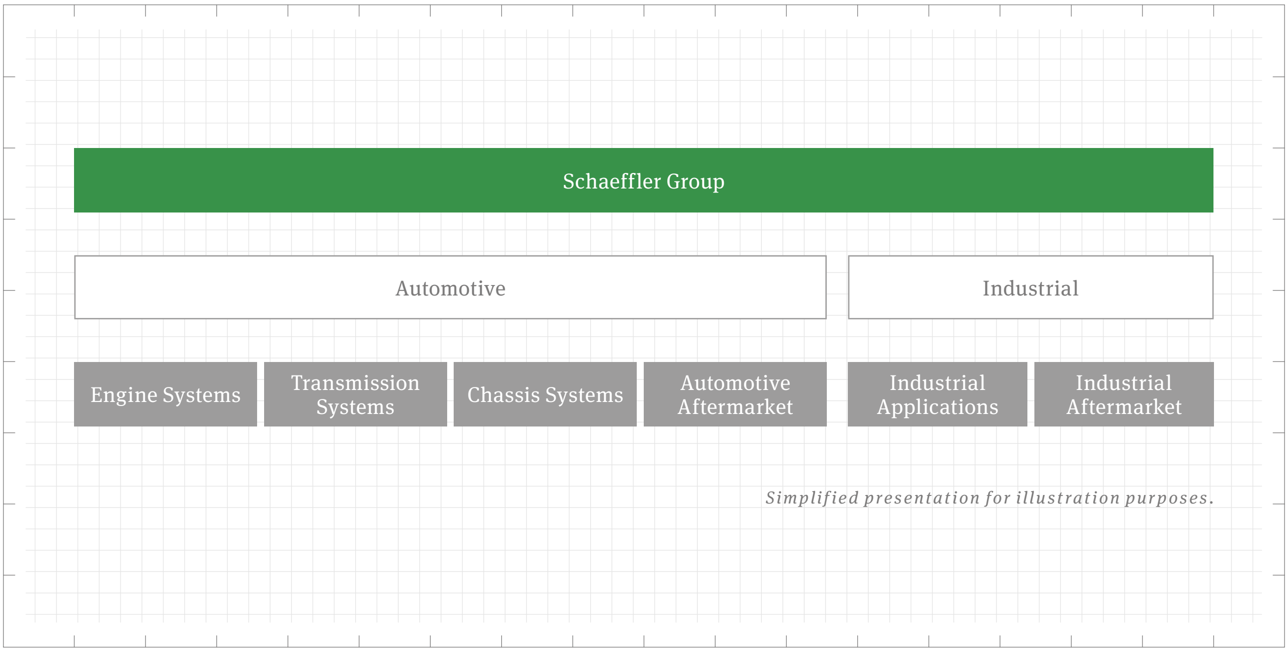
in percent by market view



Divisions

The Schaeffler Group comprises the two divisions Automotive and Industrial. The divisions consist of several business divisions which in turn comprise various business units.

Schaeffler Group divisions and business divisions



The Automotive division supplies all well-known OEM's worldwide as well as numerous automotive suppliers (Tier I) and Automotive Aftermarket customers. Schaeffler develops and manufactures ground-breaking products for engine, transmission and chassis systems. As a partner to the automotive sector, Schaeffler leads the field when it comes to developing and manufacturing a broad range of automotive applications. The group's operating excellence relates to components and system solutions for vehicles with drive trains based on the internal combustion engine as well as for hybrid and electric vehicles. Its main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units, and electric drives. Schaeffler's precision products are key to helping make engines use less fuel and comply with increasingly strict emission requirements. At the same time, they also increase driving comfort and dynamics and extend engine and transmission life. The Schaeffler Group, one of the leading automotive suppliers worldwide, offers comprehensive technical expertise for the entire drive train.

A comprehensive Aftermarket portfolio rounds out the business of the Automotive division. The Aftermarket business is responsible for the global business with spare parts. The product range covers applications in clutch and release systems, engine and transmission applications, and chassis applications. In addition, Schaeffler Automotive Aftermarket offers a comprehensive variety of services, including, for instance, various means of transfering knowledge, such as practice-oriented training courses, advice provided by the Schaeffler repair hotline or the group's online garage portal, as well as the development of specialized tools.

The Industrial division supplies products such as rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology to a variety of customers in about 60 different industrial sectors and numerous Industrial Aftermarket customers. Its product spectrum ranges from high-speed and high-precision bearings with very small diameters to large-size bearings over three meters in diameter. 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.

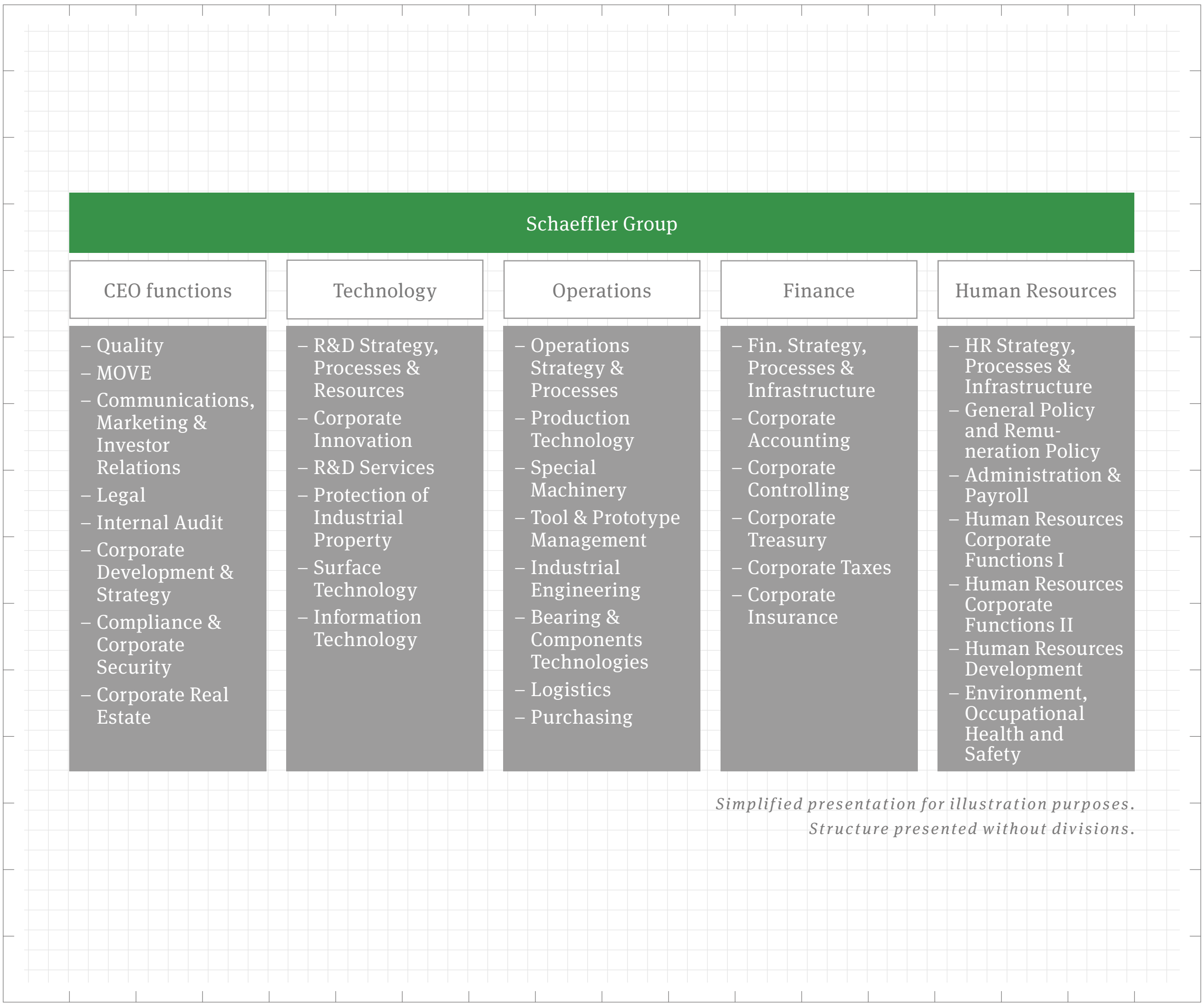
Schaeffler's Industrial Aftermarket is responsible for the spare parts and service business with end customers and distributors in all significant industrial sectors. The company's focus is on ensuring the supply of high-quality products, application solutions, and services to its customers. In addition, Schaeffler offers systems for monitoring the condition of customers' plants.

In 2014, approximately 23 % (prior year: 24 %) of total group revenue was generated by the two divisions' Aftermarket businesses.

Functions

The Schaeffler Group's structure includes five functions: CEO functions – Technology – Operations – Finance and Human Resources.

Schaeffler Group functions

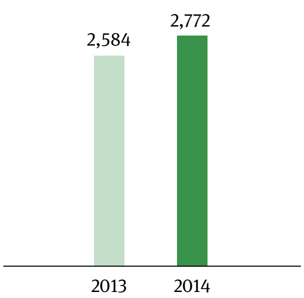


For Schaeffler as one of the leading automotive suppliers and partners to industry, the two functions Technology (particularly research and development) and Operations are key to ensuring the group's long-term competitive position and innovative ability. These two functions and the area of Compliance are discussed in detail below.

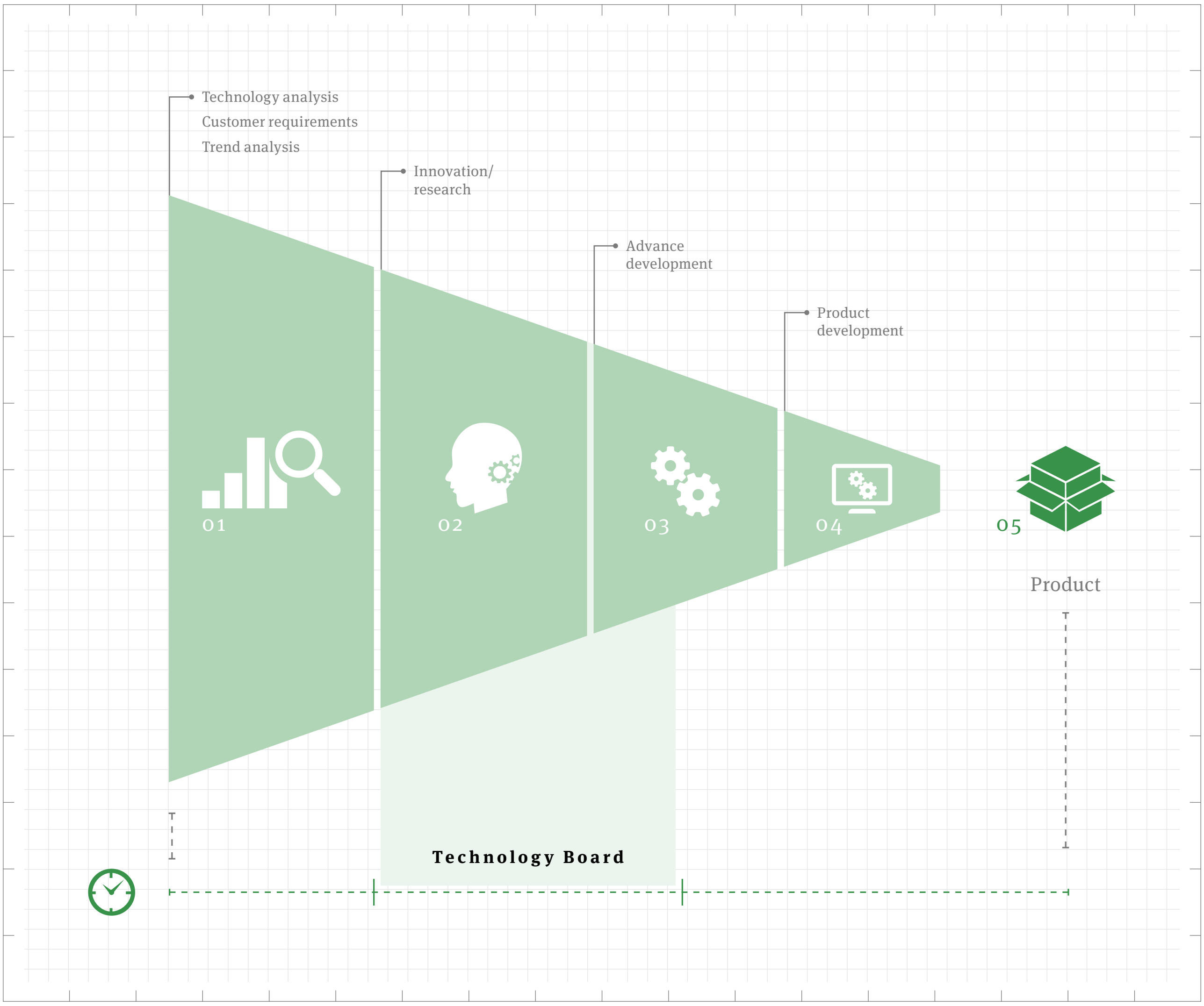
Research und development

As part of its strategic concept "Mobility for tomorrow," the Schaeffler Group further expanded its research and development activities in 2014, and thus its foundation for the long-term success of its business. For Schaeffler, investing in research and development is key to creating new products and processes. The company employed 6,387 R&D staff (prior year: 6,039) in 16 R&D centers (prior year: 16) and additional R&D locations in eleven countries during the year. 2,772 inventions reported internally in 2014 (prior year: 2,584) demonstrate the importance of strategically securing the group's intellectual property as well as its innovative ability. Schaeffler expects to once again be among the five most innovative companies in Germany this year.

Inventions reported
in units



In 2014, the Schaeffler Group established a Technology Board to further bolster the company's innovative ability. This Board is a management body tasked with assisting, managing and monitoring the innovation process, starting with the generation of ideas and evaluation of innovation projects through to the advance development process.



Since early 2014, the Schaeffler Group has been continually improving its R&D organization with responsibility for development within the Automotive and Industrial divisions resting with one person for each division. The strengthened systems expertise is demonstrated by, for instance, new vehicle and mobility concepts and results in expanding the company's technological leadership. To this end, Schaeffler specifically promotes further improvements to its most recent concept cars and transfers similar mobility concepts to the Industrial division. The company is consistently pursuing its objective of offering system solutions to customers around the world which lays the groundwork for long-term profitable growth.

Another important aspect is the optimization of internal and external networks, since continually sharing knowledge forms the basis for the worldwide success of the Schaeffler Group's research and development activities. The key objectives of cooperating with external partners are not only utilizing the potential for joint development projects but also recruiting junior staff.

Working on R&D is key to an innovative and competitive portfolio of products, which secures Schaeffler's long-term and profitable growth. Therefore, Schaeffler is not only strengthening existing business fields, but it is also working on opening up new fields. As part of this process, the seventh internal "Forum of Inspiration" was held in Herzogenaurach in 2014. This forum provides an opportunity to present innovative ideas. Approximately 50 market stalls were set up to permit employees to obtain and exchange information on projects and developments the Schaeffler Group is currently working on. This event also included the "Arena of Inspiration," an innovation competition in which various projects were presented and evaluated. Employees voted on the best idea, and a new self-amplifying clutch for motorcycles won the "Inspiration Award" for outstanding innovations. The winning idea of 2013, an acoustic quality control, has already met with initial interest from manufacturing, and is scheduled to be used in quality control for security components in the production line at the location in Sheffield, United Kingdom.

Once more, innovations from all Schaeffler Group divisions garnered awards in 2014:

No. 004

Product	Award	Category	Division
Torque converter with centrifugal pendulum-type absorber	PACE Award	Products	Automotive
E-Wheel Drive	Innovation of the Year	-	-
FAG-VELOMATIC	Eurobike Award	Components	Industrial
Triondur CH	Silver Materialica Design + Technology Award	Surface & Technology	Automotive

Research and development in the Automotive division

Around the world, laws are requiring significant reductions in CO_2 emissions of motor vehicles. For instance, CO_2 emissions will be limited to 95 g/km within the European Union starting in 2021. Therefore, the growing need for mobility will have to be met using less resources and, above all, emitting less CO_2. Although the internal combustion engine will continue to dominate for a long time to come, the proportion of electric drives, particularly hybrids, is rising steadily. Schaeffler offers solutions for all future mobility concepts, employing a multi-faceted strategy that allows it to position itself in markets ranging from optimizing conventional internal combustion engines and hybrid solutions through to electric mobility.

Schaeffler's various concept cars demonstrate the wide-ranging spectrum of modern automobility and permit a look at segments of its broad product range for the "Mobility for tomorrow." The following diagram shows the Schaeffler Group's concept cars:

Schaeffler Group concept cars

Efficient Future Mobility India

Technical features:
- ➜ Electronic clutch management
- ➜ Sensor-based shift intention detection on the selector lever
- ➜ Shift tower with gear detection
- ➜ 12 V belt alternator starter with decoupling tensioner
- ➜ Optimized combustion engine (e.g. coated tappets)

Vehicle functionalities:
- ➜ Automated clutch operation combined with manual transmission (clutch pedal eliminated)
- ➜ Passive sailing (internal combustion engine off)
- ➜ Choice of engine start via belt alternator starter or pinion starter
- ➜ Enhanced start-stop system
- ➜ Creeping
- ➜ Optical and acoustic shift reminder

Benefit for customer:
- ➜ EIncreased efficiency
- ➜ Improved drivability and comfort
- ➜ Demonstration of innovative functionalities

Efficient Future Mobility North America

Technical features:
- ➜ 48 V motor as parallel hybrid
- ➜ Permanently engaged starter
- ➜ Ride height adjustment
- ➜ All-wheel drive system with disconnect feature
- ➜ Optimized internal combustion engine (coated valve train components, rolling element balance shaft bearings)
- ➜ Thermal management module

Vehicle functionalities:
- ➜ Recuperation
- ➜ Load point shifting
- ➜ Boost
- ➜ Sailing (internal combustion engine idling or internal combustion engine off
- ➜ Front-wheel drive or all-wheel drive modes (automatic or manual)
- ➜ Enhanced start-stop function
- ➜ Electrification of accessories using a single e-motor

Benefit for customer:
- ➜ Improved efficiency
- ➜ Improved vehicle performance

Efficient Future Mobility China

Technical features:
- ➜ Plug-in drive concept consisting of a P2 hybrid module combined with a downsized modern internal combustion engine
- ➜ Dry dual clutch, electromechanical clutch and gear actuation
- ➜ Hybrid powertrain control strategy

Vehicle functionalities:
- ➜ Active e-sailing
- ➜ Boost
- ➜ Electric drive modes
- ➜ Load point shifting
- ➜ Recuperation
- ➜ Start-stop system

Benefit for customer:
- ➜ Outstanding fuel saving potential
- ➜ Electric driving experience
- ➜ Increased comfort
- ➜ Improved vehicle performance

Gasoline Technology Car (GTC)

Technical features:
- 448 V belt alternator starter with decoupling tensioner
- Electronic clutch management (clutch by wire)
- Externally cooled exhaust gas recirculation
- High pressure gasoline injection
- Shift tower with gear detection
- Thermal management module
- Manual transmission with automated clutch
- Load point shifting
- Recuperation
- Sailing (internal combustion engine off)
- Enhanced start-stop system

Vehicle functionalities:
- Boost

Benefit for customer:
- CO_2 reduction > 15 %
  95 g CO_2/km
- Meets Euro 6c
- Improved (shifting) comfort

System 48 V

Technical features:
- 48 V electric axle with two gears and torque vectoring
- 48 V belt alternator starter with decoupling tensioner
- 48 V battery system
- Plug-in functionality
- Hybrid strategy
- Pulley decoupler
- ECO and SPORT drive modes
- Front-wheel drive/all-wheel drive
- Load point shifting
- Recuperation
- Start-stop system
- Dynamic distribution of torque (torque vectoring) on rear axle

Vehicle functionalities:
- Active sailing
- Boost
- Electric drive

Benefit for customer:
- Electric driving experience
- Increased comfort
- Fuel saving potential
- Improved driving dynamics

ACTIVeDRIVE

Technical features:
- Front axle: first generation eAxle (traction and torque vectoring)
- Rear axle: third generation eAxle (two-gear transmission, high performance density, automotive-specific converters, traction and torque vectoring)
- Torque vectoring functionality for front and rear axles as well as different basic applications (neutral, under steering, oversteering)
- Traction torque compensation during gear change via front drive

Vehicle functionalities:
- Electric all-wheel drive

Benefit for customer:
- Purely electric driving experience
- Increased agility (torque vectoring)

Fiesta eWheelDrive

Technical features:
- Permanent magnet synchronous motors
- Liquid cooling for electric motors and power electronics
- Friction brake

Vehicle functionalities:
- Torque vectoring
- Electronic traction control
- Electric drive

Benefit for customer:
- Integration of entire powertrain into the wheel allows for new interior concepts and vehicle structure
- Increased maneuverability due to individually controllable drive wheels
- Increased agility due to dynamic distribution of torque (torque vectoring)
- Increased safety due to active participation in driving stability control

Research and development in the Industrial division

As a result of growing urbanization, modern e-bikes are playing an important role in transporting people. Schaeffler's innovations in the field of sensor bottom brackets and the automatic gearshift system "FAG-VELOMATIC," which won the Eurobike Award 2014, help establish the e-bike as the mode of transport of the future. Schaeffler presented the FAG-VELOMATIC at the Eurobike trade show in Friedrichshafen, Germany, in September 2014. This gearshift system determines the optimum gear and the perfect shifting point based on the cadence, force, wheel speed, and gradient. Thanks to open standards, it is compatible with nearly all types of bicycles and drives. Using the related smart phone app "VELODAPTIC," the rider can create customized shifting programs enabling him to always ride in the optimal gear without having to manually shift gears. This allows the e-bike drive to always run at the most efficient operating point, thus using less energy and providing greater battery range than conventional mechanical gearshift systems.

The fields of long-distance transport and logistics are demanding. They require rapid means of transportation providing flexible utilization options while reducing the impact on the environment. Schaeffler is striving for a pioneering role as an interurban mobility supplier and in recent years has established itself as a key partner for the development of rolling bearing solutions for freight and passenger transport, high-speed trains, and aircraft.

At EWEA 2014 (Europe's Premier Wind Energy Event), Schaeffler presented its new "Wind Power Standard" (WPOS), the right solution for every bearing position and a comprehensive concept for plant security. This standard for products and processes ensures outstanding quality and reliability throughout the entire process chain. It means Schaeffler is offering the same high standards of quality for the wind power industry as it is already successfully offering in the automotive and aerospace sectors. A phenomenon negatively affecting bearing reliability, both in the wind power industry and elsewhere, are white etching cracks (WEC). These are structural changes in the material that result from plant operation under additional stresses that are inherent in the system and lead to cracks under specific loads. Schaeffler's innovative technologies help increase the resistance of bearings to WEC and prevent premature bearing failure. Cronidur, a specialized steel with a high chromium content, can be used to completely eliminate the risk of WEC.

The rolling bearing component is gradually evolving into a mechatronic system with numerous integrated functions offering new possibilities for improving the functionality, cost-effectiveness, and reliability of rail vehicles. Schaeffler's axlebox generator provides an autonomous power supply for freight cars in the installation space of a conventional axlebox bearing, facilitating future monitoring of freight cars.

By becoming a partner in the "e-F@ctory Alliance," Schaeffler AG is taking an important step in the direction of Industry 4.0. Since its product launch in 2011, the compact vibration sensor "FAG SmartCheck" has proven its effectiveness and has been continually advanced. Today, the product is one of the few on the market suitable both for use as an individual monitoring device and for integrated concepts such as comprehensive monitoring.

Operations

Production

As at December 31, 2014, 74 plants represented the Schaeffler Group around the world. Schaeffler's strong Automotive business helped to increase production volumes for 2014 by 10.6 % compared to the prior year.

In addition to manufacturing locations in Germany, France, Italy, and Spain, Schaeffler's Europe region also includes significant production plants in Central and Eastern Europe.In total, 48 plants represent the Schaeffler Group in this region. The first manufacturing location in Russia, which is part of Schaeffler's Europe region, was opened in October 2014. The plant in Ulyanovsk supplies domestic and overseas automobile manufacturers and the railway industry mainly with Schaeffler quality products.

The plant in Brasov, Romania, which employs a staff of approximately 3,800 and has been in operation for 10 years, is one of the largest plants outside Germany. This production location was among the winners of General Motors' "Supplier Quality Award" in 2014. In addition, the plant successfully achieved initial certification under the "International Railway Industry Standard" (IRIS certification), making it the fourth Schaeffler location with this certification worldwide, in addition to the German plants in Wuppertal, Steinhagen, and Schweinfurt. In 2014, the production location in Debrecen, Hungary, celebrated the anniversary of its opening. The plant has been producing rolling bearings and rolling bearing components for the Schaeffler Group for 15 years. Approximately 1,300 employees work in Debrecen.

Schaeffler continued to expand its production capacities at the Central and Eastern European manufacturing locations in 2014. All plants worked extensively on productivity, quality, and improvements in costs using the Schaeffler production system.

A total of 14 plants represent the company in the Schaeffler region Americas. The group maintains eight plants in the U.S. (South Carolina (5), Ohio, Connecticut, and Missouri) and two each in Canada and Mexico. Schaeffler also has two plants in Brazil. In Irapuato, Mexico, the Schaeffler Group operates a plant with approximately 800 employees, producing mainly rolling bearings for the Automotive and Industrial divisions.

Seven plants are located in Schaeffler's Greater China region. The rapid growth there requires the group to continually expand its local capacities. The production location in Nanjing, China, started operating in 2014 as scheduled. This plant's production range focuses mainly on the Schaeffler Group's Industrial division; the company plans to expand production to Automotive products.

Taicang, China, with its approximately 6,000 employees, is the largest Schaeffler Group location worldwide. It has sufficient space for the growth expected in China in the coming years. The company opened another production building there in 2014. This capacity expansion has given rise to a significantly expanded product range for drive trains with automatic transmissions. The new manufacturing plant will produce mainly double clutches and hydraulic torque converters.

Schaeffler currently has five plants located in its Asia/Pacific region. The largest location in Schaeffler's Asia/Pacific region is the plant in Changwon, Korea, where approximately 1,300 employees primarily produce rolling bearings for automobile manufacturers and industrial customers.

Logistics

The logistics function was given a new structure in 2014. The implementation of a functional logistics organization at the corporate level (Corporate Logistics) and in the Europe region will be followed by further steps to roll out this organization to Schaeffler's Greater China, Americas, and Asia/Pacific regions. The primary objective of a functional organizational structure is to ensure standardized, robust, and efficient logistics operations worldwide. Corporate Logistics is responsible for establishing this structure and the related processes in the Schaeffler regions and monitoring their implementation.

The reference organization successfully implemented in 2014 acts as the basis for a goal-oriented global cooperation and for a high level of transparency in the value chain within the Schaeffler Group. The strategic realignment of Schaeffler's logistics function contributes significantly to increased customer satisfaction, for instance by ensuring high product availability as well as supporting an efficient, flexible, and robust supply chain.

The starting point of Schaeffler's deliveries to its customers from its worldwide production network are approximately 250 warehouses with storage space totaling more than 350,000 square meters. Freight volume between the group's key destinations was approximately 255,000 tons in 2014, approximately 15 % more than in the prior year. Approximately 67 % of Schaeffler's logistics activities were concentrated in the Europe region. Approximately 14 %, 13 %, and 6 % related to Schaeffler's Americas, Greater China, and Asia/Pacific regions, respectively.

In combination with modern production concepts such as integrated planning and comprehensive and flow-oriented design of the processes along the Schaeffler Group's value and supply chain, logistics is helping to maximize reliability of supply while maintaining the shortest-possible lead times, optimum inventory levels, and employing as little capital as possible.

In the coming years, Schaeffler will establish a high-performance logistics network for the Industrial division based on four locations in Schaeffler's Europe region in a project named "European Distribution Center" (EDC). In 2014, Schaeffler already started construction on the EDC North (Arlandastad, Sweden) and began the construction planning for the EDC South (Carisio, Italy). In addition, planning of the details and location for the EDC Center (Kitzingen, Germany) has been completed. The project is aimed at achieving better supply to the market and improved delivery performance in order to significantly support the competitive position of the Schaeffler Group. The related improvements in transportation and in through-put in the distribution centers result not only in cost savings, but also in improvements with respect to sustainability aspects.

Integrating Schaeffler's suppliers into the manufacturing process is also an area of focus. The active utilization of e-business platforms generates additional opportunities for synergies and improvements. One example of this is handling inbound logistics via "SupplyOn," the supply chain collaboration platform for globally active companies. SupplyOn reflects all relevant processes in supply chain management, in supplier risk and performance management, in strategic and operating procurement, and in transportation management. The centralized online platform helps operate the Schaeffler Group's business processes in a structured, transparent and secure manner. This collaboration platform is an example of the increased cooperative planning, management, and control of value-added logistics activities throughout the entire company.

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 departments for strategy and quality. In addition, purchasing is divided into Schaeffler's Europe, Americas, Greater China, and Asia/Pacific regions.

The key objectives of purchasing are to improve the quality provided by suppliers by cooperating extensively with suppliers, secure competitive procurement costs, and optimize the supply chain to increase the security of supply by utilizing better logistical connections.

The Schaeffler Group experienced an operational increase in total purchasing volume of 13.0 % in 2014, significantly more than the prior year level. Driven by the growth in revenue, the volume of production materials (raw materials and components) included here rose by 9.7 %. The purchasing volume in general purchasing (primarily intangible assets, property, plant and equipment, tools, supplies, and services) grew by 17.5 %. The Schaeffler Group was able to ensure supply to its plants around the world at all times in 2014.

In 2014, goods and services were obtained from approximately 30,000 suppliers in approximately 80 countries. The volume of purchases related primarily to Schaeffler's Europe (66.6 %) and Americas (16.7 %) regions. From a regional perspective, Schaeffler is experiencing a shift towards the Asian markets, where the group 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 (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 depend, directly or indirectly, on the trend in the price of scrap steel, coking coal, and iron ore, as well as non-ferrous metals. Lower prices for the key raw materials required to produce steel, iron ore and coal, led to further decreases in the price of steel in 2014.

There were no significant insolvencies among Schaeffler's suppliers in 2014. The Schaeffler Group uses various instruments to preventively identifying risk which help reduce the probability of interruptions of supply. 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 a change in the legal environment and the Schaeffler Group's customers' increased sensitivity regarding sustainability aspects, analyzing the supply chain has continued to gain importance. Purchasing helps meet the group's sustainability objectives by taking into account economic, ecologic, and social criteria in evaluating and approving suppliers.

The Schaeffler Group's material compliance management employs processes and effective methods to ensure that the components and raw materials organization complies with laws, regulations and standards. For instance, Schaeffler continued the process established in 2013 to ensure that it meets the requirements of the Dodd Frank Act 1502 (conflict minerals) and has already provided affected customers with relevant information on the use of these minerals. The company stepped up its activities to follow up on "reasonable country of origin inquiries" (RCOI) to verify assertions made by its suppliers. In addition, Schaeffler is consistently working with its suppliers and customers to ensure that international banned substances standards for products and chemicals, which are becoming more restrictive, are implemented in collaboration.

Continental AG and Schaeffler have been cooperating on purchasing for five years. By mutually strengthening their purchasing activities, both companies are benefiting from improved cost structures. By utilizing synergies resulting from numerous cross-regional projects and programs, the Schaeffler Group was able to further improve its cost of materials in 2014.

Compliance within the Schaeffler Group

Compliance serves to meet legal requirements as well as internal regulations of the group, making it a fundamental component of the Schaeffler Group's operations.

Due to the increased significance of compliance, the Board of Managing Directors initiated a fundamental revision of the company's compliance program, which has been in place for several years, as part of the "ONE Schaeffler" initiative in 2013. To this end, the Board of Managing Directors decided to improve and realign the Schaeffler Group's compliance management system (CMS). The redesigned CMS was approved by the Board of Managing Directors in May of 2014 and the design subsequently subjected to a review in accordance with IDW AS 980 by an external auditor, which was successfully completed.

Compliance organization

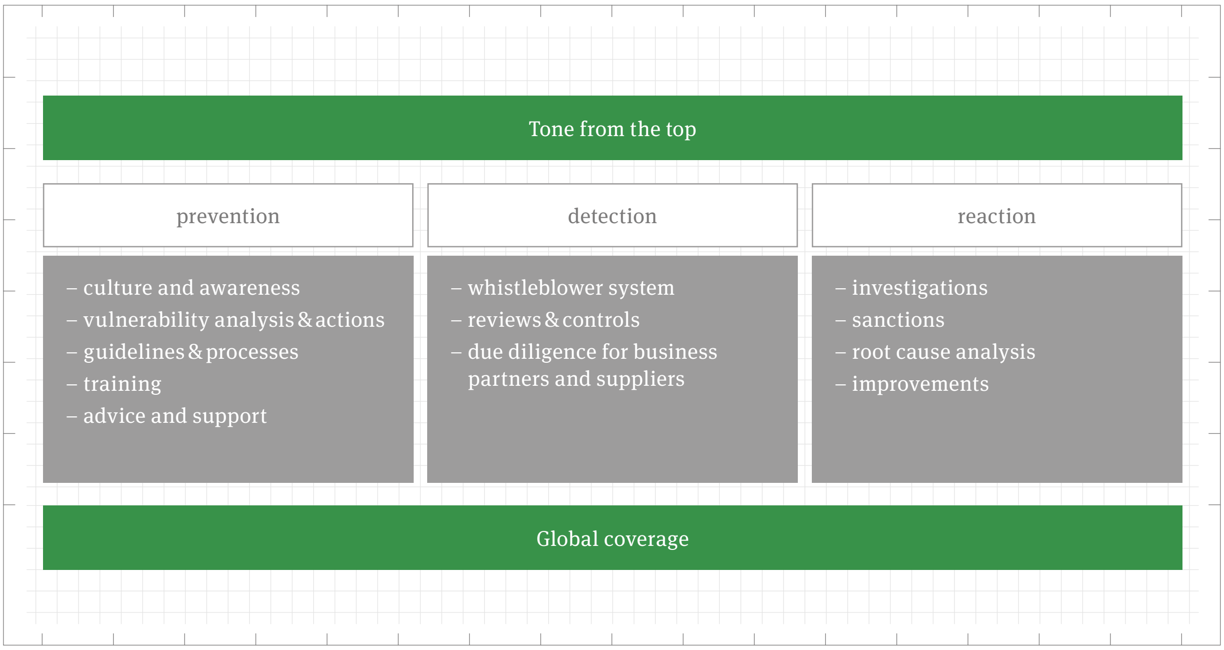
In realigning the compliance program, Schaeffler appointed a new Group Chief Compliance Officer (CCO) and strengthened its regional compliance units. A 10-point action plan, known as the "Compliance Fit & Proper" program which represents an integral component of the "ONE Schaeffler Initiative" was developed under the guidance of the new CCO. The CCO reports directly to the Chief Executive Officer. To emphasize the importance and independence of this function, the CCO has an additional reporting line to the Chairman of the Supervisory Board. He also reports to the chairman of the audit committee on a regular basis.

Compliance management system

As shown in the following diagram, the Schaeffler Group's CMS is based on the three pillars prevention, detection, and reaction. It comprises, in particular, managing and monitoring the activities necessary to prevent, or detect early-on, violations of law in the area of corruption, competition and antitrust law, and economic criminal activity. It serves to actively manage risk and protect the company as well as its employees. The CMS consists of seven components: Compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

The Executive Board and the Schaeffler family as shareholders of the Schaeffler Group emphatically support the CMS and the necessity of consistently complying with legal requirements and internal regulations of the group ("tone from the top").

Diagram compliance management system



The CMS applies throughout the Schaeffler Group worldwide.

Compliance Fit & Proper

The Compliance Fit & Proper program consists of ten steps:

- further strengthening compliance awareness,
- expanding the global compliance organization,
- establishing a vulnerability analysis,
- establishing a Group Compliance & Risk Committee,
- improving antitrust compliance measures,
- improving anti-corruption measures,
- improving measures to prevent and defend against economic crime, fraud, and money-laundering,
- establishing response plans for acute incidents and crises,
- further expanding regular training measures as well as key function updates,
- revising the Schaeffler Code of Conduct.

The company is concentrating on the following key steps of the Compliance Fit & Proper program:

- Completion of a global compliance vulnerability analysis to identify and evaluate risks and define and prioritize risk-mitigating compliance measures where these are not yet in place
- Expansion of the compliance organization and installation of regional compliance officers to cover the consulting approach globally (inform, train, advise)
- Implementing a Group Compliance & Risk Committee ensuring that risks are monitored across divisions and companies and reducing interface risk.

To enforce compliance requirements on a global basis, Schaeffler has established compliance guidelines that are applicable throughout the group. They provide guidance to employees by translating laws, external rules, and regulations into instructions for their actions and decisions. To embed these guidelines at all employee levels, tailored training instruments such as web-based eLearning courses, speeches, and classroom seminars have been designed and rolled out. The training courses on compliance basics are mandatory for all Schaeffler employees. In addition to these training measures, a compliance help desk accessible worldwide is available to all employees in order to support them in interpreting requirements and rules.

In addition, the Schaeffler Group employs a whistleblower system to give its employees the opportunity to report violations of laws or internal regulations within the company on a confidential, and, if they wish, anonymous basis.

Priorities for 2015

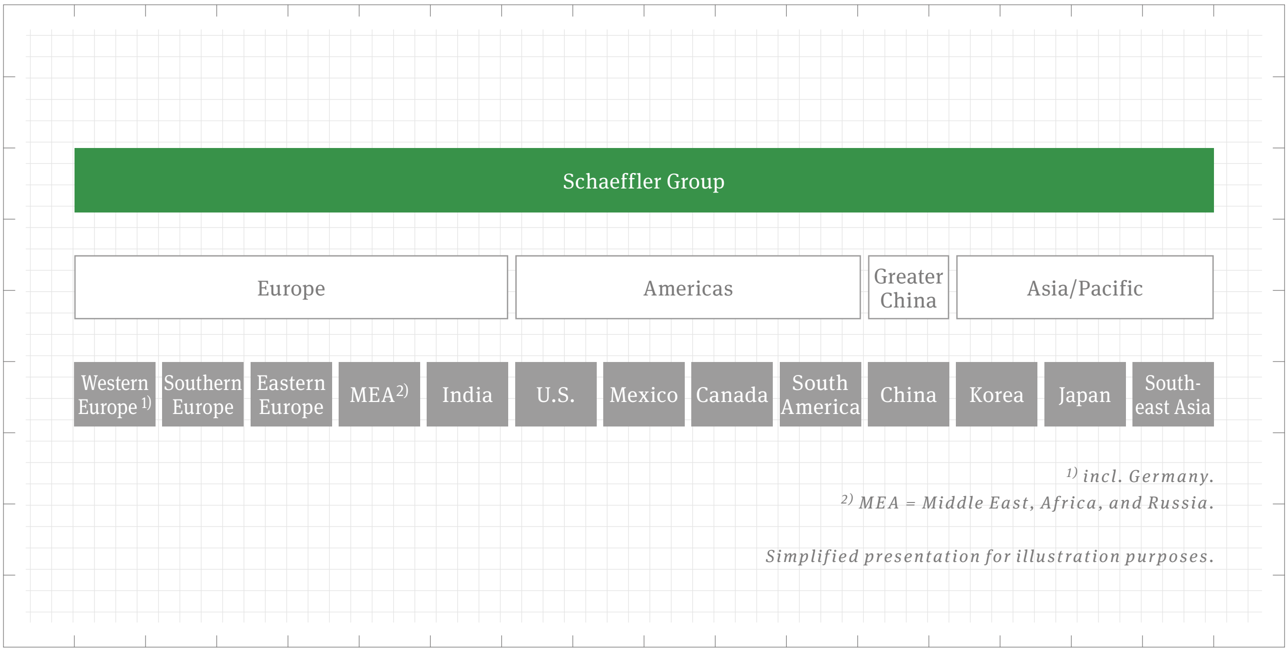
The company plans to continue and further expand its CMS and to continue implementation of its “Compliance Fit & Proper” program. It will focus especially on revising the Schaeffler Code of Conduct, reviewing and adjusting the processes for the compliance due diligence with business partners and suppliers, as well as on additional anti-corruption measures and measures to ensure compliance with antitrust laws, such as introducing a register for contacts with competitors.

The objective is to systematically embed a uniform global compliance culture throughout the Schaeffler Group using a “best in class” CMS that is consistent with the Schaeffler Group’s value-based approach regarding its corporate objectives.

Regions

Under its matrix organization, the Schaeffler Group views its business not only in terms of divisions and functions, but has also grouped it into four regions: Europe, Americas, Greater China, and Asia/Pacific. The regional alignment ensures a consistent concentration on the group’s core markets and worldwide representation of the divisions and business divisions. Following its “in the region – for the region” approach, the Schaeffler Group has established an integrated worldwide development and manufacuring network solidly embedded in the regions. Each of the Schaeffler Group’s four regions is managed by a regional CEO.

Schaeffler Group regions and subregions



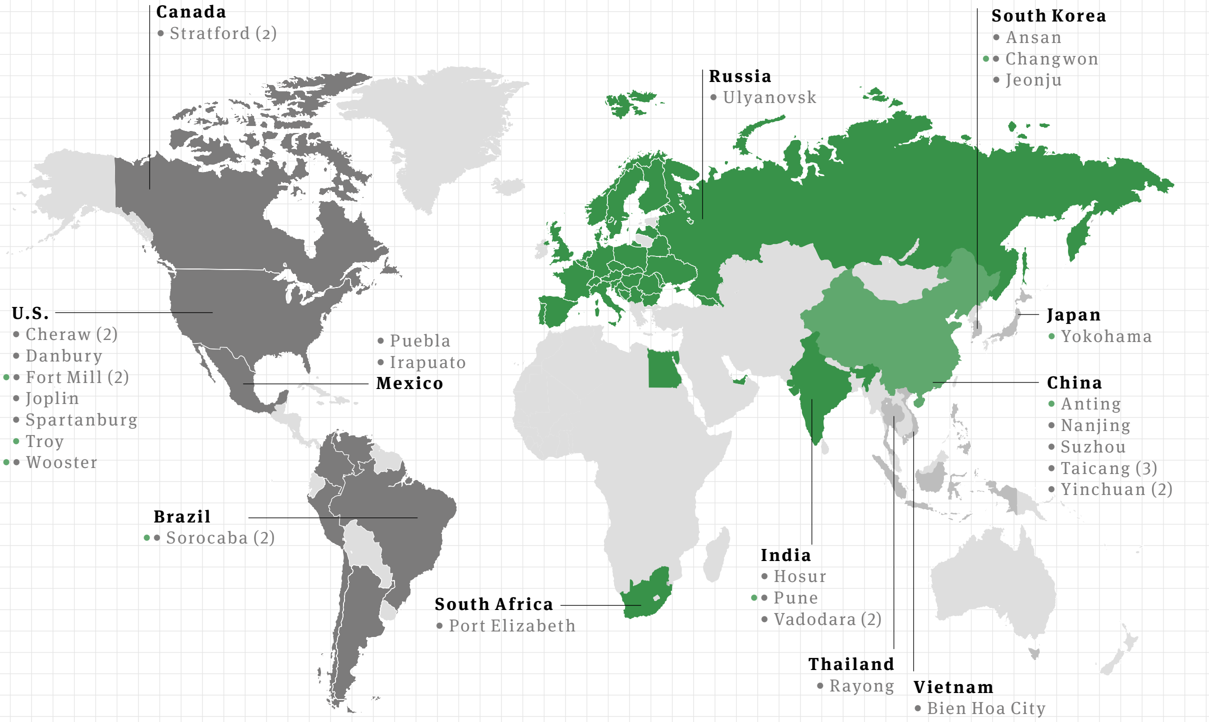
The Europe region includes not only the most important sales market Germany, but also Western, Southern, and Eastern Europe, the Middle East, Africa, Russia, and India. At 57.0 %, it contributes a significant proportion of the group's revenue. Schaeffler's Europe region employed a total of 57,607 employees in 2014, representing 70.0 % of the entire workforce of the company. The region has 48 plants and nine R&D centers. Its regional head office is located in Schweinfurt, Germany.

The Americas region comprises the North and South American countries. This region contributed 20.4 % of revenue in 2014. A total of 12,229 staff were employed at 14 plants and four R&D centers as well as in distribution locations in North and South America. Schaeffler's Americas region has its regional head office in Fort Mill, South Carolina, U.S.A. Schaeffler has been manufacturing in this region since 1953.

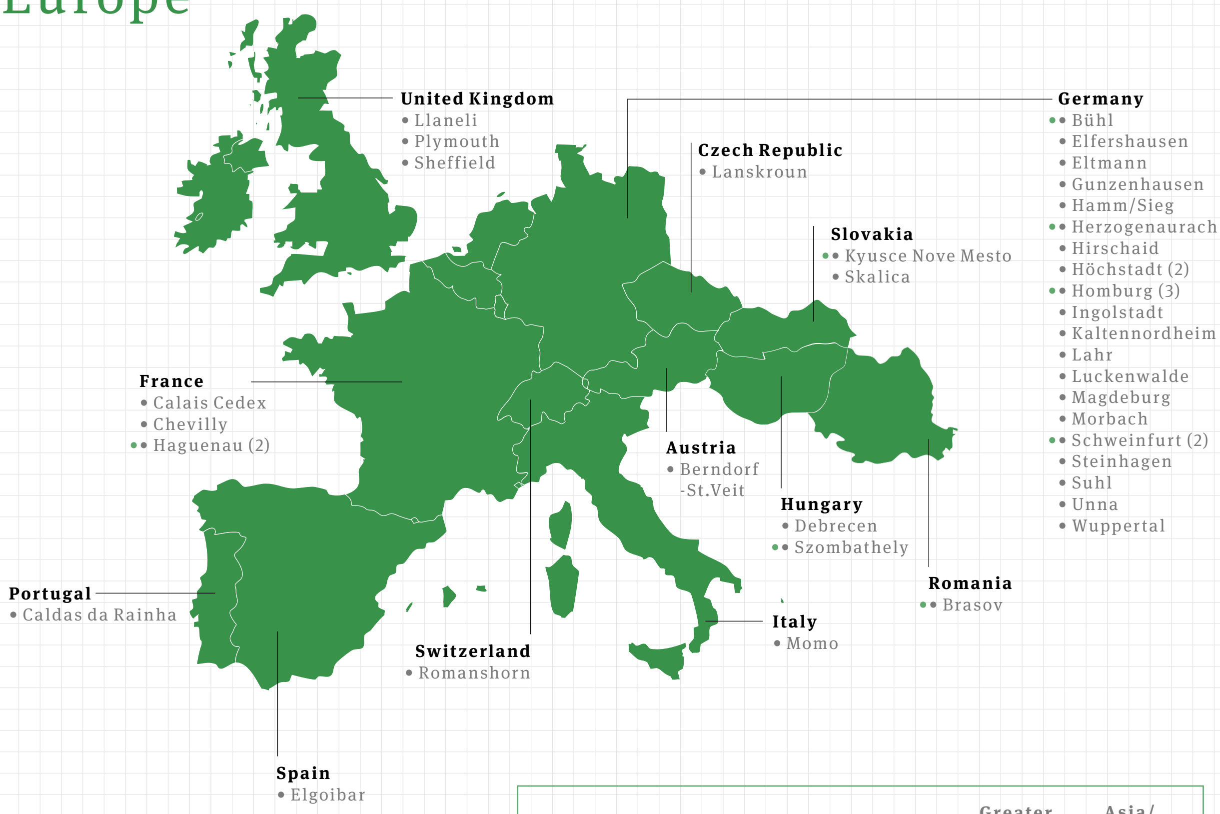
In light of the strategic importance of China for the Schaeffler Group, China, Taiwan, and Hong Kong are managed as a separate region named “Greater China.” The region generated 12.7 % of the group's revenue in 2014 and employed a total of 9,741 staff. Seven plants and one R&D center are located in Greater China. The regional head office is located in Anting in metropolitan Shanghai, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995.

The Asia/Pacific region consists of Korea, Japan, and the countries in Southeast Asia. Schaeffler has been represented in this region, which employs 2,717 staff, since 1953. In 2014, this region generated 9.9 % of the group's revenue. The regional head office is located in Singapore. Schaeffler operates a total of five plants and two R&D centers in this region.

Schaeffler Group plants and R&D centers



Europe



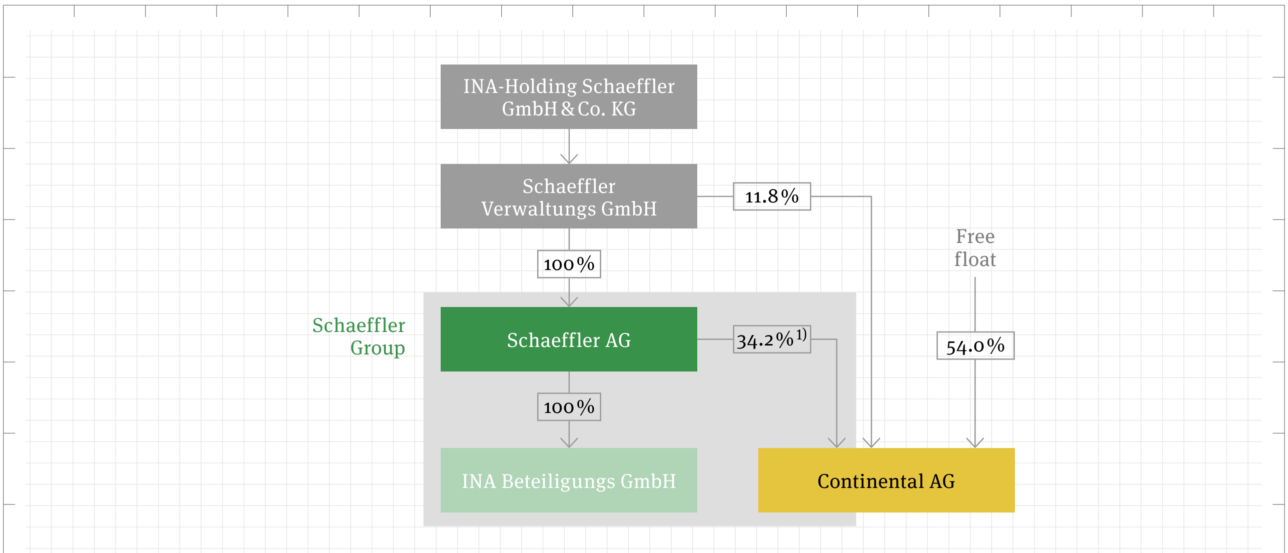
	Europe	Americas	Greater China	Asia/Pacific
• R&D centers	• 9	• 4	• 1	• 2
• Plants	• 48	• 14	• 7	• 5

1.3 Group structure

In addition to Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung), a stock corporation ("Aktiengesellschaft") incorporated under German law with its registered office in Herzogenaurach that acts as the group's lead company, the Schaeffler Group includes 155 domestic and foreign subsidiaries as at December 31, 2014.

Further adjustments were made to the group structure in 2014. Until October 23, 2014, responsibility for the group's corporate management rested with Schaeffler AG, a wholly-owned subsidiary of Schaeffler Verwaltungs GmbH. Schaeffler AG indirectly held a 34.2 % interest in Continental AG via Schaeffler Beteiligungsholding GmbH & Co. KG (see diagram "Group structure up to October 23, 2014").

Simplified Schaeffler Group structure up to October 23, 2014



1) Held indirectly via Schaeffler Beteiligungsholding GmbH & Co. KG.

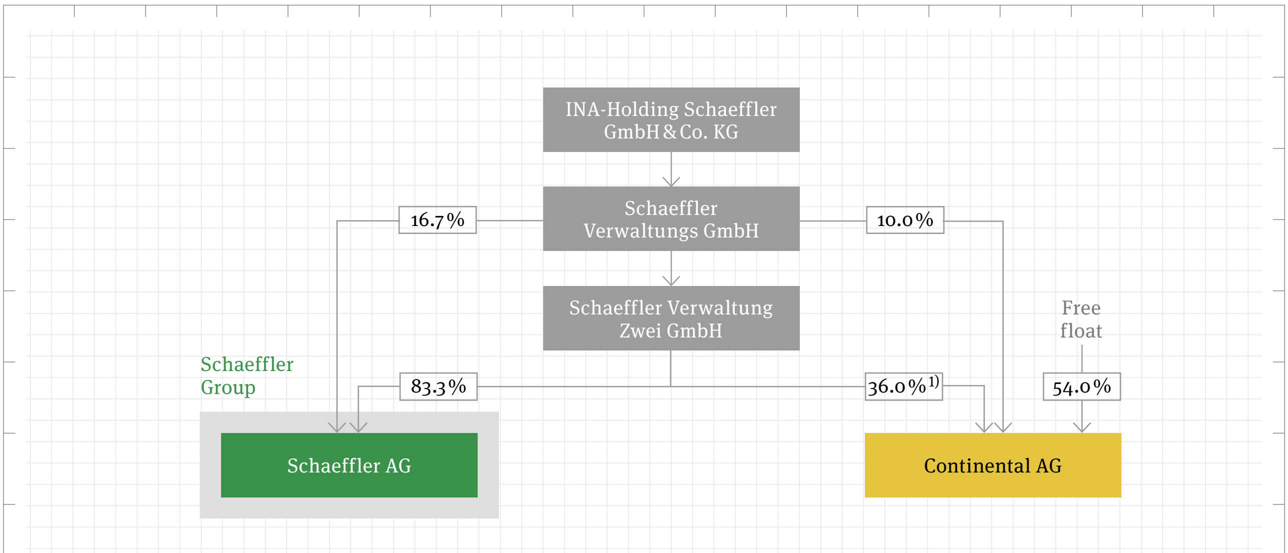
Schaeffler AG was changed to a limited liability company ("Gesellschaft mit beschränkter Haftung") when that change was entered into the Commercial Register on October 23, 2014 and renamed Schaeffler Verwaltung Zwei GmbH (see diagram "Group structure as at December 31, 2014"). On October 24, 2014 (date of entry in the Commercial Register), INA Beteiligungsgesellschaft mit beschränkter Haftung was changed to a stock corporation ("Aktiengesellschaft") and renamed Schaeffler AG. This company had been inserted as the sole holding company between the previous lead company Schaeffler AG and Schaeffler Technologies AG & Co. KG, who holds the group's operating activities, on December 31, 2013. Also on October 24, 2014, all functions of the Board of Managing Directors were transferred to Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung), who thereby assumed the corporate management of the Schaeffler Group. The new Schaeffler AG Supervisory Board was established with largely the same individuals.

To strengthen its equity base, Schaeffler AG approved a capital increase by way of a contribution in kind on December 12, 2014 which was entered in the Commercial Register on

December 30, 2014. The capital increase entailed a contribution in kind by the company's shareholder Schaeffler Verwaltungs GmbH. This contribution in kind consisted of loans receivable by Schaeffler Verwaltungs GmbH from Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG. Since then, Schaeffler Verwaltungs GmbH has been holding a 16.7 % interest in the company's share capital. 83.3 % of Schaeffler AG are held by Schaeffler Verwaltung Zwei GmbH.

As part of the realignment of the group structure, a 1.8 % interest in Continental AG was transferred from Schaeffler Verwaltungs GmbH to Schaeffler Beteiligungsholding GmbH & Co. KG, a wholly owned subsidiary of Schaeffler Verwaltung Zwei GmbH. The Schaeffler Group's operating business remains concentrated in Schaeffler Technologies AG & Co. KG, a wholly-owned subsidiary of Schaeffler AG.

Simplified Schaeffler Group structure as at December 31, 2014



1) Held indirectly via Schaeffler Beteiligungsholding GmbH & Co. KG.

Schaeffler AG is issuing its first consolidated financial statements and group management report as at December 31, 2014. As these documents do not formally continue the prior year consolidated financial statements and group management report of Schaeffler AG (now Schaeffler Verwaltung Zwei GmbH) as at December 31, 2013, they are not fully comparable to those prior year documents.

While the realignment of the group structure at the level of the lead company did not affect the Schaeffler Group's operating business, the change in parent company eliminated the investment in Continental AG from the scope of consolidation. Shifting the boundary of the scope of consolidation between the Schaeffler Group and the higher-level holding companies of INA-Holding Schaeffler GmbH & Co. KG as well as the addition of a new shareholder from among these holding companies has impacted the Schaeffler Group's capital structure (see section capital structure, page 97). In particular, the new parent company has loans outstanding with the higher-level holding companies that differ from those of the previous parent company.

The financial information (except for the consolidated statement of financial position) for 2013 provided in the consolidated financial statements and the group management report contained in this report was prepared by way of a carve out (see Note 1.2 to the consolidated financial statements), restating the Schaeffler Group's operations retrospectively as if the current group structure had already been in place prior to December 31, 2103.

1.4 Group strategy and management

Strategy

The Schaeffler Group is an integrated supplier to the automotive and industrial sectors. It follows a growth strategy aimed at profitable above-market growth. At the core of this growth strategy are top quality, outstanding technology, and strong innovative ability, in doing business with customers as well as in the group's internal processes.

Strategic concept "Mobility for tomorrow"

Schaeffler has developed its strategic concept "Mobility for tomorrow" based on the great megatrends driving its business. Under this concept, the Schaeffler Group focuses on the four areas "eco-friendly drives," "urban mobility," "interurban mobility," and "energy chain" across all of its divisions and regions. The company actively participates in shaping these focus areas with its own research and development and provides its customers and business partners with an attractive product range from a position as an innovative and technological leader.

The Schaeffler Group is a key contributor to all forms of mobility of the future. As an international supplier to its automotive and industrial customers, the company already offers innovative products for hybrid and electric vehicles today. Schaeffler is also working on making conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient. Eco-friendly drives, urban mobility, the field of interurban mobility, and the entire energy chain – Schaeffler is shaping "Mobility for tomorrow" for its customers in all of these areas.

Strategic concept "Mobility for tomorrow"

Combined management report
Consolidated financial statements
Notes to the consolidated financial statements
Additional information

(1) Eco-friendly drives

One of the main objectives of the automotive industry is to develop energy-efficient and sustainable drives with no or low levels of emissions, making them environmentally friendly. With its broad range of products, Schaeffler follows a multi-faceted strategy, serving all areas from improving conventional internal combustion engines through hybridization to electric mobility. Key components such as variable valve-control systems, the thermal management module, wet and dry double-clutches, and electronic control modules help reduce CO_2 emissions of conventional drives based on internal combustion engines. In addition, for Schaeffler's automotive customers, innovative products for the field of electric mobility, such as the electric axle drive, the wheel hub drive "E-Wheel Drive," or hybrid modules, play an increasing role in achieving lower CO_2 emission targets.

(2) Urban mobility

The changing character of 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 travel impossible. As a result, there is a trend towards micro-mobility that offers significant opportunities for small vehicles. Responding to this trend, Schaeffler is further expanding its product portfolio for hybrid and electric mobility. Its torque sensor bottom brackets, for instance, have positioned Schaeffler as an innovative supplier in the growing e-bike market.

(3) Interurban mobility

The term interurban mobility refers to linking key urban centers around the world. Worldwide traffic will increase significantly in the coming decades as globalization continues and users 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. Its innovative rolling bearing solutions make Schaeffler a presence for its customers in both rail and air traffic. These products are found in modern high-speed trains and aircraft.

(4) Energy chain

As a development partner to the energy sector, Schaeffler supports the expansion of renewable energy. In light of dwindling resources and significant climate challenges, worldwide demand for clean energy is growing. All sections 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 as they will all contribute significantly to the energy supply in the future. Schaeffler's Industrial division offers a comprehensive portfolio of products in the field of renewable energy – the spectrum ranges from bearing solutions for wind turbines through to solutions for solar and water power.

Strategic objectives

The “Mobility for tomorrow” strategic concept with its four focus areas and the related sub-strategies of the business fields, regions, and functions are designed to help the Schaeffler Group achieve its strategic objectives, which consist of both quantitative and qualitative components.

The qualitative strategic corridor is defined by a growth strategy focused on quality, technology, and innovation, sustainable profitable growth strongly oriented towards cash flow, a balanced business portfolio, further expanding localization based on the “in the region – for the region” principle, securing sufficient financial flexibility, and expanding the cooperation with Continental AG.

Schaeffler’s objective is to offer its customers a comprehensive “best in class” product/system portfolio including consulting and service. Schaeffler extensively evaluates new products and markets in light of its ambitious profitability targets. Its focus is on the premium segments, which require the highest quality standards. Therefore, the company closely involves its customers in every phase of the product development process in order to best meet their requirements.

The Schaeffler Group strives to deliver the highest-possible quality to its customers. To this end, the company invests in highly standardized and fully automated production plants to continue setting the highest quality standards in the industry. At the same time, Schaeffler consistently realizes productivity gains within its manufacturing processes in order to improve its cost base enabling it to continue achieving an attractive cost/performance ratio.

The Schaeffler Group concentrates on developing and manufacturing high-quality components, modules, and system solutions addressing the global megatrends in the automotive and industrial sectors. The nature of these trends is primarily social, such as urbanization and population growth, technological, such as increasing complexity and digitalization, environmental, such as renewable energy and scarcity of resources, and economic, such as globalization. Schaeffler strives to set new standards in modern engineering with respect to these trends. The company is convinced that focusing on the global megatrends will enable it to continue to profitably grow faster than the market.

Schaeffler is a key contributor to all forms of mobility of the future. The company is already offering innovative products for hybrid and electric vehicles today. At the same time, Schaeffler is continually working to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient.

Schaeffler is continuing to expand its international presence in growth markets, particularly in the Asia/Pacific region which has become a growth driver for the Automotive and Industrial divisions. Nearly one third of all additions to intangible assets and property, plant and equipment the group made in the last twelve months went to the Asia/Pacific and Greater China regions. In line with the theme “in the region – for the region,” Schaeffler is opening or expanding local plants. For instance, two additional plants were opened in Ulyanovsk (Russia) and Nanjing (China) in 2014.

The expansion of the production network in low-wage countries means that a significant proportion of Schaeffler’s production is manufactured in countries such as Slovakia, Hungary, Romania, China, India, and Mexico. Additional expansion of the network in growth markets will further improve the relative labor component of Schaeffler’s production cost in the future.

As part of its global growth strategy, the company is also gradually expanding its product portfolio around the world, enabling it to offer its customers an even greater multitude of solutions.

The Schaeffler Group plans to further diversify its products across various markets in order to minimize dependence on individual markets. This approach also involves expanding its expertise in offering system solutions and services.

In addition, Schaeffler aims to expand its aftermarket business. The Automotive division is increasingly targeting wholesalers and providers of repairs and maintenance services with respect to replacement business. The Industrial division is continually optimizing its authorized dealer network and improving its qualifications. Expanding the service business not only helps reduce the volatility of revenue but also generates completely new business opportunities (for instance in condition monitoring).

Schaeffler's growth strategy is founded on targeted investments in research and development as well as in its production system. Maintaining an adequate debt to EBITDA ratio and generating appropriate positive cash flow provide the financial flexibility these investments require. Therefore, the Schaeffler Group's decisions are always made with a clear focus on cash flow.

Another strategic objective consists of expanding the cooperation with Continental AG. Mechatronic systems (combining mechanical engineering and electronics) are becoming more and more important since OEMs are increasingly expecting their suppliers to provide system solutions that are becoming significantly more complex as digitalization progresses. Schaeffler is convinced that extending the existing cooperation with Continental AG will result in competitive advantages. The combination of Schaeffler's expertise in mechanics and mechatronics with Continental AG's electronics know-how will improve the company's position in the rapidly growing mechatronics segment and position Schaeffler as the leading systems supplier in this field.

Group management

Schaeffler AG's Board of Managing Directors is directly responsible for managing the Schaeffler Group, setting objectives and the strategic direction, and managing the implementation of the growth strategy. The Supervisory Board of Schaeffler AG appoints, supervises, and advises the Board of Managing Directors.

Schaeffler's management primarily manages the group's business based on its divisions and business divisions, which are treated as profit centers and are responsible for business operations and earnings worldwide. The functions are managed as cost centers. In addition to divisions and functions, the Schaeffler Group also divides its business into regions which are each managed by a regional CEO. The Schaeffler regions are managed as profit centers and divided into subregions and countries.

The centralized uniform groupwide internal reporting components of Schaeffler's management system consist primarily of monitoring and management during the year, regular meetings of the Board of Managing Directors and of management, 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 managed based on a comprehensive system of standardized monthly reports on earnings, financial position, and net assets.

Financial performance indicators 2014

Ensuring sustainable and profitable revenue growth paves the way for long-term growth in EBIT and, thus, in shareholder value. Group management ensures that Schaeffler's growth does not come at the expense of profitability and capital efficiency. Therefore, the Schaeffler Group attaches great importance to the performance measures revenue growth and EBIT throughout the organization. Managing investing as well as research and development activities and monitoring the group's financial position are further priorities.

The Schaeffler Group focuses on continually monitoring and optimizing the following five performance indicators to measure the economic performance of its business:

- Revenue growth
- Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)
- Research and development ratio
- Capital expenditure ratio (capex ratio; cash paid to acquire property, plant and equipment and intangible assets)
- Free cash flow.

All financial indicators are calculated on a monthly basis using a comprehensive system of standardized reports on earnings, financial position, and net assets. These reports contain both a comparison of budget vs. actual and a prior year comparison. The comparison of budget vs. actual is based on the annual budget flowing from the integrated operating budget which involves, for instance, extensive market forecasts and is embedded in a longer-range strategic corporate plan established by the Board of Managing Directors.

In addition to the key performance indicators listed above, Schaeffler also uses other financial and non-financial indicators to analyze and manage its business.

The Schaeffler AG Board of Managing Directors has decided to gradually expand its management system. To this end, the company will place more emphasis on value-oriented indicators such as value-added and ROCE (return on capital employed), in particular.

The Schaeffler Group's non-financial performance indicators

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

1.5 Employees

The processes, systems, and tools of the Schaeffler Group's human resources department are aligned with the company's strategic direction, as are its objectives and responsibilities. The human resources department contributes efficiently and in a goal-oriented manner to the achievement of the company's objectives and to increasing its value-added.

The human resources department attracts and supports employees in close cooperation with the relevant management. Its particular focus is on the technical and personal development of the company's employees, not least with a view to retaining them at the company. The human resources department renders the required services with a clear focus on quality that is in line with the Schaeffler Group's quality mindset.

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

The Schaeffler Group employed an average of 80,768 employees (prior year: 77,060) in 2014. The number of employees at December 31, 2014 was 82,294, 5.2 % above the prior year level of 78,258. The company recruited new personnel compared to December 31, 2013 primarily in production and production-related areas – mainly in Schaeffler's Greater China and Europe regions, especially in Eastern Europe. The decrease in the headcount in South America was more than offset by a significant increase in North America, primarily in the U.S.

No. 005

Number of employees 1)	12/31/2014	12/31/2013	Change in %
Europe	57,607	55,392	4.0
Americas	12,229	12,146	0.7
Greater China	9,741	8,068	20.7
Asia/Pacific	2,717	2,652	2.5
Schaeffler Group	**82,294**	**78,258**	**5.2**

1) Figures as at December 31.

Structural data

The following is a selection of data on the structure of Schaeffler's global workforce.

No. 006

	12/31/2014	12/31/2013		Change
Average age (years)	39.4	39.4	0.0	%
Average tenure (years)	10.9	10.9	0.0	%
Proportion of female employees (%)	21.0	20.6	0.4	%-pts.
Proportion of female managers (%) 1)	11.2	10.5	0.7	%-pts.
Absenteeism due to illness (%) 2)	3.3	3.3	0.0	%-pts.

1) Managers are defined as employees in a supervisory function.
2) Number of sick days as a percentage of scheduled working days.

The average period Schaeffler's employees have been with the Schaeffler Group (tenure) remained unchanged at 10.9 years in 2014. Tenure is an indicator of employees' commitment and demonstrates their identification with the company. As in the prior year, the average age of the Schaeffler Group's employees was 39.4 years. The average age fell in Schaeffler's Greater China and Americas regions and increased in Europe and in Asia/Pacific.

For Schaeffler, diversity is closely related to the company's success, since international teams that are heterogeneous in terms of age and gender are particularly successful. As a result, the Schaeffler Group has increased the proportion of female employees by 0.4 percentage points to 21.0 % in 2014. Schaeffler's proportion of female managers is 11.2 % (prior year: 10.5 %). In addition, the numerous different cultures, mentalities, and talents found at Schaeffler demonstrate the diversity and global direction of the company.

Schaeffler's health management aims to create a structure within the company that ensure and promote Schaeffler's employees' well-being, health, performance, and satisfaction, both on and off the job. Worldwide absenteeism due to illness experienced by the company remained unchanged at 3.3 % in 2014.

Supporting new talents

Attracting and training new talents in all areas is essential to ensuring Schaeffler's long-term success. 2,735 trainees (or 3.3 % of Schaeffler's workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 2,602 or 3.3 % of the workforce) as at the end of 2014. The number of trainees increased by 5.1 % during the year. These future specialists are trained in a total of 22 specific jobs requiring formal training at Schaeffler's various locations. In addition to technical qualifications and Schaeffler-specific know how, Schaeffler's training values methodological, social, and personal skills particularly highly. Training at Schaeffler is aimed at teaching young employees to think and act independently, promoting their creativity and strengthening their environmental awareness and sense of responsibility.

Cooperative education programs ("Duales Studium") play another important role in attracting new talents in Germany. Schaeffler offers two types of these programs of academic studies: The "Duales Studium" in cooperation with colleges offering this type of cooperative education program ("Duale Hochschulen"), and the "Two-in-One" program in cooperation with universities of applied sciences in Germany. A total of 147 students were enrolled in the "Duales Studium" and 196 in "Two-in-One" bachelor programs. The company also operates another program leading up to a master's degree.

In addition, the Schaeffler Group offers a special trainee program to above-average university graduates, enabling them to gain a comprehensive overview of the group and its functional areas over a period of 12 to 24 months. The accompanying qualification measures aimed at personal development ideally prepare these trainees to take on positions carrying responsibility within the Schaeffler Group. 52 young talents (prior year: 62) were enrolled in this trainee program in Germany as at December 31, 2014.

Employee qualification and continuing education

The expertise and qualification of its employees is essential to the Schaeffler Group's success. 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.

5,824 continuing education courses took place in Germany in 2014 (prior year: 4,373), including 2,115 web-based training courses (prior year: approximately 500) with 24,754 participants (prior year: 20,800). The considerable increase is due to the global implementation of web-based compliance training. The Schaeffler Group follows the trend towards making continuing education courses available to employees anytime anywhere. The number of participants in continuing education courses in Germany increased by 8 % compared to the prior year. The increase was primarily due to numerous new web-based training courses, such as product courses, being offered.

No. 007

Number in Germany	12/31/2014	12/31/2013	Change in %
Continuing education courses	5,824	4,373	33.2
Participants	56,459	52,256	8.0

Schaeffler's range of continuing education courses is 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 Academy is constantly being expanded internationally.

Awards

In September 2014, Schaeffler was named "National Busines of the Year 2014" in the U.S. by the National Association of State Workforce Agencies (NASWA). This is an award for outstanding performance with a positive impact on the company's employees, its industry, and society. In addition, two independent staffing agencies named the Schaeffler Group one of the 100 top employers in China. One of the reasons for this success is the German dual system of training, which Schaeffler introduced to China nearly ten years ago, earning it the titles of "China's best 100 HRM (Human Resources Management)" and "Top 100 Best Employer China." The Schaeffler Group also received numerous smaller local top employer awards. For instance, three Brazilian professional magazines voted Schaeffler one of the "150 best employers" of Brazil.

1.6 Sustainability and corporate social responsibility

Sustainability

Sustainable management and corporate social responsibility have been essential elements of the Schaeffler Group's corporate culture for years. Quality, technology, and innovation are the issues the company is focusing on. It is very important to Schaeffler to combine economic success with acting responsibly towards its customers, the environment, and its employees. Taking into account ecological and social criteria along the entire value chain and reducing the consumption of resources are firmly anchored in Schaeffler's corporate management principles. They are the foundation of long-term growth and a continual increase in shareholder value.

Environmental protection and occupational safety

For the Schaeffler Group, environmental protection and occupational safety are the key pillars of sustainable development. Based on the fundamental assertions in its code of conduct, which applies worldwide, Schaeffler has issued a group-wide environmental protection and occupational safety policy. It is evaluated regularly and its fundamental principles are updated to meet current requirements. This 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 in which the Schaeffler Group is represented, setting out country-specific rules over and above this corporate policy. In many cases, Schaeffler significantly exceeds the applicable legal requirements by implementing these regulations. For instance, the plant in Yinchuan, China, is the first Chinese location ever to be validated under the criteria of the European EMAS ("Eco-Management and Audit Scheme"), and has been entered into the site register of the European Community.

Nearly all manufacturing locations are validated and certified under the same standards – EMAS and ISO 14001 regarding environmental protection and OHSAS 18001 regarding occupational safety. Schaeffler started establishing its environmental protection and occupational safety management system at its headquarters in Herzogenaurach more than 15 years ago. The EMAS certifications granted by independent assessors outside Europe play an extremely important role in international comparison. These successful 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 Schaeffler location are connected to 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 turn, the regional coordinators are closely linked to the strategic technical departments at the Competence Center "Environmental Protection and Occupational Safety," whose specialists are responsible for global strategy, thus providing technical management to the entire organization within the EnES management system. This matrix organization of strategic and operational responsibility has primary responsibility for implementing the environmental protection and occupational safety standards.

Occupational safety is another element of Schaeffler's corporate management principles. Based on the vision "zero work-related accidents at Schaeffler," the culture of an individual sense of responsibility was strengthened and expanded. This culture aims to develop a heightened sense of duty for the employees and the related environment. Campaigns focused on the employees' various situations, requirements, and mentalities with respect to the issue of occupational safety support this process. Transparent reporting by the company is aimed at increasing interest in and attention paid to all occupational health issues by all employees. Actual work-related accidents are used to develop preventative methodologies. Continual reports help meet these objectives in order to provide employees with a sense of achievement, but also with opportunities for improvement.

In 2014, the Schaeffler Group started the "pit stop" ("Boxenstopp") health initiative, a scheme to prevent the main causes of absenteeism. The program aims to provide employees with a comprehensive overview of the state of their health and to plan all medical procedures or lifestyle changes that might be necessary. In addition, the program is intended to ensure employees do not have any serious illnesses and obtain preventive medical check-ups. The base program includes laboratory tests, pulmonary function testing, electrocardiograms for assessing the state of their cardiovascular system, ultrasounds, and a comprehensive lifestyle consultation on nutrition and exercise.

Energy and resource management

Global demand for commodities – particularly for energy – is constantly increasing. The Schaeffler Group's steady growth also raises the company's need for energy.

To counteract this trend, Schaeffler decided in 2012 to implement an energy management system meeting the global ISO 50001 standard. The functionality of the management system at two production locations was certified by an external expert as early as 2013. Schaeffler followed along its chosen path by obtaining certifications of 19 further Schaeffler locations in 2014.

The Schaeffler Group's energy management system is based on the group's energy policy which sets out, among other things, the commitment of the Board of Managing Directors and all employees with respect to energy efficiency and saving resources, acting sustainably, and continually improving the system.

The Schaeffler Group's following three long-term strategic energy objectives have been derived from this energy policy:

- increasing energy efficiency
- optimizing energy costs
- ensuring security of supply of energy and media.

These strategic goals in turn form the basis of the operational energy goals provided to Schaeffler's production locations annually. In order to continually increase the energy efficiency of its plants, Schaeffler holds regular energy efficiency workshops in which plants, machinery, and processes are reviewed for potential improvements and participants then develop measures to be taken for improvement. The company has already implemented numerous energy efficiency measures based on these workshops. In addition, the Schaeffler Group takes into account the lifecycle cost of capital projects in selecting technology and suppliers and expands cogeneration at its manufacturing locations.

Another elementary aspect of the Schaeffler Group's energy management is the standardized energy data management system (EDMS) which has been rolled out worldwide and provides several benefits:

- provides transparency with respect to the energy consumption of plant and machinery
- monitors energy consumption and detects possible savings
- documents the effectiveness of energy efficiency measures
- forecasts future energy consumption
- prepares energy balance sheets for locations and regions.

All production locations that have been integrated into the EnES management system and are subject to regular internal and external audits are included in the calculation of Schaeffler's environmental indicators. This includes more than 95 % of Schaeffler's locations. Environmental data are collected either by automatic recording of consumption or via manual input to a database. These data are validated by internal and external EnES (Energy, Environment, Safety) auditors as part of the audits performed on location or by reviewing consumption records, bills of delivery, or other evidence.

Sustainable product portfolio

For the Schaeffler Group, sustainable management also means helping new technologies gain acceptance – particularly those technologies which contribute to a cost-efficient and reliable energy balance with low impact on the environment. To this end, the Schaeffler Group is taking action, for example to develop new product technology for the "Mobility for tomorrow." An example is the smallest axial needle roller bearing support for planet gears, which Schaeffler is developing, and which contributes to saving resources:

Customer advantages:
- Even the smallest sizes reduce friction
- Change from sliding to rolling can reduce the friction by 90 %
- Fits in nearly the same design space

Product advantages:
- More uniform friction
- More reliable under marginal lubrication
- Minimal power loss and heat generation.

In addition, the Schaeffler Group offers professional reconditioning of bearings around the world in the Aerospace, Automotive Aftermarket, and Industrial Aftermarket sectors, which increases the maximum operating life of, for instance, axle box bearing. This leads to reduced lifecycle cost and saves a significant amount of CO_2 emissions compared to the fabrication of new bearings. An in-house lifecycle assessment in which the complete product lifecycle for a standard axlebox bearing was analyzed using software and compared with the results obtained for reconditioned bearings showed that reconditioning yields about a 97 % drop in CO_2 emissions (approximately 220 kg CO_2) and saves 2,000 litres of water per axle box bearing compared to newly producing bearings. The various phases in the product lifecycle of a TAROL axle box bearing, from the raw materials and energy production/recovery phase through the design and production, packaging and distribution, and use and maintenance phases to the disposal phase, were investigated.

Corporate social responsibility

For the Schaeffler Group, acting sustainably means assuming responsibility for people, the environment, and society. Therefore, 2014 again was Schaeffler supporting numerous social projects.

In India, the Schaeffler Group works to improve health and social justice under its "HOPE" program. As part of this aid project, Schaeffler started construction on a home for deaf female students and female students with other disabilities in Vadodara, Western India, in 2014, completing it in February of 2015. Schaeffler has also established mobile health stations in the region around its plant in Savli, Western India. These vehicles are staffed with skilled medical personnel and reach up to 40 villages per month, effectively providing preventive and curative health care to more than 40,000 people. Schaeffler also holds a monthly camp with medical specialists such as gynecologists and dermatologists present. This project is scheduled to run for three years and will then be adjusted to reflect specific local requirements based on experience gathered.

Schaeffler also shows its commitment with numerous social projects and environmental events in the Brasov region of Romania. The Schaeffler Group is acting as a partner to local schools and universities there, offers internships, apprenticeships, scholarships, and trainee programs, and actively participates in improving the Romanian vocational school system. The company has been involved with reconstructing and expanding the “Schaeffler Park” since 2007. This park was redesigned in 2011 in cooperation with architects and authorities and offers a safe playground to children from that region. Schaeffler also has a long-term cooperation with local welfare associations supporting more than 20 social projects each year.

In Brazil, the Schaeffler Group received several awards for its commitment to corporate social responsibility. The occasion was provided by numerous activities around the environment, health, and safety, as well as the “Formare” project, which offers an education and job opportunities to young people in Sorocaba, Brazil, and integrates people with disabilities into the company.

Schaeffler helps create jobs for people with disabilities by donating used IT equipment to a not-for-profit organization. In addition, the representative body for the Schaeffler Group’s employees with disabilities (“Gesamtkonzern-Schwerbehindertenvertretung” – GK-SBV) is tasked with integrating people with disabilities into the workforce and society. GK-SBV members are important persons of trust and provide support in internal and bureaucratic matters.

The Schaeffler Group has been committed to international “Formula Student Germany” since 2004 and is gradually expanding this commitment. The company became the main sponsor of the Hockenheim event which was held on the Hockenheimring in Germany with more than 110 teams from 28 nations with 3,600 participants. The design competition with teams from twelve German universities provided the ideal platform for students to test their newly learned theoretical engineering knowledge in practice and in competition, while at the same time developing a comprehensive understanding at many levels. This makes “Formula Student Germany” a valuable opportunity for the Schaeffler Group to make connections with young engineering talents.

Schaeffler supports social institutions, projects, and organizations under the “International Management Program” (IMP). The IMP is a development program for managerial staff in various functions, areas, and regions. Participants use their own skills and networks to support a regional project financially, for instance via crowdfunding, and by personal commitment in order to help meet social needs.

2. Report on the economic position

2.1 Macroeconomic and sector-specific environment

Economic trend

Hampered by geopolitical crises and turmoil in the financial markets, the economic recovery in 2014 was more moderate than expected. In total, the global economy grew by 3.3 % (Source: International Monetary Fund, January 2015), falling short of expectations.

According to the current annual report of the German Council of Economic Experts, especially the euro region did not live up to expectations. The economic downturn in the emerging countries continued. In these countries, a deteriorating financial environment proved a burden on production, following an outflow of capital from these countries, in some cases in significant amounts. However, some of the industrialized economies outside of the euro region saw positive economic conditions. The expansion in the U.S. and in the United Kingdom, which was based on increased domestic demand, proved dynamic and self-sustaining.

The euro region has not yet overcome its banking and sovereign debt crisis. Although key political actions and measures have been taken at the European level, additional efforts are necessary to resolve the crisis. While the economic perspective in the crisis countries Greece, Portugal, and Spain improved, deteriorating business expectations and a subdued investment climate dominated in the three largest economies Germany, France, and Italy. Germany, in particular, did not live up to its role as driver of euro region growth. Following a positive start to the year, the economic recovery was hampered mainly by geopolitical risks and the restrained economic trend experienced by key export partners. Germany reported growth in its gross domestic product of 1.5 % in 2014; the euro region grew by a total of 0.8 %. In Russia, which is part of Schaeffler's Europe region, the conflict with Ukraine and the related economic sanctions as well as the significant decline of the ruble adversely affected the macro-economic trend. In India, however, also part of Schaeffler's Europe region, the economy was up 5.8 % in 2014.

North and South America as a whole experienced economic growth. The U.S. gross domestic product grew by 2.4 %. Significantly higher private consumption and the increase in industrial production were the main drivers behind this positive trend. U.S. monetary policy remained expansive. South America, on the other hand, was marked by more restrained economic growth of 1.2 %. Brazil even exhibited recessionary tendencies. Its economic growth for 2014 was only 0.1 %.

China continued to report declining growth rates in 2014, as the weak economy in the industrialized countries adversely affected exports. After weakening in the spring of 2014, economic growth improved, mainly driven by fiscal measures. At 7.4 %, growth in gross domestic product remained at a relatively high level.

Economic trends in the remaining Asian countries (Asia/Pacific) varied in 2014. The overall trend was marked by significant fluctuations in economic activity in Japan, where an increase in the value-added tax led to a slump in demand in the second quarter of 2014. Japans economy grew by only 0.1 % in 2014.

The Euro fell significantly compared to the U.S. Dollar during the year, caused not only by political risks, but also by the continuing expansive monetary policy followed by the European Central Bank. The exchange rate declined in anticipation of an impending interest rate turnaround in the U.S., particularly in the second half of 2014.

Sales market trends

Automobile production

The global business with manufacturers of passenger cars and commercial vehicles represents the group's most important market segment. Global automobile production, measured as the number of vehicles produced, increased 2.8 % to approximately 87.2 million passenger cars and light commercial vehicles in 2014 (Source: IHS Global Insight, January 2015). Key momentum for growth was once more provided by Schaeffler's Greater China region (7.6 %). Schaeffler's Europe region also contributed to global growth in production, generating an additional 3.2 %. Following the considerable increase in production in the prior year, Schaeffler's Americas region grew relatively moderately in 2014, producing 0.9 % more passenger cars and light commercial vehicles than in 2013. Production in Schaeffler's Asia/Pacific region fell by 1.1 %, due primarily to the decline in Japan.

No. 008

Automobile production (in units)	2014	2013	Change in %
Europe	25,266,349	24,476,343	3.2
Americas	20,673,627	20,485,564	0.9
Greater China	22,979,014	21,356,241	7.6
Asia/Pacific	18,234,767	18,429,054	-1.1
World	**87,153,757**	**84,747,202**	**2.8**

Source: IHS Global Insight (January 2015). Regions reflect the regional structure of the Schaeffler Group.

Industrial production

The global investment climate improved in 2014, despite geopolitical uncertainty and slowing economic growth in the emerging countries. Worldwide industrial production, measured as gross value added (total value of goods and services generated in the production process net of inputs), in the industrial sectors relevant to the Schaeffler Group expanded by 4.3 % in real terms, according to preliminary figures. The market trend analysis is based on data published by economic research company Oxford Economics (Februar 2015) for selected market segments relevant to the group. The data were translated using constant exchange rates and adjusted for inflation based on 2010 prices. Individual regional trends varied. While gross value added in Schaeffler's Europe region declined by 0.4 %, largely driven by Russia and Italy, Schaeffler's other regions grew considerably, most of all Greater China. Growth rates for Schaeffler's Americas, Greater China, and Asia/Pacific regions amounted to 4.4 %, 7.8 %, and 6.4 %, respectively.

No. 009

Industrial production (in € billions)	2014	2013	Change in %
Europe	436.7	435.0	0.4
Americas	284.8	272.8	4.4
Greater China	391.4	363.0	7.8
Asia/Pacific	204.2	191.9	6.4
World	**1,317.1**	**1,262.7**	**4.3**

Source: Oxford Economics (February 2015). Regions reflect the regional structure of the Schaeffler Group.

2.2 Course of business

The Schaeffler Group continued along its growth path in 2014. Revenue increased by 8.2 % to EUR 12,124 m (prior year: EUR 11,205 m) in 2014. Adjusted for the impact of currency translation, revenue grew by 9.0 %, with all four Schaeffler regions experiencing growth in 2014.

Thanks to its excellent global position and successful products, Schaeffler's Automotive division once again grew faster than the global production volumes of passenger cars and light commercial vehicles, which grew by 2.8 % (Source: IHS Global Insight, January 2015). The division increased its revenue across all of Schaeffler's regions, growing by 10.0 % compared to the prior year. Significantly high demand from the international automotive industry, new customer projects, and product start-ups and ramp-ups in the Engine Systems, Transmission Systems, and Chassis Systems business divisions were key drivers of this growth. The division benefitted from the continuing high demand for its products, especially in the key sales markets of China and the U.S.

Industrial division revenue rose slightly by 3.3 %, reflecting sales market trends that differed widely. Revenue growth was held back by the continuing significant global reluctance to invest and the impact of currency translation. Industrial division growth was strongest in Schaeffler's Greater China region, where revenue rose primarily due to high demand in the rail vehicles, renewable energy, and production machinery sectors.

The Schaeffler Group increased its EBIT by EUR 515 m to EUR 1,523 m (prior year: EUR 1,008 m). The prior year includes EUR 48 m in expenses for personnel-related structural measures and provisions for the EU antitrust proceedings of EUR 380 m.

Cash flows from operating activities decreased by EUR 127 m to EUR 900 m in 2014 compared to 2013. This decrease resulted largely from the payment of the EU antitrust penalty of EUR 370.5 m and the prepayment penalty of EUR 114 m paid in connection with the refinancing transaction. This impact was more than offset by the positive effect of growth in EBIT of EUR 515 m and a decrease in interest and taxes paid of EUR 186 m. Cash of EUR 852 m was used in investing activities in 2014 (prior year: EUR 554 m), resulting in free cash flow of EUR 48 m (prior year: EUR 473 m).

Events and trends in 2014

The Schaeffler Group has successfully completed further refinancing transactions in 2014. Several steps enabled the company to not only lower its future borrowing cost and diversify its financing sources but also to extend the maturity profile of its debt, making it much more well-balanced. On May 08, 2014, the Schaeffler Group announced that it had successfully completed a EUR 3.5 bn refinancing transaction. As part of this transaction, the company placed new bond issues with a total principal of approximately EUR 2.0 bn. In addition, it replaced institutional loans totaling EUR 1.5 bn with new loan tranches. On October 16, 2014, the Schaeffler Group announced the successful completion of another transaction refinancing a total of approximately EUR 1.9 bn in debt by replacing institutional loans totaling EUR 1.6 bn and bank loans of EUR 250 m with new loan tranches. This long-term improvement of the terms of its loans and bonds provides the company with additional flexibility regarding further improvements in the future. The total negative impact of the refinancing transactions on the Schaeffler Group's financial result was EUR 221 m, including the payment of a EUR 114 m prepayment penalty.

In addition, 2014 was characterized by a number of changes in personnel. As all functions of the Board of Managing Directors were transferred without changes in personnel in connection with the change of INA Beteiligungsgesellschaft mit beschränkter Haftung to a stock corporation, the following discussion includes changes in personnel that took place at the level of Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) in 2014. These changes included the appointment of Klaus Rosenfeld as Chief Executive Officer for a five-year term beginning July 01, 2014, by the Supervisory Board of Schaeffler Verwaltung Zwei GmbH (then Schaeffler AG) at its meeting on June 18, 2014. Prof. Dr.-Ing. Peter Gutzmer was appointed Deputy Chief Executive Officer of Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG). His contract was extended by five years effective January 01, 2015. Norbert Indlekofer and Professor Dr. Peter Pleus were appointed to the Board of Managing Directors effective January 01, 2014, and have been jointly heading up the Automotive division since then. In addition, the annual general meeting of Schaeffler Verwaltung Zwei GmbH (that time Schaeffler AG) has elected Prof. KR Ing. Siegfried Wolf, Chairman of the Board of Directors of Russian Machines OJSC, to succeed Dr. Eckhard Cordes as member of the Supervisory Board effective July 01, 2014.

On October 24, 2014, INA Beteiligungsgesellschaft mit beschränkter Haftung was changed to a stock corporation and renamed Schaeffler AG. All functions of the Board of Managing Directors were transferred to this company from Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG). The Supervisory Board of Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) was appointed on December 01, 2014, and newly established at its meeting on December 12, 2014. Dr. Reinold Mittag and Jürgen Stolz were appointed to the Supervisory Board as new employee representatives, replacing Jochen Homburg and Tobias Rienth. On the shareholder side, Prof. Dr.-Ing. Tong Zhang was appointed to the Supervisory Board, replacing Dr. Hubertus Erlen. At its meeting on December 12, 2014, Schaeffler AG's Supervisory Board appointed Dr. Ulrich Hauck to the Board of Managing Directors. He will assume the role of Chief Financial Officer of Schaeffler AG on April 01, 2015.

On December 12, 2014, a capital increase was approved in order strengthen the equity base of the Schaeffler Group. The increase was completed by Schaeffler Verwaltungs GmbH, Herzogenaurach, making a contribution in kind, thus becoming a new shareholder with a 16.7 % interest in Schaeffler AG's share capital. The capital increase was registered in the Commercial Register on December 30, 2014.

The initiative program "ONE Schaeffler" decided upon by the Board of Managing Directors in November 2013 was defined in more detail in 2014. The project consists of 21 cross-company improvement initiatives and its implementation is scheduled to be largely completed by the end of 2015. The improvement initiatives relate not only to the Schaeffler Group's divisions but also to its 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 in order to utilize synergies and make the company more efficient.

On March 19, 2014, the European Commission imposed an antitrust penalty on certain Schaeffler Group companies for agreements violating antitrust law in connection with the sale of rolling bearings for the automotive sector. The group had already recognized a provision for the penalty in December 2013 with a corresponding charge to income. The payment of the EU antitrust penalty of EUR 370.5 m in the second quarter of 2014 has thus had an adverse affect on the Schaeffler Group's cash flow.

Business performance compared to the forecast for 2014

As Schaeffler AG (previously INA Beteiligungsgesellschaft mit beschränkter Haftung) is issuing its first group management report as at December 31, 2014, the following is a comparison with the forecast made by Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) in its group management report as at December 31, 2013. Since all operating companies of the Schaeffler Group already were subsidiaries of Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) at December 31, 2013, the group's financial performance indicators revenue growth, EBIT, and capex are comparable to those of the prior year. Free cash flow as originally forecasted by Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) included a dividend from Continental AG which is not included in cash flows from operating activities of Schaeffler AG (INA Beteiligungsgesellschaft mit beschränkter Haftung) due to the change in the scope of consolidation.

The Board of Managing Directors of Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) had forecast an increase in revenue of 5 to 7 % for 2014. This guidance was based on the assumption that exchange rates would remain largely unchanged. Following the good start to 2014, primarily as a result of the strong growth reported by the Automotive division, the Schaeffler Group raised its guidance to more than 7 % in the first quarter of 2014. The Schaeffler Group generated revenue of EUR 12,124, an increase of 8.2 % compared to the prior year. Excluding the adverse impact of currency translation of 0.8 %, the Schaeffler Group generated operational growth of 9.0 %, exceeding the guidance provided in the prior year.

The Schaeffler Group incurred EUR 626 m or 5.2 % of consolidated revenue in research and development expenditures in 2014 in order to further strengthen its foundation for promising innovations and a long-term competitive position, slightly more than the 5 % originally forecast.

The Schaeffler Group maintained its profitability target, an EBIT margin of 12 to 13 %, throughout the year. The actual EBIT margin for 2014 was 12.6 %.

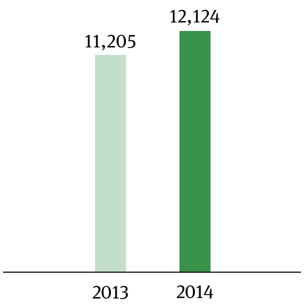
The capital expenditure forecast of 6 to 8 % of revenue was also met with cash paid to acquire property, plant and equipment and intangible assets (capex) of EUR 857 m or 7.1 % of revenue.

The Schaeffler Group generated positive free cash flow of EUR 48 m in 2014, which was in line with the forecasted target of generating positive free cash flow. Free cash flow includes the one-time outflow of EUR 370.5 m for payment of the EU antitrust penalty in the second quarter of 2014.

2.3 Earnings

Schaeffler Group earnings

Revenue (Schaeffler Group)
in € millions



The Schaeffler Group's revenue increased by 8.2 % to EUR 12,124 m (prior year: EUR 11,205 m) in 2014. Excluding the adverse impact of currency translation of 0.8 %, revenue grew by 9.0 %. Automotive division revenue was up 10.0 % at EUR 8,983 m in 2014 (prior year: EUR 8,164 m), growing significantly faster than the global production of passenger cars and light commercial vehicles, which expanded by 2.8 % (Source: IHS Global Insight, January 2015). Industrial division revenue rose by 3.3 % to EUR 3,141 m (prior year: EUR 3,041 m). Currency translation had a significant adverse impact on this revenue trend.

No. 010

in € millions	2014	2013	Change in %
Revenue	12,124	11,205	8.2
Cost of sales	-8,654	-8,029	7.8
Gross profit	3,470	3,176	9.3
Functional expenses 1)	-1,907	-1,805	5.7
Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)	1,523	1,008	51.1
• in % of revenue	12.6	9.0	-
Financial result	-620	-424	46.2
Income from equity-accounted investees	1	2	-50.0
Income taxes	-242	-452	-46.5
Net income 2)	654	127	> 100

1) Selling, administration and research and development.
2) Attributable to shareholders of the parent company.

Varying general economic conditions across the world significantly impacted revenue in the various Schaeffler regions. By far the largest change in revenue, an increase of 29.4 %, was reported by Schaeffler's Greater China region. While the Automotive division primarily saw the business with OEM customers expand significantly, Industrial division revenue growth was strongest in the mobility as well as the energy and raw materials sectors. Schaeffler's Europe region grew its revenue by 5.8 % despite the challenging political and economic situation in the Middle East and the ongoing conflict between Ukraine and Russia as well as the sluggish economic recovery in Europe. The Industrial Aftermarket business and the OEM business of the Automotive division did particularly well. Revenue in Schaeffler's Asia/Pacific region increased by 6.6 %. Particularly the Japanese market generated considerable revenue growth despite declining domestic demand. Schaeffler's Americas region reported a 4.8 % increase in revenue. While North American revenue rose, revenue in South America declined due to the weaker Brazilian Real compared to the Euro as well as the drastic slump in the Brazilian vehicle market.

Cost of sales for 2014 amounted to EUR 8,654 m (prior year: EUR 8,029 m), rising by EUR 625 m or 7.8 %. Personnel-related structural measures at the production locations in Schweinfurt and Wuppertal resulted in one-time charges of EUR 48 m in 2013.

Gross profit rose faster than revenue, growing 9.3 % to EUR 3,470 m (prior year: EUR 3,176 m), and the company's gross margin consequently increased to 28.6 % (prior year: 28.3 %) despite the adverse impact of currency translation. The reasons for this change include primarily the significant increase in volumes in the Automotive division and the increasing proportion of value added locally in Schaeffler's growth markets. In addition, slightly lower raw materials prices had a positive effect on gross margin. While gross margin for the Automotive division rose to 28.1 % (prior year: 27.0 %), Industrial division gross margin declined to 30.1 % (prior year: 32.0 %), due mainly to the adverse impact of currency translation on earnings.

Research and development expenses rose by 2.5 % to EUR 626 m (prior year: EUR 611 m) in 2014, primarily due to increased project activity in the Automotive division. At 71.9 % (prior year: 67.6 %), personnel expenses made up the majority of Schaeffler's research and development costs. The R&D ratio declined to 5.2 % of revenue (prior year: 5.5 %). The company capitalized development costs of EUR 26 m in 2014. In order to actively help shape the "Mobility for tomorrow," the Automotive division has been consistently driving developments for its concept cars. Similar mobility concepts were transferred to the Industrial division. These activities further strengthened the group's systems expertise in 2014.

No. 011

	2010	2011	2012	2013	2014
Research and development expenses (in € millions)	467	495	593	611	626
Number of research and development staff [1]	4,902	5,465	6,098	6,039	6,387

[1] Averages.

Selling expenses increased by 8.7 % to EUR 827 m (prior year: EUR 761 m) in 2014, primarily due to higher revenue-related freight and logistics expenses and increased personnel expenses. Administrative expenses rose by 4.8 % to EUR 454 m (prior year: EUR 433 m), growing less than revenue.

EBIT grew by EUR 515 m to EUR 1,523 m (prior year: EUR 1,008 m), while the EBIT margin improved to 12.6 % (prior year: 9.0 %). The prior year includes EUR 48 m in expenses for personnel-related structural measures and EUR 380 m in provisions for the EU antitrust proceedings.

No. 012

	2014		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-488	0	-488
Fair value changes and compensation payments on derivatives	-71	242	171
Foreign exchange gains and losses	-244	0	-244
Amortization of cash flow hedge accounting reserve	5	0	5
Interest income and expense on pensions and partial retirement obligations	-51	0	-51
Other	-26	13	-13
Total	**-875**	**255**	**-620**

	2013		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-448	0	-448
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	-46	15	-31
Total	**-641**	**217**	**-424**

[1] Incl. transaction costs.

Interest expense on financial debt amounted to EUR 488 m (prior year: EUR 448 m) in 2014. This amount includes EUR 320 m (prior year: EUR 388 m) in interest paid and accrued on the Group's external financing arrangements and EUR 144 m in expenses incurred in connection with the transactions completed in 2014 to refinance the company's debt.

Fair value changes and compensation payments on derivatives consist largely of net gains on interest rate and cross-currency derivatives of EUR 226 m (prior year: net losses of EUR 99 m) and net losses on embedded derivatives of EUR 55 m (prior year: net gains of EUR 114 m). The derecognition of the redemption options related to the bonds that were redeemed in connection with the refinancing transactions in 2014 as well as the impact of amending the terms of the prepayment options related to the institutional loan tranches resulted in losses of EUR 77 m.

Net foreign exchange losses on financial assets and liabilities amounted to EUR 244 m (prior year: net gains of EUR 88 m) and resulted primarily from translating financing instruments denominated in U.S. Dollar to Euro (see Note 1.3 to the consolidated financial statements). The company has hedged this financial debt using cross-currency derivatives and reports the resulting offsetting impact of EUR 226 m under "Fair value changes and compensation payments on derivatives."

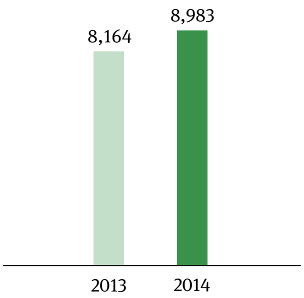
Pensions and partial retirement obligations gave rise to net interest expense of EUR 51 m (prior year: EUR 50 m). See Note 4.10 to the consolidated financial statements for additional details on pensions.

Income taxes declined by EUR 210 m to EUR 242 m (prior year: EUR 452 m) in 2014. This decline was driven by a deferred tax benefit of EUR 90 m (prior year: expense of EUR 142 m) resulting primarily from the refinancing transactions and the impact of currency translation as well as from the recognition of deferred tax assets on interest carryforwards which are now considered probable of being utilized in the future.

Net income after non-controlling interests was EUR 654 m (prior year: EUR 127 m) in 2014. The increase was primarily driven by higher gross profit and the one-time charge incurred in the prior year to recognize the provision for the EU antitrust proceedings of EUR 380 m in the fourth quarter of 2013.

Automotive division

Revenue (Automotive)
in € millions



In 2014, the Automotive division generated revenue growth of 10.0 % compared to the prior year. Revenue increased by EUR 819 m to EUR 8,983 m (prior year: EUR 8,164 m). Excluding the adverse impact of currency translation of 0.7 %, the increase amounted to 10.7 %. This growth resulted from continuing strong demand by customers in the automotive sector as well as product ramp-ups and new customer projects. The division gained additional market share worldwide.

No. 013

in € millions	2014	2013	Change in %
Revenue	8,983	8,164	10.0
Cost of sales	-6,460	-5,960	8.4
Gross profit	2,523	2,204	14.5
EBIT	1,234	683	80.7
• in % of revenue	13.7	8.4	-

Prior year information presented based on 2014 segment structure.

In all of Schaeffler's regions, revenue growth exceeded the average growth rate of regional production volumes for passenger cars and light commercial vehicles (Source: IHS Global Insight, January 2015), despite an adverse impact of currency translation. General economic conditions, which varied across the world, were clearly felt in the various Schaeffler regions. By far the highest rate of revenue growth was reported by the Greater China region. The division's growth rate of 34.4 % in this region was significantly higher than the 7.6 % increase in regional vehicle production. Schaeffler's "in the region – for the region" localization strategy is among the reasons behind this growth rate. Despite geopolitical crises in the Europe region, regional revenue there rose 6.9 %. Revenue growth exceeded the increase in regional automobile production (3.2 %) in this region, as well. Revenue in the Asia/Pacific region rose by 7.0 %, while regional vehicle production declined by 1.1 %. This increase was mainly attributable to the Japanese and South Korean markets. The Americas region reported 8.0 % growth in revenue. While revenue rose in North America, particularly due to high levels of demand for vehicles and product ramp-ups, South American revenue declined. The adverse impact of currency translation and the slump in the Brazilian vehicle market were the primary factors hampering growth. Revenue growth for the Americas region as a whole also exceeded regional automobile production (0.9 %).

The Automotive division has volume supply agreements with OEM customers which lead to nearly full utilization of production capacity in 2015. This is documented by binding supply orders from OEM customers recorded at short notice on the one hand and by annual ranges of delivery quantities contractually agreed in some cases on the other.

The Automotive division business is organized in the Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket business divisions (BD), all of which reported growing revenue in 2014.

No. 014

in € millions	2014	2013	Change in %	Share of revenue 2014 in %
BD Engine Systems	2,266	2,035	11.4	25.2
BD Transmission Systems	3,826	3,322	15.2	42.6
BD Chassis Systems	1,364	1,313	3.9	15.2
BD Automotive Aftermarket	1,527	1,494	2.2	17.0
Automotive division	**8,983**	**8,164**	**10.0**	

Prior year information presented based on 2014 segment structure.

The **Engine Systems BD** reported above-market revenue growth of 11.4 %. Especially this BD's 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), generated considerable additional revenue. The Greater China and Americas regions, in particular, contributed to this growth.

Transmission Systems BD revenue increased by 15.2 %, primarily as a result of growth generated by dry double clutches and actuator products. Sales of the top-selling dual-mass flywheel and torque converter product groups showed an encouragingly strong performance. The significantly positive performance of the Greater China region deserves special mention here.

The 3.9 % growth in revenue in the **Chassis Systems BD** 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). Especially the Greater China and Europe regions generated significant additional revenue.

The **Automotive Aftermarket BD** achieved growth of 2.2 %, driven primarily by higher sales of service kits for belt tensioners as well as repair solutions for dual-mass flywheels and clutches in the Europe region.

Automotive division cost of sales amounted to EUR 6,460 m in 2014, increasing by 8.4 % or EUR 500 m from the prior year (prior year: EUR 5,960 m), slightly less than revenue. Personnel-related structural measures at the production locations in Schweinfurt resulted in a one-time charge of EUR 15 m in 2013.

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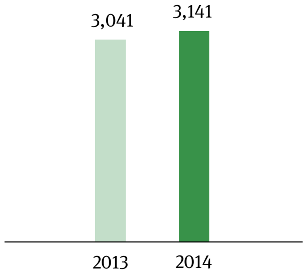
Gross profit rose faster than revenue, growing 14.5 % to EUR 2,523 m (prior year: EUR 2,204 m), and the company's gross margin increased to 28.1 % (prior year: 27.0 %) despite the adverse impact of currency translation. Especially the considerable increase in volumes and the growing proportion of value added locally as well as slightly lower raw materials prices all positively affected profitability.

Research and development expenses increased by 4.8 % to EUR 501 m (prior year: EUR 478 m) in 2014. Expenses largely consisted of personnel expenses incurred to secure new technologies and innovations, emphasizing Schaeffler's determination to actively shape "Mobility for tomorrow" with its own research and development. This is essential to the Schaeffler Group's ability to provide its customers and business partners with an attractive product range well into the future.

Automotive division EBIT rose by EUR 551 m to EUR 1,234 m (prior year: EUR 683 m), while the division's EBIT margin improved to 13.7 % (prior year: 8.4 %). This improvement in the EBIT margin was attributable both to the favorable impact of gross profit and active cost management in the functional areas. The prior year includes EUR 15 m in expenses for personnel-related structural measures and provisions for the EU antitrust proceedings of EUR 380 m.

Industrial division

Revenue (Industrial)
in € millions



Industrial division revenue increased 3.3 % to EUR 3,141 m (prior year: EUR 3,041 m). Excluding the adverse impact of currency translation of 0.9 %, revenue grew by 4.2 %. The Industrial Aftermarket was the main driver of this positive trend.

No. 015

in € millions	2014	2013	Change in %
Revenue	3,141	3,041	3.3
Cost of sales	-2,194	-2,069	6.0
Gross profit	947	972	-2.6
EBIT	289	325	-11.1
• in % of revenue	9.2	10.7	-

Prior year information presented based on 2014 segment structure.

From a regional perspective, the growth in revenue stems mainly from the Greater China region, which reported a growth rate of 16.7 %. The Europe and Asia/Pacific regions increased moderately by 2.9 % and 5.6 %, respectively, while the Americas region reported a 3.8 % decline in revenue. Currency translation had a considerable adverse impact on the revenue trend in that region. Order intake was slightly above the prior year level in 2014 and slightly higher than revenue for 2014.

The Industrial division's operations are divided into two business divisions (BD): The Industrial Applications BD, which consists of the OEM business in the industrial sector, and the Industrial Aftermarket BD, which represents the spare parts and service business. Both business divisions reported slightly higher revenue in 2014 than in the prior year.

No. 016

in € millions	2014	2013	Change in %	Share of revenue 2014 in %
BD Industrial Applications	1,942	1,895	2.5	61.8
BD Industrial Aftermarket	1,199	1,146	4.6	38.2
Industrial division	**3,141**	**3,041**	**3.3**	

Prior year information presented based on 2014 segment structure.

The **Industrial Applications BD** grew its revenue by 2.5 % to EUR 1,942 m (prior year: EUR 1,895 m). Due to the large number of sectors, the revenue trends reported by the mobility, energy & raw materials, production machinery, and aerospace sectors varied widely. Currency translation had a slightly adverse impact on the revenue trend.

The mobility sector was able to slightly increase revenue over the comparison period, bolstered primarily by growth in the rail vehicle and motorized two-wheeled vehicles and special vehicles. Revenue growth was mainly generated by new projects to expand rail transport in China.

Revenue in the energy and raw materials sector for the current reporting period was slightly higher than in the 2013 comparison period. While the wind power sector experienced a strong upward trend in the Greater China region compared to 2013, decreases in the mining sector – primarily in the Americas region – and declining revenue volumes in the metal production and processing sector in Germany, in particular, adversely affected the revenue trend.

In the production machinery sector, revenue for the current reporting period increased slightly from its prior year level, with varying trends in the various branches. While demand for machine tools and production systems increased in all of Schaeffler's regions, business particularly in the textile and printing machinery sectors remained weak. Revenue in the printing machinery sector continued to experience a structural deterioration. Declining exports by European engineering companies had an indirect negative effect on Schaeffler's business.

The aerospace sector reported declining revenue, triggered, among other things, by changes in the product portfolio of key customers. In the Europe region, the revenue trend with key customers was hampered by the conflict between Ukraine and Russia. The declining revenue in the Americas region is primarily due to the significant impact of currency translation.

Revenue in the **Industrial Aftermarket BD** for 2014 was EUR 1,199 m (prior year: EUR 1,146 m), 4.6 % higher than in the 2013 comparison period. Currency translation had a slightly negative impact on Industrial Aftermarket revenue. All regions generated revenue growth, with the largest growth rates reported by the Europe and Greater China regions. Order intake increased in 2014.

Industrial division cost of sales amounted to EUR 2,194 m in 2014, increasing by 6.0 % or EUR 125 m from the prior year (prior year: EUR 2,069 m), slightly faster than revenue. The prior year amount includes EUR 33 m in expenses for personnel-related structural measures at the production locations in Schweinfurt and Wuppertal.

Gross profit fell by 2.6 % to EUR 947 m (prior year: EUR 972 m) compared to the prior year, and gross margin deteriorated by 1.9 percentage points to 30.1 % (prior year: 32.0 %). The adverse impact of currency translation and price decreases in some markets and sectors was not fully offset by improvements in productivity, slightly lower raw materials prices, and improved fixed costs per unit due to economies of scale. In addition, productivity was negatively affected by steps taken to reduce inventories at year end.

Research and development expenses decreased by 6.0 % from EUR 133 m to EUR 125 m in 2014. Cost cutting measures especially reduced personnel expenses. Schaeffler's research focused on innovative products such as the automatic bicycle gearshift system FAG-VELOMATIC, which was chosen as the winner of the "Components" category of the Eurobike Award 2014. In addition, monitoring product life-cycle cost is increasingly gaining in importance. The rolling bearing component with numerous integrated functionalities is increasingly becoming a mechatronic component consistently improving cost-effectiveness and reliability of, for instance, rail vehicles.

In total, Industrial division EBIT declined by EUR 36 m or 11.1 % to EUR 289 m in 2014 compared to prior year (prior year: EUR 325 m), bringing the EBIT margin to 9.2 % (prior year: 10.7 %). The prior year includes EUR 33 m in expenses for personnel-related structural measures at the production locations in Schweinfurt and Wuppertal.

2.4 Financial position and net assets

Cash flow

The Schaeffler Group generated positive cash flow – net increase (decrease) in cash and cash equivalents – of EUR 319 m in 2014 (prior year: EUR -109 m).

No. 017

in € millions	2014	2013	Change in %
Cash flows from operating activities	900	1,027	-12.4
Cash used in investing activities	-852	-554	53.8
Free cash flow	**48**	**473**	**-89.9**
Cash provided by (used in) financing activities	271	-582	-
Net increase (decrease) in cash and cash equivalents	**319**	**-109**	-
	12/31/2014	**12/31/2013**	Change in %
Financial debt	6,414	5,753	11.5
Cash and cash equivalents	636	300	> 100
Net financial debt	**5,778**	**5,453**	**6.0**
Shareholder loans	0	6	-100
Net financial debt excluding shareholder loans	**5,778**	**5,447**	**6.1**

Cash flows from operating activities declined to EUR 900 m (prior year: EUR 1,027 m) in 2014, a reduction of EUR 127 m compared to the prior year. The decrease was primarily caused by the EU antitrust penalty of EUR 370.5 m paid in the second quarter of 2014 and the prepayment penalty of EUR 114 m paid in connection with the refinancing transaction completed in May 2014. In addition, the total impact of the increase in inventories and trade receivables, primarily due to the higher volume of business, and the reduced increase in trade payables compared to the prior year of EUR 121 m negatively affected the cash flow trend (prior year: positive impact totaling EUR 18 m). This impact was more than offset by the positive effect of growth in EBIT of EUR 515 m and a decrease in interest and taxes paid of EUR 186 m.

Driven by significantly higher capital expenditures on intangible assets and property, plant and equipment of EUR 857 m (prior year: EUR 572 m), cash used in investing activities rose to EUR 852 m (prior year: EUR 554 m).

These developments resulted in positive free cash flow of EUR 48 m (prior year: EUR 473 m) for 2014.

The Schaeffler Group generated cash inflows from financing activities of EUR 271 m (prior year: cash of EUR 582 m used in financing activities).

EUR 731 m in receipts from loans and EUR 236 m in repayments of loans related to the refinancing arrangements completed in May and October 2014. The prepayment penalty and transaction costs paid for the refinancing arrangement are included in cash flows from operating activities. All other transactions under these two refinancing arrangements were non-cash in nature. Decreases in current bank debt have reduced the amount of receipts from loans reported in the consolidated statement of cash flows to EUR 727 m. Additional cash outflows of EUR 193 m resulted primarily from a partial prepayment of EUR 171 m that was financed largely by a dividend paid by Continental AG which Schaeffler Beteiligungsholding GmbH & Co. KG passed on to Schaeffler AG via Schaeffler Verwaltung Zwei GmbH (see "Financing," page 102).

Net financial debt increased by EUR 325 m to EUR 5,778 m as at December 31, 2014 (prior year: EUR 5,453 including shareholder loans of EUR 6 m).

The Schaeffler Group did not have any loans payable to its controlling shareholders as at December 31, 2014 (prior year: EUR 6 m).

The debt to EBITDA ratio, defined as the ratio of net financial debt (excluding shareholder loans) to EBITDA, was 2.7 at December 31, 2014 (prior year: 3.3).

Capital structure

The Schaeffler Group’s capital structure improved in 2014, mainly as a result of the capital increase completed during the year. Net income also contributed to the increase in shareholders’ equity.

No. 018

in € millions	12/31/2014	12/31/2013	Change in %
Shareholders' equity	**258**	**-1,966**	**-**
Provisions for pensions and similar obligations	1,984	1,510	31.4
Provisions	70	95	-26.3
Financial debt	6,413	5,720	12.1
Income tax payables	237	235	0.9
Other financial liabilities	21	162	-87.0
Other liabilities	8	6	33.3
Deferred tax liabilities	106	142	-25.4
Total non-current liabilities	**8,839**	**7,870**	**12.3**
Provisions	232	589	-60.6
Financial debt	1	33	-97.0
Trade payables	1,261	1,022	23.4
Income tax payables	155	152	2.0
Other financial liabilities	558	405	37.8
Other liabilities	313	282	11.0
Total current liabilities	**2,520**	**2,483**	**1.5**
Total shareholders’ equity and liabilities	**11,617**	**8,387**	**38.5**

The Schaeffler Group’s shareholders’ equity increased by EUR 2,224 m to EUR 258 m in 2014 (prior year: EUR -1.966 m), mainly as a result of a capital increase completed by way of a contribution in kind in December 2014. The new shareholder, Schaeffler Verwaltungs GmbH, Herzogenaurach, contributed two loans receivable, which increased shareholders’ equity by EUR 1,700 m (see asset structure, page 99). Net income of EUR 662 m and a contribution of EUR 101 m received from Schaeffler’s shareholder Schaeffler Verwaltung Zwei GmbH resulted in additional shareholders’ equity. These increases were partially offset by other comprehensive loss of EUR 238 m resulting mainly from translating net assets of foreign group companies (EUR 140 m), unfavorable changes in the value of hedging instruments (EUR -70 m), and the impact of pension obligations and similar obligations (EUR -316 m).

Provisions for pensions and similar obligations increased by EUR 474 m to EUR 1,984 m (prior year: EUR 1,510 m) primarily as a result of adjusting the discount rate to the low current interest rate levels.

The change in financial debt by EUR 693 m to EUR 6,413 m (prior year: EUR 5,720 m) was primarily due to financing obtained for the EU antitrust penalty in the second quarter of 2014 and the impact of translating financial debt denominated in U.S. Dollar to Euro (see Note 4.5 to the consolidated financial statements).

Other current financial liabilities declined by EUR 141 m to EUR 21 m (prior year: EUR 162 m), primarily due to favorable changes in the fair value of non-current financial cross-currency derivatives used in hedging.

Current provisions fell by EUR 357 m to EUR 232 m (prior year: EUR 589 m), largely because the provision for the antitrust penalty imposed by the European Commission was utilized by paying the penalty. Trade payables, on the other hand, increased by EUR 239 m to EUR 1,261 m (prior year: EUR 1,022 m) as a result of the favorable course of business as well as expanded investing activities in 2014 and the impact of currency translation.

The increase in other current liabilities of EUR 153 m to EUR 558 m (prior year: EUR 405 m) was primarily attributable to unfavorable changes in the fair value of current financial derivatives used to hedge currency risk and higher amounts payable to staff.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The group's obligations under non-cancellable operating rental and lease agreements totaled EUR 120 m (prior year: EUR 106 m) at December 31, 2014; obligations under finance leases were insignificant.

Asset structure

In 2014, the structure of the Schaeffler Group's assets was characterized by the impact of the contribution of loans receivable to effect a capital increase by way of a contribution in kind, increased investing activities, and favorable results of operations. Total assets rose by EUR 3,230 m or 38.5 % to EUR 11,617 m (prior year: EUR 8,387 m) in 2014.

No. 019

in € millions	12/31/2014	12/31/2013	Change in %
Intangible assets	555	538	3.2
Property, plant and equipment	3,748	3,369	11.2
Investments in equity-accounted investees	4	3	33.3
Other investments	14	14	0.0
Other financial assets	1,960	202	> 100
Other assets	58	54	7.4
Income tax receivables	8	12	-33.3
Deferred tax assets	455	218	> 100
Total non-current assets	**6,802**	**4,410**	**54.2**
Inventories	1,713	1,536	11.5
Trade receivables	1,900	1,676	13.4
Other financial assets	343	232	47.8
Other assets	181	141	28.4
Income tax receivables	42	92	-54.3
Cash and cash equivalents	636	300	> 100
Total current assets	**4,815**	**3,977**	**21.1**
Total assets	**11,617**	**8,387**	**38.5**

Property, plant and equipment increased by EUR 379 m to EUR 3,748 m (prior year: EUR 3,369 m) in 2014. This change was primarily caused by additions of EUR 893 m exceeding depreciation of EUR 614 m and the impact of currency translation which increased the carrying amount of property, plant and equipment.

Other non-current financial assets rose by EUR 1,758 m to EUR 1,960 m (prior year: EUR 202 m), largely due to the contribution of EUR 1,700 m in loans receivable from related companies in connection with the capital increase by way of a contribution in kind completed in December 2014 (see Note 4.8 to the consolidated financial statements). The loans receivable consisted of two loans of EUR 629 m receivable from Schaeffler Beteiligungsholding GmbH & Co. KG and EUR 1,071 m receivable from Schaeffler Verwaltungs GmbH. Favorable changes in the fair value of non-current derivatives were the primary reason for the remaining increase in other financial assets. These derivatives include cross-currency derivatives used for hedging and prepayment options on financial debt. Schaeffler exercised certain of these redemption and prepayment options in 2014 as part of the refinancing transaction.

Deferred tax assets increased by EUR 237 m to EUR 455 m (prior year: EUR 218 m). This increase was largely driven by the remeasurement of the Schaeffler Group's pension plans triggered by a further reduction in the discount rate, which increased the provision for pensions and similar obligations while the tax base of these obligations remained unchanged. In addition, deferred tax assets were recognized on interest carryforwards as it is now considered probable that these carryforwards will be utilized in the future.

Inventories increased by EUR 177 m to EUR 1,713 m (prior year: EUR 1,536 m) as at the end of the reporting period, mainly due to increased demand in the Schaeffler Group's various growth markets as well as the impact of currency translation which increased the carrying amount of inventories.

The increase in trade receivables of EUR 224 m to EUR 1,900 m as at December 31, 2014 (prior year: EUR 1,676 m) is mainly attributable to higher fourth quarter revenue in 2014 compared to the prior year and a favorable impact of currency translation.

Other current financial assets have increased by EUR 111 m to EUR 343 m (prior year: EUR 232 m). The reasons for this increase include primarily financial receivables due from related companies, partially offset by declines in the fair value of financial derivatives and damage claims received. The increase in other current assets of EUR 40 m to EUR 181 m (prior year: EUR 141 m) was mainly driven by higher value-added tax refunds receivable.

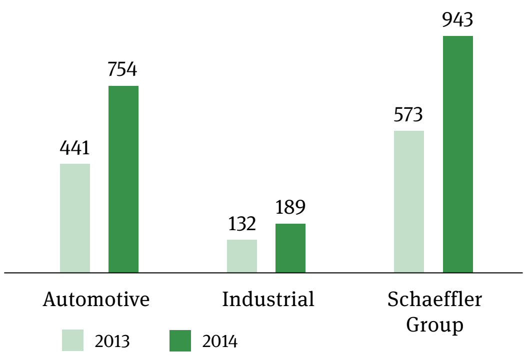
Cash and cash equivalents (see cash flow, page 95) rose by EUR 336 m to EUR 636 m (prior year: EUR 300 m).

Additions to intangible assets and property, plant and equipment

Besides innovation, the Schaeffler Group's growth is based on additions to intangible assets and property, plant and equipment. Schaeffler's growth strategy calls for extensive investments in new products and new technologies as well as in the expansion of the group's global production network.

Additions to intangible assets and property, plant and equipment of EUR 943 m for 2014 were significantly higher than the prior year level (prior year: EUR 573 m). Additions were mainly made to expand capacity and functionalities as well as for product start-ups and to replace assets as necessary. Additions to intangible assets and property, plant and equipment as a percentage of consolidated revenue amounted to 7.8 % (prior year 5.1 %). In the statement of cash flows, additions to intangible assets and property, plant and equipment are adjusted for non-cash transactions and the impact of currency translation. The capex ratio for intangible assets and property, plant and equipment was 7.1 % (prior year: 5.1 %) of consolidated revenue in 2014. Amortization and depreciation as a percentage of consolidated revenue amounted to 5.4 % (prior year: 5.8 %) in 2014. At December 31, 2014, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 262 m (prior year: EUR 177 m).

Additions
in € millions



Schaeffler increased additions to intangible assets and property, plant and equipment primarily in the Automotive division from EUR 441 m to EUR 754 m, while these additions totaled EUR 189 m (prior year: EUR 132 m) in the Industrial division.

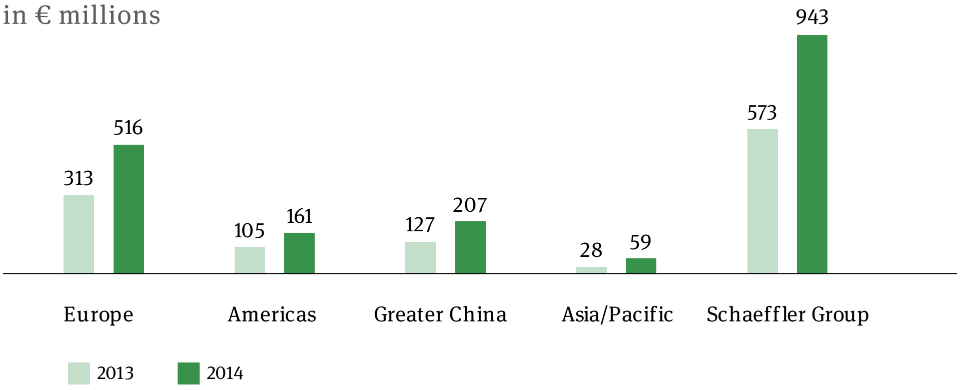
One of the key objectives of Schaeffler's capital expenditure strategy is strengthening the company's competitive position by expanding capacity at manufacturing locations in the Schaeffler Group's growth regions. Expenditures to expand capacity accounted for approximately 38 % of total additions to intangible assets and property, plant and equipment, while approximately 29 % were invested to realize new product start-ups.

Further additions to intangible assets and property, plant and equipment were made to implement replacement plants and rationalization measures and to expand functionalities. These additions to intangible assets and property, plant and equipment not only serve to continually improve the Schaeffler Group's quality and reliability of supply, but also increase the productivity of its plants. Schaeffler replaced technologically outdated machinery with innovative and more efficient equipment, mainly in the Europe region.

Additions to intangible assets and property, plant and equipment made in 2014 related to the new manufacturing locations in Ulyanovsk (Russia) and Nanjing (China), but primarily represented expenditures on the "European Distribution Center" (EDC) project. In 2014, Schaeffler started implementing the EDC North (Arlandastad, Sweden) and EDC South (Carisio, Italy) locations. Additions to intangible assets and property, plant and equipment made on product start-ups focused on projects such as the rolling bearing business of the Automotive division as well as rolling bearings with smaller diameters. Start-ups also related to the roll stabilizer, a new mechatronic component developed by the Schaeffler Group, which is being manufactured and industrialized at the Schweinfurt location.

Additions by region

in € millions



EUR 516 m of the EUR 943 m in total additions to intangible assets and property, plant and equipment were made in Schaeffler's Europe region. In order to strengthen its competitive position, Schaeffler invested primarily in expanding capacity and functionalities. Approximately EUR 161 m, EUR 207 m, and EUR 59 m of total additions to intangible assets and property, plant and equipment were made in Schaeffler's Americas, Greater China, and Asia/Pacific regions, respectively.

Financing

The Schaeffler Group has taken extensive measures to refinance its existing financial liabilities in 2014. These transactions further diversified Schaeffler's financing resources, extended the maturity profile of its debt, and further lowered its borrowing cost.

On May 08, 2014, the Schaeffler Group announced that it had successfully completed a EUR 3.5 bn refinancing transaction. As part of the transaction, the company placed new bond issues with a total principal of approximately EUR 2.0 bn. In addition, it replaced institutional loans totaling EUR 1.5 bn with new loan tranches carrying more favorable terms and an improved maturity profile.

The company placed a total of four new bond issues on May 14, 2014; three issues, including the company's first unsecured bond, were denominated in Euro and one in U.S. Dollar. The unsecured EUR bond with a principal of EUR 500 m has a maturity of five years and bears interest at 3.25 %; the secured EUR bond with a principal of EUR 500 m has a maturity of five years and bears interest at 2.75 %. The third bond, which is also secured and has a principal of EUR 500 m as well as a maturity of eight years, carries an interest rate of 3.50 %. The coupon rate of the secured USD bond with a principal of USD 700 m and a term of seven years is 4.25 %.

The bonds were issued by Schaeffler Finance B.V., a subsidiary of Schaeffler AG, and are listed on the Euro MTF market of the Luxembourg Stock Exchange. The secured bonds are guaranteed by Schaeffler Verwaltung Zwei GmbH and certain of its subsidiaries. The unsecured tranche is guaranteed by Schaeffler Verwaltung Zwei GmbH only. Standard & Poor's and Moody's have rated the secured bonds "BB-"/"Ba2" and the unsecured bond issue "B"/"B1".

In addition, the Schaeffler Group has completed a repricing of tranches C EUR and C USD by repaying them in full and obtaining new loan tranches E EUR and E USD. Tranche E EUR with a principal of EUR 375 m and a maturity of six years bears interest at Euribor + 3.00 %, while tranche E USD totaling USD 1.6 bn with a maturity of six years bears interest at Libor + 3.00 %. Both loan tranches are secured and carry an interest rate floor of 0.75 %.

The proceeds of the new bonds and loans were primarily used to redeem existing bonds: The company redeemed the 2017 EUR retail bond bearing interest at 6.75 % and the 2019 EUR and USD bonds with interest rates of 8.75 % and 8.5 %, respectively. The Schaeffler Group also prepaid the two institutional loan tranches and EUR 309 m of tranche D of the bank loan. Proceeds from the transaction were also used to finance general corporate purposes.

In May the Schaeffler Group also made a partial prepayment of EUR 171 m on loan tranche D. The funds used in this prepayment were largely provided by a dividend of EUR 168 m paid by Continental AG which Schaeffler Beteiligungsholding GmbH & Co. KG passed on to Schaeffler AG via Schaeffler Verwaltung Zwei GmbH. The prepayment reduced the outstanding principal of tranche D to EUR 250 m.

On October 16, 2014, the Schaeffler Group announced that it had successfully completed another refinancing transaction. As part of this transaction, the company obtained new institutional loan tranches B-EUR with a principal of EUR 750 m and B-USD with a principal of USD 1.3 bn. The proceeds totaling approximately EUR 1.9 bn were used to pay off loan tranche D of EUR 250 m and to repay institutional loan tranches E-EUR and E-USD.

Previous loan tranches E EUR and E USD were repaid in full using new loan tranches B EUR and B USD. The new tranche B EUR with a principal of EUR 750 m bears interest at Euribor + 3.50 %, while new tranche B USD of USD 1.3 bn carries an interest rate of Libor + 3.50 %. Both loan tranches are subject to an interest rate floor of 0.75 % and are due in May 2020. As part of the transaction, the Schaeffler Group also paid off previous tranche D of the bank loan of EUR 250 m. At the same time, the company replaced its previous revolving credit facility with a new revolving credit facility of EUR 1.0 bn with a maturity of five years.

In parallel with this refinancing transaction, the Schaeffler Group has obtained the approvals necessary to make certain changes to the terms and conditions of the existing bonds issued by Schaeffler Finance B. V. The changes were aimed at harmonizing the terms and conditions of the bonds and increasing the company's financial flexibility. The bondholders' approvals were received on October 15, 2014.

Since completion of these steps, the interest in Continental AG held by Schaeffler Verwaltung Zwei GmbH via Schaeffler Beteiligungsholding GmbH & Co. KG no longer serves as direct collateral of the Schaeffler Group's financial debt.

The Schaeffler Group's ratings by rating agencies Moody's and Standard & Poor's have remained unchanged following this transaction. Moody's transferred the Schaeffler Group's company rating from Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) to Schaeffler AG (formerly INA Beteiligungs GmbH) on October 06, 2014, and confirmed the rating of "Ba3" with a stable outlook on this basis. Standard & Poor's has maintained its company rating for the Schaeffler Group at "BB-" with a stable outlook, still based on Schaeffler Verwaltung Zwei GmbH. The rating for the bonds issued by Schaeffler Finance B.V. depends on whether the bonds are secured. The secured bonds were rated "Ba2" by Moody's and "BB-" by Standard & Poor's. The unsecured bonds issued in 2014 were rated "B1" by Moody's and "B" by Standard & Poor's.

The Facilities Agreement consists of the following loan tranches at December 31, 2014:

No. 020

Tranche	Currency	Face value in millions 12/31/2014	Face value in millions 12/31/2013	Carrying amount in € millions 12/31/2014	Carrying amount in € millions 12/31/2013	Coupon 12/31/2014	Coupon 12/31/2013	Maturity
Senior Term Loan E	EUR	0	299	0	292	-	Euribor + 3.75 %	-
Senior Term Loan E	USD	0	1,699	0	1,213	-	Libor + 3.25 %	-
Senior Term Loan B EUR [1]	EUR	750	0	757	0	Euribor + 3.50 % [2]	-	05/15/2020
Senior Term Loan B USD [3]	USD	1,300	0	1,031	0	Libor + 3.50 % [4]	-	05/15/2020
Senior Term Loan D	EUR	0	730	0	713	-	Euribor + 2.875 %	-
Revolving Credit Facility [5]	EUR	1,000	1,000	-14	-9	Euribor + 2.875 %	Euribor + 2.875 %	10/27/2019

1) Since October 27, 2014, previously Senior Term Loan E EUR.
2) Euribor floor of 0.75 % since October 27, 2014.
3) Since October 27, 2014, previously Senior Term Loan E USD.
4) Libor floor of 0.75 % since October 27, 2014.
5) EUR 34 m (December 31, 2013: EUR 49 m) were drawn down as at December 31, 2014, 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, 2014:

No. 021

ISIN	Currency	Face value in millions 12/31/2014	Face value in millions 12/31/2013	Carrying amount in € millions 12/31/2014	Carrying amount in € millions 12/31/2013	Coupon	Maturity
XS0741938624	EUR	800	800	791	788	7.75 %	02/15/2017
US806261AC75	USD	600	600	489	428	7.75 %	02/15/2017
XS0923613060	EUR	600	600	596	595	4.25 %	05/15/2018
XS1067864881	EUR	500	-	496	-	3.25 %	05/15/2019
XS1067862919	EUR	500	-	496	-	2.75 %	05/15/2019
US806261AJ29	USD	700	-	571	-	4.25 %	05/15/2021
US806261AE32	USD	850	850	696	612	4.75 %	05/15/2021
XS1067864022	EUR	500	-	499	-	3.50 %	05/15/2022
XS0801261156 1)	EUR	-	326	-	323	6.75 %	-
XS0741939788 1)	EUR	-	400	-	398	8.75 %	-
US806261AA10 1)	USD	-	500	-	361	8.50 %	-

1) Redeemed early on May 14, 2014.

The Schaeffler bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

Schaeffler's existing loan agreements require the group to comply with certain financial covenants. These financial covenants are senior debt leverage cover and senior interest 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 2014.

Liquidity

At December 31, 2014, cash and cash equivalents amounted to EUR 636 m (prior year: EUR 300 m) and consisted primarily of bank balances. EUR 172 m (prior year: 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 34 m (EUR 49 m) were utilized at December 31, 2014, primarily in the form of letters of credit.

2.5 Overall assessment of the 2014 business year

The Board of Managing Directors considers 2014 a good year overall. The Schaeffler Group has completed another successful year of growth. The group achieved the financial performance indicators forecasted in the group management report of Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG), even exceeding some.

Worldwide economic growth remained moderate in 2014, with the momentum of global expansion proving less dynamic than generally expected. Especially the conflict in Ukraine, which was also among the reasons for weaker growth in the euro region, as well as slower expansion in the emerging countries, held back growth. The industrialized economies outside the euro region provided positive momentum. In total, the global economy grew by 3.3 % (Source: International Monetary Fund, January 2015).

In light of this, the Board of Managing Directors looks back on a very robust revenue trend. The group reported revenue of EUR 12,124 m, representing revenue growth of 8.2 %. Excluding the adverse impact of currency translation of 0.8 %, the Schaeffler Group generated 9.0 % in additional revenue. Especially the Automotive division provided momentum here. The Automotive division met its target of generating above-market revenue growth. Industrial division business was satisfactory in light of the general economic trend.

Automotive division revenue increased by 10.0 % to EUR 8,983 m (prior year: EUR 8,164 m) in 2014. Revenue growth was partially offset by the adverse impact of currency translation. Excluding this adverse currency translation effect, Automotive division revenue grew by 10.7 %, significantly above market. In all of Schaeffler's regions, revenue growth exceeded the average growth in regional production volumes for passenger cars and light commercial vehicles (Source: IHS Global Insight, January 2015).

Despite adverse changes in demand due to the geopolitical tension and the unexpectedly weak economic trend in certain emerging countries, the Industrial division was able to increase its revenue. Revenue for this division amounted to EUR 3,141 m in 2014, growing by 3.3 % from the prior year period (prior year: EUR 3,041 m). Excluding the adverse impact of currency translation Industrial division revenue grew by 4.2 %. Schaeffler's strongest region was Greater China, which reported revenue growth of 16.7 %.

Gross profit rose faster than revenue, growing 9.3 % to EUR 3,470 m (prior year: EUR 3,176 m). Driven by the significant increase in volume in the Automotive division and the increasing proportion of value added locally in Schaeffler's growth markets, gross margin amounted to 28.6 % (prior year: 28.3 %).

Research and development expenses grew by 2.5 % to EUR 626 m, representing 5.2 % of revenue, in line with the 5 % forecast made last year. Research and development focused on innovation in the field of new mobility concepts related to the focus fields eco-friendly drives, urban mobility, interurban mobility, and energy chain.

EBIT increased by EUR 515 m to EUR 1,523 m, the EBIT margin by 3.5 percentage points to 12.6 %. The group has thus achieved its target EBIT margin of 12 to 13 %. The prior year includes one-time charges of EUR 48 m for personnel-related structural measures incurred in the third quarter and provisions for the EU antitrust proceedings of EUR 380 m incurred in the fourth quarter.

Net income after non-controlling interests was EUR 654 m following net income of EUR 127 m in the prior year. The reasons for the increase included the one-time charge related to the provision for the EU antitrust proceedings of EUR 380 m recognized in the prior year; there was no impact of a similar amount in 2014.

Cash flows from operating activities declined by 12.4 % to EUR 900 m (prior year: EUR 1,027 m). The decrease was primarily caused by the EU antitrust penalty of EUR 371 m paid in the second quarter of 2014 and the prepayment penalty of EUR 114 m paid in connection with the refinancing transaction completed in May 2014. Capital expenditures amounted to EUR 857 m (prior year: EUR 572 m). In total, this resulted in positive free cash flow of EUR 48 m (prior year: EUR 473 m) for 2014, meeting the objective of generating positive free cash flow.

2.6 Net assets, financial position and earnings of the parent company Schaeffler AG

On October 24, 2014, INA Beteiligungsgesellschaft mit beschränkter Haftung was changed to a stock corporation ("Aktiengesellschaft") and renamed Schaeffler AG. Also on that date, all of the company's functions (CEO functions, Technology, Operations, Finance, and Human Resources) were transferred from Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) to Schaeffler AG (see Note 5.5). As a result of these transactions, Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) has assumed the role of the Schaeffler Group's lead company.

Schaeffler AG also assumed the cash pool function and responsibility for the internal group financing of the Schaeffler Group in 2014.

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

Schaeffler AG earnings

No. 022

in € millions	2014	2013	Change in %
Income from equity investments	1,116	765	45.9
Interest result	-404	-408	-1.0
General and administrative expenses	-28	-17	64.7
Net other operating expenses	-290	-134	> 100
Result from ordinary activities	**394**	**206**	**91.3**
Extraordinary income	54	0	-
Income taxes	-58	-105	-44.8
Other taxes	0	-5	-100
Net income for the year	**390**	**96**	**> 100**
Retained earnings brought forward	2,956	0	-
Withdrawal from capital reserves	0	2,860	-100
Retained earnings	**3,346**	**2,956**	**13.2**

Income from equity investments consists entirely of dividend paid by Schaeffler Technologies AG & Co. KG. The prior year net income of Schaeffler Technologies AG & Co. KG was adversely affected by the provision recognized for the EU antitrust proceedings. As a result, the dividend was lower than in 2014.

Interest income consists of the following:

No. 023

in € millions	Financial expenses	Financial income	Financial result
2014			
Interest expense on financial debt [1]	-562	0	-562
Fair value changes and compensation payments on derivatives	-101	0	-101
Interest income and expense on pensions and partial retirement obligations	-2	0	-2
Other	-30	291	261
Total	**-695**	**291**	**-404**

in € millions	Financial expenses	Financial income	Financial result
2013			
Interest expense on financial debt [1]	-482	0	-482
Fair value changes and compensation payments on derivatives	-61	0	-61
Interest income and expense on pensions and partial retirement obligations	0	0	0
Other	-13	148	135
Total	**-556**	**148**	**-408**

[1] Incl. transaction costs.

Interest expense on financial debt of EUR 562 m (prior year: EUR 482 m) includes interest paid and accrued on the company's external loans of EUR 90 m (prior year: EUR 167 m). The proceeds of the bond issuance, which Schaeffler Finance B.V. transferred to Schaeffler AG via internal loans, led to interest paid and accrued of EUR 235 m (prior year: EUR 224 m). The prepayment penalty of EUR 114 m due in connection with the early redemption of certain bonds was also transferred to Schaeffler AG. Interest expense also includes EUR 53 m (prior year: EUR 34 m) in transaction costs and EUR 70 m (prior year: EUR 57 m) in interest payments on other internal loans.

Changes in the fair value of and compensation payments on derivatives resulted in losses of EUR 101 m (prior year: EUR 61 m) which are entirely due to changes in the fair value of derivatives embedded in bank debt.

Other operating income includes primarily realized and unrealized foreign exchange gains and losses. This line item also includes compensation to subsidiaries of EUR 69 m for providing collateral for the group financing arrangement held by Schaeffler AG.

Extraordinary income resulted from the waiver of a loan by Schaeffler Verwaltung Zwei GmbH resolved upon on November 03, 2014. The waiver was granted in compensation for expenditures related to the refinancing transaction on October 16, 2014.

Income taxes declined by EUR 47 m to EUR 58 m (prior year: EUR 105 m) in 2014. Current income tax expense, which increased by approximately EUR 35 m compared to the prior year, was more than offset by a deferred tax benefit of EUR 83 m (prior year: EUR 14 m) resulting primarily from the recognition of of EUR 34 m in deferred tax assets on interest carryforwards which are now considered probable of being utilized in the future.

A dividend of EUR 250 m will be proposed to the Schaeffler AG annual general meeting for 2014.

Schaeffler AG financial position and net assets

No. 024

in € millions	12/31/2014	12/31/2013	Change in %
ASSETS			
A. Fixed assets			
I. Long-term financial assets			
1. Shares in affiliated companies	14,109	14,109	0.0
2. Loans receivable from affiliated companies	1,724	0	-
	15,833	14,109	12.2
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	10,745	772	> 100
2. Other assets	123	40	> 100
II. Cash at banks	297	8	> 100
	11,165	820	> 100
C. Excess of plan assets over post-employment benefit liability	7	0	-
Total assets	**27,005**	**14,929**	**80.9**
SHAREHOLDERS' EQUITY AND LIABILITIES			
A. Shareholders' equity			
I. Share capital	600	500	20.0
II. Capital reserves	1,600	0	-
III. Retained earnings	3,346	2,956	13.2
	5,546	3,456	60.5
B. Special reserve	13	0	-
C. Provisions			
1. Provisions for pensions and similar obligations	17	7	> 100
2. Tax provisions	125	90	38.9
3. Other provisions	176	142	23.9
	318	239	33.1
D. Liabilities			
1. Bank debt	1,822	2,334	-21.9
2. Amounts payable to affiliated companies	18,805	8,313	> 100
3. Other liabilities	30	1	> 100
	20,657	10,648	94.0
E. Deferred income	222	254	-12.6
F. Deferred tax liabilities	249	332	-25.0
Total shareholders' equity and liabilities	**27,005**	**14,929**	**80.9**

Shares in affiliated companies consist primarily of shares in Schaeffler Technologies AG & Co. KG.

Loans receivable from affiliated companies of EUR 1,724 m (prior year: EUR 0 m) relate primarily to loans receivable assumed from higher-level holding companies as part of the capital increase by way of a contribution in kind.

Receivables and other assets consist of the following:

No. 025

	12/31/2014			12/31/2013		
in € millions	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years
Amounts due from affiliated companies	10,745	0	0	772	0	0
• short-term loans	8,292	0	0	0	0	0
• other finanical receivables	530	0	0	0	0	0
• other receivables	1,923	0	0	772	0	0
Other assets	14	109	0	16	24	0

The increase in short-term loans and other financial receivables is attributable to Schaeffler AG having taken on the cash pooling function and and responsibility for the internal group financing of the Schaeffler Group. Other receivables largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 1,881 m (prior year: EUR 765 m).

Schaeffler AG has been managing the Schaeffler Group's cash pool since October 01, 2014, and had cash at banks of EUR 297 m (prior year: EUR 8 m) at the end of the reporting period.

On December 12, 2014, the extraordinary shareholder meeting of Schaeffler AG passed a resolution to increase its share capital by EUR 100 m by issuing 10,000,000 new registered no-par-value shares. Subscription of the new shares was exclusive to Schaeffler Verwaltungs GmbH, Herzogenaurach. The new shares participate in profits starting January 01, 2015. The capital increase was registered in the Commercial Register on December 30, 2014.

Schaeffler Verwaltungs GmbH made a contribution in kind in consideration for the new shares it received in the capital increase. This contribution in kind consisted of loans receivable by Schaeffler Verwaltungs GmbH from Schaeffler Verwaltung Zwei GmbH with a principal of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG with a principal of EUR 629 m. Both loans mature in December 2024 and bore interest at 4.0 % p.a. in 2014. The excess of the fair value of the contribution in kind over the increase in share capital of EUR 1,600 m was recognized in capital reserves.

Provisions increased by EUR 79 m to EUR 318 m (prior year: EUR 239 m). The increase was mainly due to increased tax provisions for expected income tax payments and higher provisions for pending losses on derivative financial instruments used to hedge the Schaeffler Group's currency risk.

Bank debt decreased by EUR 512 m to EUR 1,822 m (prior year: EUR 2,334 m) due to the refinancing transactions completed in 2014 (see report on the economic position, financing section).

No. 026

	12/31/2014			12/31/2013		
in € millions	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years
Bank debt	0	0	1,822	13	2,321	0
Trade payables	0	0	0	0	0	0
Amounts due to affiliated companies	14,194	2,826	1,785	4,731	2,167	1,415
• loans	13,553	2,826	1,785	3,370	2,167	1,415
• other finanical debt	566	0	0	1,244	0	0
• other liabilities	75	0	0	117	0	0
Other liabilities	30	0	0	1	0	0

The increase in short-term loans is attributable to Schaeffler AG having taken on the cash pooling function and responsibility for the internal group financing of the Schaeffler Group. Amounts payable to affiliated companies include amounts payable to Schaeffler Finance B.V. of EUR 4,673 m (prior year: EUR 3,685 m) relating largely to the transfer of the proceeds from the bond issuance by Schaeffler Finance B.V.

Closing statement on the dependency report

Closing statement on the report on relations with affiliated companies prepared by the Board of Managing Directors in accordance with section 312 AktG.

Schaeffler AG has been a company dependent on Schaeffler Verwaltung Zwei GmbH, Herzogenaurach, in accordance with section 312 AktG since October 24, 2014. Therefore, the Board of Managing Directors has prepared a report on relations with affiliated companies by the Board of Managing Directors in accordance with section 312 (1) AktG which contains the following closing statement:

"In the legal transactions and measures listed in the report on relations with affiliated companies, our company has in each legal transaction received appropriate compensation in the circumstances known to us at the time the legal transactions were executed or the measures were executed or not executed, and has not been disadvantaged by the fact that such measures were executed or not executed."

3. Supplementary report

No material events expected to have a significant impact on the results of operations, financial position, and net assets of the Schaeffler Group occurred after December 31, 2014.

4. Report on opportunities and risks

Schaeffler 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 a risk management system in place to ensure that risks, particularly those to the company's continued existence as a going concern and to its development, are identified on a timely basis.

Risks are defined 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.

Risk management system

Responsibility for the risk management system rests with the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors regularly reports to the audit committee and the Supervisory Board of Schaeffler AG and ensures that necessary risk management measures are approved. The objective is to identify risks, particularly those to the company's continued existence as a going concern and to its development, 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.

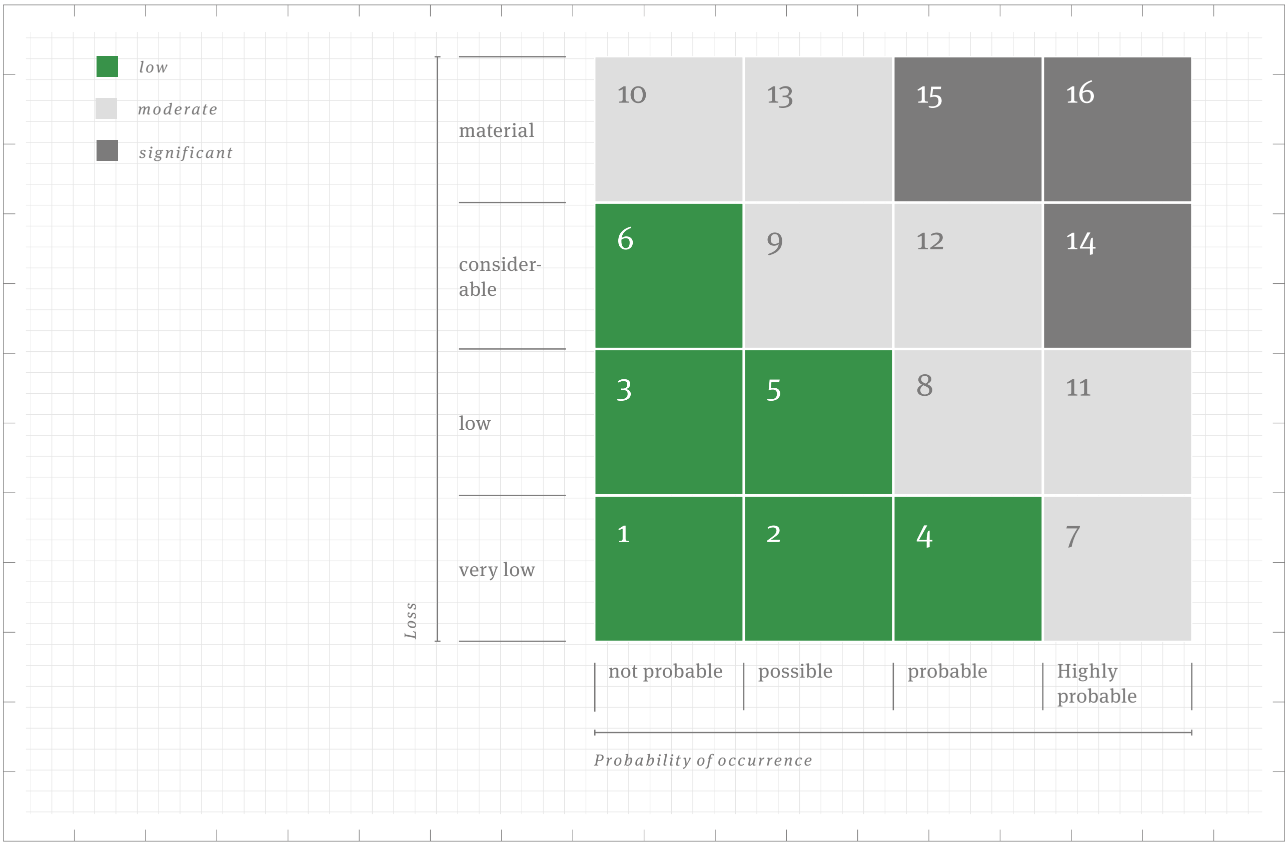
Details of the risk management system are set out in a risk management guideline which the Board of Managing Directors has published within the Schaeffler Group, making it available to all employees. It contains a description of the process, the allocation of responsibilities, and the structure of the risk management system. The guideline also defines a groupwide 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 Board of Managing Directors has asked corporate risk management to review and update the risk management system on an ongoing basis and to ensure that existing uniform groupwide 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 at all material Schaeffler AG subsidiaries semiannually. 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 2014, 62 of 155 Schaeffler Group entities are included, representing 97 % of revenue and 95 % of the Schaeffler Group's earnings before income taxes.

The risk management system only deals with risks that are material to Schaeffler as a whole. The Board of Managing Directors 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 Board of Managing Directors.

Risks are assigned to one of four loss classes based on their impact on net assets, financial position, and earnings 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 net assets, financial position, and earnings. Risk classes are 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 are 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 Board of Managing Directors of Schaeffler AG. Within its area of responsibility, the Board of Managing Directors decides what measures are required and ensures that they are implemented and continually updated. The current status is regularly reported to the Board of Managing Directors and the Supervisory Board.

Corporate risk management regularly reports to the Board of Managing Directors about the risk situation, which ensures that the Board of Managing Directors 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 Board of Managing Directors 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. The operational implementation at 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 has captured risks in a risk management tool developed specifically for this purpose.

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 sytem. The objective of the internal control system relating to accounting and financial reporting is to ensure the accuracy of the accounting system and the related reporting. Schaeffler AG's Board of Managing Directors 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 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 2014, 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.

Risks

The risks set out below could have a moderate or significant impact on the Schaeffler Group's earnings, financial position, and net assets within the forecasting horizon. The expected impact of these risks is reflected in the forecast for 2015. Risks are divided into strategic, operating, legal, and financial risks. Risks are described in decreasing order of the magnitude of their impact on Schaeffler's net assets, financial position, and earnings.

Strategic risks

The Schaeffler Group's strategic risks include technological risks, risks arising from market changes, and country risks.

Technological risks: The Schaeffler Group holds an excellent competitive position with respect to drive trains based on the internal combustion engine. This exceptional position may be jeopardized both by increasing electrification and by the expiry of key patents. The Schaeffler Group has established its electric mobility business field with the intention of creating a portfolio of products for this field in order to offset the loss in revenue from conventional drive trains. If this goal cannot be achieved, the resulting impact on the Schaeffler Group's earnings is expected to be material and last beyond the forecasting horizon.

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 decision alternatives with respect to development are assessed with respect to their impact 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 beyond the forecasting horizon.

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. Should the political situation in the Eastern European sales markets escalate further, the consequences of political developments there could have a material adverse impact on the Schaeffler Group's earnings, financial position, and net assets.

Operating risks

The risks listed below represent 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.

Loss of market share: Schaeffler 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. A deterioration in earnings can limit capital expenditures and thus jeopardize technological advancement. Competition is also driven by factors such as price adjustments and ability to deliver. The Schaeffler Group's key customers include 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 company'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, materially affecting Schaeffler's earnings, financial position, and net assets. Close cooperation with the Schaeffler Group's key customers on product development and strict product quality control measures reduce the likelihood of substitution and, at the same time, help maintain price levels.

Warranty and liability risks: Schaeffler 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 and railway sectors as well as in the Engine and Transmission Systems business units 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.

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 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.

A decline in demand 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.

Development risks: Developing and bringing to new products market 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 mitigate 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.

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 key. 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.

Constant improvements in the production process are necessary to maintain the company's competitive position. This includes relocating production lines to establish a lower-cost location or to shorten transportation routes and improve customer proximity. Any relocation carries the risk of jeopardizing the timely supply to customers or suffering losses in quality. The risks arising from a relocation can have a material impact on Schaeffler's earnings.

Product piracy risks: The Schaeffler 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 the Schaeffler Group. 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 expects this issue to materially affect its net assets, financial position and earnings.

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: Several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts, particularly for the automotive and other industrial sectors, since 2011. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and certain Schaeffler Group companies are among the entities subject to these investigations. The Schaeffler Group is cooperating with the investigating authorities and supports their work. There are ongoing investigations by antitrust authorities in the U.S., Korea, and Brazil. There is a risk that antitrust authorities will impose additional penalties. The company has recognized provisions for the investigations of the Korean and Brazilian antitrust authorities in connection with possible agreements violating antitrust law. In addition, there is a risk that third parties may claim damages resulting from antitrust proceedings that are either ongoing or have been finalized. Various plaintiffs in the U.S. and in Canada have already filed class action suits.

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 Schaeffler 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 net assets, financial position and earnings to be material.

Financial risks

Financial risks include especially the impact of changes in foreign exchange rates and liquidity 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 Chinese Renminbi 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. 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.

To the extent competitors from other currency areas can offer lower prices due to movements in exchange rates, changes in foreign exchange rates can adversely affect the Schaeffler Group's competitive position. The Schaeffler Group's manufacturing locations are spread around the world, enabling the group to benefit from changes in exchange rates and to improve its competitive position.

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 2014 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. 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. To date, the company has complied with the financial covenants as stipulated in the debt agreements. The Schaeffler Group also expects to comply with these covenants in the future.

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.

Overall assessment of Schaeffler Group risks

The forecast issued by the Schaeffler Group is not in jeopardy, including from the existing risks. In addition to the specific risks described in the management report, unexpected developments significantly damaging or harming the company's production process, customer relationship, or reputation can occur at any time.

The Schaeffler Group's situation with respect to risks remains largely unchanged from the prior year. In some cases, the assessment of the potential loss from certain material risks has changed, but these changes do not affect the overall assessment of the group's risks

There are no known risks which, either individually or in combination with other risks, jeopardize the company's continued existence as a going concern.

Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. Opportunities are discussed with the Board of Managing Directors 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 Board of Managing Directors and the Supervisory Board of Schaeffler AG. Opportunities are documented in the risk management tool.

The Schaeffler Group's most significant opportunities are in strategic trends 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. It also allows the company to identify and realize additional potential worldwide. This also bolsters the company's competitive position vis-à-vis competitors from low-wage countries.

Potential in emerging countries: 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 the Schaeffler Group 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 BD. 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 fields offers additional future opportunities for growth.

Industry 4.0: The Internet of Things finding its way into the factory has started a fourth industrial revolution. In future, companies will network their machinery, warehousing systems and equipment around the world.

The accompanying global digitalization is progressing everywhere at an enormous speed. This requires components which can identify and transmit condition-based information. Rolling bearings play a key role as they are responsible for guidance and positioning as well as supporting process forces and movements. To this end, rolling bearings are expanded to include sensors, actuators, control elements, and software components. The objectives range from continuous condition monitoring to independently locating solutions in response to error messages or active process control based on data from the bearing. 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: 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 developments needed to reduce emissions, benefitting primarily technology-oriented suppliers like the Schaeffler Group, 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 Schaeffler and instrument ratings for the bonds and institutional loans. An improvement in the ratings published by Standard & Poor's and Moody's can provide the Schaeffler Group with more favorable financing conditions and open up new opportunities for obtaining financing. In 2014, the company rating remained at "BB-" with a stable outlook (Standard & Poor's based on Schaeffler Verwaltung Zwei GmbH) and at "Ba3" with a stable outlook (Moody's based on Schaeffler AG). The instrument rating for secured instruments is also unchanged at "BB-" (Standard & Poor's) and "Ba2" (Moody's). The unsecured bonds issued in 2014 were rated "B1" by Moody's and "B" by Standard & Poor's.

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 enabling it to react quickly to favorable movements.

5. Report on expected developments

Expected economic and sales market trends

Leading economic research institutions are forecasting a moderate increase in global economic growth, with expectations for worldwide growth in gross domestic product ranging from 2.9 to 3.5 % (Sources: German Council of Economic Experts; International Monetary Fund). Based on this forecast, the Schaeffler Group anticipates global economic growth of approximately 3 % in 2015. Given its excellent position in the growth markets, Schaeffler expects to experience stable and profitable growth next year, as well.

Automobile production

The Schaeffler Group expects to see global automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, to increase by approximately 3 to 4 %. Schaeffler's growth expectation for automobile production in Europe is approximately 3 %, and in the Americas Region it is expected to rise by approximately 2 %. Automobile production in the Asia/Pacific region is likely to decline by approximately 1 % due to decreasing production volumes in Japan. In Greater China, Schaeffler expects automobile production to rise by approximately 9 %.

These expectations are based on the forecasts issued by research institution IHS Global Insight (December 2014), which indicate the volumes expected by OEMs and are summarized in the following table, as well as on the company's own estimates.

No. 027

Growth in automobile production (in % compared with prior year)	2015
Europe	3.3
Americas	2.0
Greater China	8.7
Asia/Pacific	-0.8
World	**3.6**

Source: IHS Global Insight (December 2014) and internal estimates. Regions reflect the regional structure of the Schaeffler Group.

Industrial production

Looking at the economic trend in the industrial sectors and industries relevant to the Industrial division, the Schaeffler Group anticipates growth of approximately 3 to 4 % in terms of real gross value added in 2015. China and the United States, where Schaeffler anticipates growth of approximately 6 % and approximately 5 %, respectively, will once again act as growth drivers.

Due to the large number of markets in which Industrial division customers operate, other sector-specific heterogeneous factors are taken into account in addition to the Oxford Economics forecast.

These expectations are based on the following forecasts published by economic research company Oxford Economics (February 2015):

No. 028

Growth in industrial production (in % compared with prior year)	**2015**
Europe	2.1
Americas	4.0
Greater China	5.7
Asia/Pacific	1.4
World	**3.5**

Source: Oxford Economics (February 2015). Regions reflect the regional structure of the Schaeffler Group.

Schaeffler Group outlook

The Schaeffler Group anticipates that Automotive division production capacity will once more be nearly fully utilized by existing volume supply agreements with OEM customers in 2015. Binding supply orders from OEM customers recorded at short notice and annual ranges of delivery quantities contractually agreed in some cases confirm this assessment. Given the growth in the number of passenger cars worldwide, the Aftermarket business will likely experience utilization at levels comparable to 2014. The Schaeffler Group expects its Automotive division to continue to grow faster than global automobile production of passenger cars and light commercial vehicles in the future.

The positive trend in order intake in the Industrial division during the fourth quarter of 2014 indicates moderate revenue growth in 2015.

The Schaeffler Group expects its revenue to grow by 5 to 7 % at constant currency in 2015. The company anticipates that the growth rate for Automotive division revenue will exceed that of the Industrial division. This guidance is based on the assumption that the global economy will develop in line with current expectations.

The Schaeffler Group is forecasting a capex ratio of 6 to 8 % of revenue in 2015, with development activities remaining at the high level seen in recent years. The company plans to again invest approximately 5 % of its consolidated revenue in researching and developing new products and processes in 2015.

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 % next year.

For 2015, the Schaeffler Group is expecting to improve its positive free cash flow compared to 2014. Free cash flow was adversely affected by the impact of one-time outflows in 2014.

The group's strategic direction towards the global growth regions and "Mobility for tomorrow," as well as its operating excellence, driven by its firm determination to achieve top quality, technology, and innovative ability, will continue to provide Schaeffler with opportunities for profitable growth in the future.

Herzogenaurach, March 09, 2015

The Board of Managing Directors

Consolidated financial statements

1. Consolidated income statement

No. 029

in € millions	Note	2014	2013	Change in %
Revenue	3.1	12,124	11,205	8.2
Cost of sales		-8,654	-8,029	7.8
Gross profit		**3,470**	**3,176**	**9.3**
Research and development expenses		-626	-611	2.5
Selling expenses		-827	-761	8.7
Administrative expenses		-454	-433	4.8
Other income	3.2	49	72	-31.9
Other expenses	3.3	-89	-435	-79.5
Earnings before financial result, income from equity-accounted investees, and income taxes (EBIT)		**1,523**	**1,008**	**51.1**
Financial income	3.5	255	217	17.5
Financial expenses	3.5	-875	-641	36.5
Financial result	**3.5**	**-620**	**-424**	**46.2**
Income from equity-accounted investees		**1**	**2**	**-50.0**
Earnings before income taxes		**904**	**586**	**54.3**
Income taxes	3.6	-242	-452	-46.5
Net income		**662**	**134**	**> 100**
Attributable to shareholders of the parent company		654	127	> 100
Attributable to non-controlling interests		8	7	14.3

2. Consolidated statement of comprehensive income

No. 030

in € millions	2014 before taxes	2014 taxes	2014 after taxes	2013 before taxes	2013 taxes	2013 after taxes
Net income	**904**	**-242**	**662**	**586**	**-452**	**134**
Foreign currency translation differences for foreign operations	229	0	229	-184	0	-184
Net change from hedges of net investments in foreign operations	-105	23	-82	42	-5	37
Effective portion of changes in fair value of cash flow hedges [1]	-97	27	-70	-6	1	-5
Net change in fair value of available-for-sale financial assets	1	0	1	-1	0	-1
Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**28**	**50**	**78**	**-149**	**-4**	**-153**
Defined benefit plan actuarial gains (losses)	-444	128	-316	24	-10	14
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**-444**	**128**	**-316**	**24**	**-10**	**14**
Total other comprehensive income (loss)	**-416**	**178**	**-238**	**-125**	**-14**	**-139**
Total comprehensive income (loss) for the period	**488**	**-64**	**424**	**461**	**-466**	**-5**
Total comprehensive income (loss) attributable to shareholders of the parent company	469	-60	409	463	-466	-3
Total comprehensive income (loss) attributable to non-controlling interests	19	-4	15	-2	0	-2
Total comprehensive income (loss) for the period	**488**	**-64**	**424**	**461**	**-466**	**-5**

[1] Including income of EUR 94 m (prior year: loss of EUR 46 m) reclassified to profit and loss.

See Notes 4.10, and 4.13 to the consolidated financial statements for further detail.

3. Consolidated statement of financial position

No. 031

in € millions	Note	12/31/2014	12/31/2013	Change in %
ASSETS				
Intangible assets	4.1	555	538	3.2
Property, plant and equipment	4.2	3,748	3,369	11.2
Investments in equity-accounted investees		4	3	33.3
Other investments		14	14	0.0
Other financial assets	4.6	1,960	202	> 100
Other assets	4.6	58	54	7.4
Income tax receivables	4.3	8	12	-33.3
Deferred tax assets	4.3	455	218	> 100
Total non-current assets		**6,802**	**4,410**	**54.2**
Inventories	4.4	1,713	1,536	11.5
Trade receivables	4.5	1,900	1,676	13.4
Other financial assets	4.6	343	232	47.8
Other assets	4.6	181	141	28.4
Income tax receivables	4.3	42	92	-54.3
Cash and cash equivalents	4.7	636	300	> 100
Total current assets		**4,815**	**3,977**	**21.1**
Total assets		**11,617**	**8,387**	**38.5**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		600	500	20.0
Capital reserves		1,600	0	-
Other reserves		-1,276	-2,031	-37.2
Accumulated other comprehensive income (loss)		-737	-492	49.8
Equity attributable to shareholders of the parent company		**187**	**-2,023**	**-**
Non-controlling interests		71	57	24.6
Total shareholders' equity	**4.8**	**258**	**-1,966**	**-**
Provisions for pensions and similar obligations	4.10	1,984	1,510	31.4
Provisions	4.11	70	95	-26.3
Financial debt	4.9	6,413	5,720	12.1
Income tax payables	4.3	237	235	0.9
Other financial liabilities	4.12	21	162	-87.0
Other liabilities	4.12	8	6	33.3
Deferred tax liabilities	4.3	106	142	-25.4
Total non-current liabilities		**8,839**	**7,870**	**12.3**
Provisions	4.11	232	589	-60.6
Financial debt	4.9	1	33	-97.0
Trade payables		1,261	1,022	23.4
Income tax payables	4.3	155	152	2.0
Other financial liabilities	4.12	558	405	37.8
Other liabilities	4.12	313	282	11.0
Total current liabilities		**2,520**	**2,483**	**1.5**
Total shareholders’ equity and liabilities		**11,617**	**8,387**	**38.5**

4. Consolidated statement of cash flows

No. 032

in € millions	2014	2013	Change in %
Operating activities			
EBIT	1,523	1,008	51.1
Interest paid	-520	-605	-14.0
Interest received	8	8	0.0
Income taxes paid	-277	-378	-26.7
Dividends received	1	1	0.0
Depreciation, amortization and impairments	649	652	-0.5
(Gains) losses on disposal of assets	1	1	0.0
Changes in:			
• Inventories	-108	-101	6.9
• Trade receivables	-142	-108	31.5
• Trade payables	129	227	-43.2
• Provisions for pensions and similar obligations	-27	-44	-38.6
• Other assets, liabilities and provisions	-337	366	-
Cash flows from operating activities [1)]	**900**	**1,027**	**-12.4**
Investing activities			
Proceeds from disposals of property, plant and equipment	8	15	-46.7
Capital expenditures on intangible assets	-50	-18	> 100
Capital expenditures on property, plant and equipment	-807	-554	45.7
Other investing activities	-3	3	-
Cash used in investing activities	**-852**	**-554**	**53.8**
Financing activities			
Dividends paid to non-controlling interests	-1	-1	0.0
Receipts from loans	727	27	> 100
Repayments of loans	-429	-649	-33.9
Change in financial allocation account with Schaeffler Verwaltung Zwei GmbH	0	-91	-100
Other financing activities	-26	132	-
Cash provided by (used in) financing activities	**271**	**-582**	**-**
Net increase (decrease) in cash and cash equivalents	**319**	**-109**	**-**
Effects of foreign exchange rate changes on cash and cash equivalents	17	-24	-
Cash and cash equivalents as at beginning of period	300	433	-30.7
Cash and cash equivalents as at end of period	**636**	**300**	**> 100**

[1)] Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2014 amount to EUR 1,420 m (prior year: EUR 1,632 m).

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

5. Consolidated statement of changes in shareholders' equity

No. 033

	Share capital	Capital Reserves	Other Reserves	Accumulated other comprehensive income (loss)				Subtotal	Non-controlling interests	Total
in € millions				Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve			
Balance as at January 01, 2013	**500**	**0**	**-2,796**	**-111**	**0**	**1**	**-252**	**-2,658**	**60**	**-2,598**
Net income			127					127	7	134
Other comprehensive income (loss)				-138	-5	-1	14	-130	-9	-139
Total comprehensive income (loss) for the period	**0**	**0**	**127**	**-138**	**-5**	**-1**	**14**	**-3**	**-2**	**-5**
Transactions with shareholders										
Capital contribution			638					638	0	638
Dividends			0					0	-1	-1
Total amount of transactions with shareholders	**0**	**0**	**638**					**638**	**-1**	**637**
Balance as at December 31, 2013	**500**	**0**	**-2,031**	**-249**	**-5**	**0**	**-238**	**-2,023**	**57**	**-1,966**
Balance as at January 01, 2014	**500**	**0**	**-2,031**	**-249**	**-5**	**0**	**-238**	**-2,023**	**57**	**-1,966**
Net income			654					654	8	662
Other comprehensive income (loss)				140	-70	1	-316	-245	7	-238
Total comprehensive income (loss) for the period	**0**	**0**	**654**	**140**	**-70**	**1**	**-316**	**409**	**15**	**424**
Transactions with shareholders										
Issuance of new shares	100	1,600						1,700		1,700
Capital contribution			101					101		101
Dividends			0					0	-1	-1
Total amount of transactions with shareholders	**100**	**1,600**	**101**					**1,801**	**-1**	**1,800**
Balance as at December 31, 2014	**600**	**1,600**	**-1,276**	**-109**	**-75**	**1**	**-554**	**187**	**71**	**258**

See Note 4.8 to the consolidated financial statements for further detail.

6. Consolidated segment information

(Part of the notes to the consolidated financial statements)

No. 034

	Automotive		Industrial		Total	
	01/01 – 12/31		01/01 – 12/31		01/01 – 12/31	
in € millions	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Revenue	8,983	8,164	3,141	3,041	12,124	11,205
Cost of sales	-6,460	-5,960	-2,194	-2,069	-8,654	-8,029
Gross profit	2,523	2,204	947	972	3,470	3,176
EBIT	1,234	683	289	325	1,523	1,008
• in % of revenue	13.7	8.4	9.2	10.7	12.6	9.0
Depreciation, amortization and impairments	-456	-464	-193	-188	-649	-652
Inventories [1)]	1,038	920	675	616	1,713	1,536
Trade receivables [1)]	1,389	1,197	511	479	1,900	1,676
Property, plant and equipment [1)]	2,763	2,367	985	1,002	3,748	3,369
Additions to intangible assets and property, plant and equipment	754	441	189	132	943	573

[1)] 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 (until October 23, 2014: INA Beteiligungsgesellschaft mit beschränkter Haftung, also referred to as "IBH" below), is a corporation domiciled in Germany with its registered office located at Industriestrasse 1 – 3, 91074 Herzogenaurach. The company was founded on April 19, 1982 and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2014 comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as "Schaeffler" or "Schaeffler Group"). The Schaeffler Group is a leading integrated global supplier to the automotive and industrial sectors.

1.2 Group structure

Schaeffler AG, a wholly-owned subsidiary of Schaeffler Verwaltungs GmbH, was changed to a limited liability company ("Gesellschaft mit beschränkter Haftung") when that change was entered into the Commercial Register on October 23, 2014. It was also renamed Schaeffler Verwaltung Zwei GmbH as of that date. On October 24, 2014 (date entered in the Commercial Register), INA Beteiligungsgesellschaft mit beschränkter Haftung was changed to a stock corporation ("Aktiengesellschaft") and renamed Schaeffler AG. Also on that date, all of the company's functions (CEO functions, Technology, Operations, Finance, and Human Resources) were transferred from Schaeffler Verwaltung Zwei GmbH to Schaeffler AG (see Note 5.5).

As a result of these transactions, Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) has assumed the role of the Schaeffler Group's lead company. As a result, these consolidated financial statements cover a group of companies that has been modified from the one covered by the consolidated IFRS financial statements of Schaeffler Verwaltung Zwei GmbH. As a result of the realignment, the Schaeffler Group does not hold any direct or indirect investments in Continental AG.

1.3 Basis of preparation

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

Therefore, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2014 have been prepared voluntarily in accordance with International Financial Reporting Standards (IFRS) as adopted in 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. 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.

Presentation of prior period information

For legal purposes, the group structure in place as at December 31, 2014, with Schaeffler AG as the Group's parent company, was created on December 31, 2103. The comparative information presented in the consolidated statement of comprehensive income, consolidated income statement, consolidated statement of cash flows, and consolidated segment information of these consolidated financial statements was determined based on their carrying amounts in the consolidated IFRS financial statements of Schaeffler Verwaltung Zwei GmbH as at December 31, 2013 (predecessor accounting) by way of a carve-out. The Schaeffler Group's operations were restated retrospectively as if the current group structure had already been in place prior to December 31, 2103.

Starting with a balance of zero as at December 31, 2013, the balance of the financial allocation account – the account used to recognize the liquidity requirements of Schaeffler Verwaltung Zwei GmbH as well as certain other transactions between the Schaeffler Group and Schaeffler Verwaltung Zwei GmbH resulting from the carve-out – was derived using a retrograde calculation. In the consolidated statement of cash flows, the change in the financial allocation account is shown as "Change in financial allocation account with Schaeffler Verwaltung Zwei GmbH" under financing activities.

Income tax amounts for Schaeffler AG and its subsidiaries for periods before December 31, 2013 were determined based on the separate return approach, an approach which assumes that the Schaeffler Group's companies are separate taxable entities unless they are linked to each other as part of a tax group. Income taxes were recalculated based on earnings allocated to these companies based on the group structure in place since December 31, 2013. Income tax expense and benefits attributed to taxable entities of the Schaeffler Group in the process of recalculating income taxes but for which the related tax receivables or payables are held by Schaeffler Verwaltung Zwei GmbH were recognized in the financial allocation account.

General presentation

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 consolidated statement of financial position is classified using the current/non-current distinction. The Schaeffler group classifies assets as current if they are expected to be realized within twelve months after the end of the reporting period. Inventories are considered 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 or has a constructive obligation 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 EUR m) 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, as 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 as adopted in the EU, 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.

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 and management judgment have a significant impact on amounts recognized in the consolidated financial statements:

- determination of the useful life of property, plant and equipment,
- determination of valuation allowances on inventories,
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets,
- accounting for post-employment employee benefits, especially selecting actuarial assumptions,
- recognition and measurement of provisions,
- determination of fair values of financial debt and derivatives, and
- assessment of the recoverability of deferred tax assets.

Except for the measurement of defined benefit pension obligations, changes in assumptions made in the past or from the resolution of previously existing uncertainties related to the above items did not have a significant impact in 2014. The discount rate used to measure defined benefit pension obligations was reduced to reflect lower interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.10).

1.4 Summary of significant accounting policies

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

Consolidation principles

All significant domestic and foreign subsidiaries of the Schaeffler Group have been consolidated in the company's consolidated financial statements. Subsidiaries are entities directly or indirectly controlled by Schaeffler AG. Control generally exists if Schaeffler holds the majority of the voting rights or otherwise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The latter is considered to be the case when Schaeffler is exposed to variable returns from its involvement with the investee and has the ability to affect the amount of these returns by directing its relevant activities. Subsidiaries are consolidated in the consolidated financial statements from the date Schaeffler obtains control until the date control ceases.

Subsidiaries are consolidated using the acquisition method as at the acquisition date. This method involves measuring all assets, liabilities and additional identifiable intangible assets of the acquired companies at fair value and then eliminating the acquisition cost of the investment against the proportionate share of the equity thus remeasured. Any resulting positive difference is capitalized as goodwill, while negative differences are first reassessed and then recognized directly in profit or loss. Non-controlling interests are measured at the non-controlling interest's proportionate share of the fair value of assets acquired and liabilities assumed (partial goodwill method).

Balances and transactions with consolidated subsidiaries and any related income and expenses are completely eliminated in preparing the consolidated financial statements. Intercompany profits or losses on intra-group transactions and dividends paid within the Group are also eliminated in full. 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 "The Effects of Changes in Foreign Exchange Rates," 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. Non-monetary items measured at historical cost are translated at the rate in effect on the date of the transaction.

Exchange gains and losses on operating receivables and payables and on derivatives used to hedge the related currency risk are presented within earnings before financial result, income from equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives obtained to hedge the related currency risk are reflected in financial result.

Foreign entities

The Schaeffler Group presents its financial statements in Euros, Schaeffler AG's functional currency. Assets, including goodwill, 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 other comprehensive income and reported in accumulated other comprehensive income. The impact of currency translation recognized in shareholders' equity is reversed to profit or loss when consolidation of the subsidiary ceases.

Items in the consolidated statement of cash flows are translated at cumulative average monthly exchange rates except for cash and cash equivalents, which are translated at the spot rate at the end of the reporting period.

Revenue recognition and cost of sales

Revenue from the Schaeffler Group's operations are recognized at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue from the sale of goods and tools and of machinery constructed by the company is recognized when, based on the contract with the customer,

- the significant rewards and risks 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 can be measured reliably,
- Schaeffler does not retain continuing managerial involvement with 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 goods, rendering services, or acquiring merchandise sold. Production cost comprises all direct costs attributable to the process of manufacturing goods 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.

Expenses incurred for research activities 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. 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 the intangible asset, 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 reported 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.

Financial result

Interest income and expense is recognized pro rata temporis.

Goodwill

Goodwill is not amortized; however, it is tested for impairment when there is an indication that it may be impaired ("triggering event"), and at least annually. Goodwill is measured at cost less accumulated impairment losses.

The impairment test is performed by comparing the carrying amount of the cash-generating unit to which the goodwill has been allocated with its recoverable amount. A cash-generating unit is the smallest unit with largely independent cash flows. For the Schaeffler Group, this corresponds to its segments. 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. Value in use is determined first. 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 on goodwill is recognized when the carrying amount of the cash-generating unit exceeds its recoverable amount. If circumstances giving rise to an impairment loss subsequently cease to exist, impairment losses on goodwill are not reversed.

Expected cash flows are based on a three-year-forecast which is reviewed regularly by Schaeffler Group management. This detailed 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 additions to 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 are capitalized at acquisition cost, internally generated intangible assets meeting the recognition criteria of IAS 38 "Intangible Assets" at production cost. Intangible assets with a definite useful life are amortized on a straight-line basis over their estimated useful lives of three years for software and six years for capitalized development costs. 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.

In the consolidated income statement, straight-line amortization expense related to an intangible asset is presented within the functional area in which the intangible asset is utilized. Impairment losses and reversals of impairment losses are presented in other expense and other income, respectively.

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.

Additional costs incurred once an item of property, plant and equipment is in operating condition are only capitalized if they significantly increase the economic benefits to the company expected from the asset and can be clearly identified. All other subsequent costs are recognized as repairs and maintenance expense as incurred.

Property, plant and equipment is separated into components at the lowest level if these components have significantly different useful lives and the replacement or overhaul of these components during the total useful life of the plant is probable. Repairs and maintenance costs are expensed.

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 and 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, from 2 to 10 years for technical equipment and machinery and from 3 to 8 years for other equipment. 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. Land is not depreciated.

Leases

Leases transferring substantially all rewards and risks 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.

Where fulfillment of rights or obligations, particularly those arising from service arrangements, is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, such rights or obligations are also considered leases.

Impairments of other intangible assets and property, plant and equipment

The Schaeffler Group tests other intangible assets and property, plant and equipment for impairment when there is an indication that these assets may be impaired ("triggering event").

Assets are tested for impairment by comparing their carrying amount with their recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. 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. An impairment loss exists when the carrying amount exceeds the recoverable amount. If the circumstances giving rise to previously recognized impairment losses no longer exist, impairment losses are reversed up to the carrying amount that would have been determined had no impairment loss been recognized in the past.

Initially, the Schaeffler Group 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.

Other intangible assets not yet available for use are tested for impairment annually at the end of the reporting period.

Financial instruments

Under IAS 32 "Financial Instruments: Presentation," 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 primary and derivative financial instruments. Regular way sales and purchases of financial assets are recognized and derecognized using settlement date accounting. The Schaeffler Group does not apply the fair value option. Please refer to Note 4.13 for an analysis of the Schaeffler Group's financial instruments by class as required by IFRS 7.6.

Primary financial instruments

Primary 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. Primary 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 “Financial Instruments: Recognition and Measurement”:

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 are recognized in other comprehensive income (including the 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. When the fair value of investments in equity instruments cannot be measured reliably using recognized valuation techniques, these investments are measured at cost.

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

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

Loans and receivables: Loans and receivables are measured at amortized cost less any impairment losses. Trade receivables, other financial assets with fixed or determinable payments that are not quoted in an active market, and cash and cash equivalents are accounted for under this category. These assets are tested for impairment at the end of each reporting period and when there is objective evidence of impairment, such as default or delinquency of the borrower or evidence of insolvency. 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.

Cash includes cash on hand, checks, and cash at banks. Short-term, highly liquid investments with a maturity of up to three months from the date of acquisition are considered cash equivalents. Since they are subject to an insignificant risk of changes in value, cash and cash equivalents are measured at cost.

Financial liabilities: Schaeffler measures its financial liabilities at amortized cost using the effective interest method taking into account any transaction costs attributable to the liability.

For financial liabilities designated as a hedge of the currency risk of a net investment in a foreign operation, gains and losses are recognized in other comprehensive income and reported in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

Derivative financial instruments

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

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 amount to be recognized is determined using recognized valuation methods (e.g. option pricing models).

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.” Attributable transaction costs are expensed as incurred. The Schaeffler Group does not have any fair value hedges.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in other comprehensive income and reported 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 reported in accumulated other comprehensive income remains in equity until the forecasted transaction occurs or is no longer expected to occur. Otherwise, the amount is reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Non-derivative host instruments are reviewed for embedded derivatives (such as 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.

Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods are valued at production cost, consisting of direct material and labor costs, production-related overheads and production-related depreciation and amortization. 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

Deferred income taxes are accounted for in accordance with IAS 12 "Income Taxes" using the asset and liability method.

Unless the recognition of deferred taxes is not permitted, deferred taxes are recognized on temporary differences between carrying amounts in the consolidated IFRS statement of financial position and the company's tax balance sheets, on loss and interest carryforwards, and on tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which temporary differences and unused tax loss and interest carryforwards can be utilized. Group entities are assessed individually with respect to whether it is probable that profits will be generated in the future.

Deferred taxes are measured using the future tax rate. Future tax rate changes are reflected in this tax rate when they have been substantively enacted.

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.

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 provisions for pensions and similar obligations recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation at the end of the reporting period, where applicable net of the related plan assets measured at fair value. In addition to the pension funds maintained to fund the obligation, plan assets include all assets and rights under reimbursement insurance policies if the proceeds of the policy can be used only to make payments to employees entitled to pension benefits and are not available to satisfy claims of the company's other creditors. 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 in other comprehensive income and reports them 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 expense on a net basis.

For defined contribution plans, Schaeffler pays fixed contributions to an independent third party. As the Schaeffler Group does not in any way guarantee a return on the assets, neither up to the date pension payments commence nor beyond, the Group's obligation is limited to the contributions it makes during the year. The contributions are recognized in personnel expense.

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 consolidated financial statements provided certain criteria are met.

A provision is recognized 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. Interest expense arising from unwinding the discount on the provision and the impact of any changes in discount rates are presented within financial result.

1.5 New accounting pronouncements

In 2014, 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. 035

Standard		Effective date	Subject of Standard or amendment
IFRS 10	Consolidated Financial Statements	01/01/2014	Replaces the corresponding requirements of IAS 27 “Separate Financial Statements” (previously “Consolidated and Separate Financial Statements”) and SIC 12 (“Consolidation – Special Purpose Entities”)
IFRS 11	Joint Arrangements	01/01/2014	Replaces IAS 31 “Interests in Joint Ventures”
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	Disclosure of interests in other entities
Transition Guidance (Amendments to IFRS 10, 11 and 12)		01/01/2014	Amendments to transition guidance
Amendments to 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
Amendments to IAS 32	Financial Instruments: Presentation	01/01/2014	Clarification regarding offsetting of financial assets and liabilities
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	01/01/2014	Continuation of hedge accounting under certain circumstances

IFRS 10 “Consolidated Financial Statements” introduced a consistent definition of control for consolidation purposes. In accordance with IFRS 11 “Joint Arrangements,” joint arrangements will from now on be classified as joint ventures or joint operations based on their economic substance. The initial application of these two standards did not change the scope of consolidation of Schaeffler AG.

The additional note disclosures introduced by IFRS 12 are not material in aggregate.

“Transition Guidance (Amendments to IFRS 10, 11 and 12)” does not affect the Schaeffler Group’s financial reporting.

The amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting,” IAS 28 “Investments in Associates and Joint Ventures (revised 2011),” and IAS 32 “Financial Instruments: Presentation” do not affect the Schaeffler Group’s financial reporting.

The Schaeffler Group is not yet required to apply the following amendments to Standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2014. None of these were adopted early.

No. 036

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Annual Improvements to IFRS 2011-2013		01/01/2015	Various improvements to IFRS 1, IFRS 3, IFRS 13, and IAS 40	none to minor
Annual Improvements to IFRS 2010-2012		02/01/2015	Various improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38	none to minor
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	02/01/2015	Amendments to accounting for contributions from employees or third parties	none

In addition, the IASB has issued new Standards 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. 037

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Annual Improvements to IFRS 2012-2014		01/01/2016	Various improvements to IFRS 5, IFRS 7, IAS 19 and IAS 34	none to minor
Amendments to IAS 1	Disclosure Initiative	01/01/2016	Clarification regarding the materiality, presentation and structure of financial statement disclosures	minor
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01/01/2016	Clarification of accounting for gains and losses on transactions between an investor and its associate or joint venture	none
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016	Clarification that a revenue-based method is not an acceptable method of depreciation or amortization	none
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	Guidance on aquisitions of joint operations	none
IFRS 15	Revenue from Contracts with Customers	01/01/2017	Principles of recognition of revenue from contracts with customers	Revenue recognition [1)]
IFRS 9	Financial Instruments	01/01/2018	Accounting for financial instruments: Classification, recognition and derecognition, measurement, impairment, hedge accounting	Accounting for financial instruments and changes to related disclosures [1)]

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

2. Principles of consolidation

2.1 Scope of consolidation

In 2014, the consolidated financial statements of Schaeffler AG (formerly INA Beteiligungs-gesellschaft mit beschränkter Haftung) cover, in addition to Schaeffler AG, 155 (prior year: 157) subsidiaries; 53 (prior year: 54) entities are domiciled in Germany and 102 (prior year: 103) in other countries.

The scope of consolidation of Schaeffler AG (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) did not change significantly compared to December 31, 2013 with respect to the consolidated financial statements of the Schaeffler Group.

In the consolidated financial statements as at December 31, 2014, five (prior year: six) investments (including two joint ventures; prior year: two) are accounted for at equity.

Please refer to Note 5.9 for further detail on the Schaeffler Group's companies.

3. Notes to the consolidated income statement

3.1 Revenue

No. 038

in € millions	2014	2013
Revenue from the sale of goods	11,962	10,996
Other revenue	162	209
Total	**12,124**	**11,205**

Other revenue primarily includes EUR 88 m (prior year: EUR 113 m) in revenue from services (e.g. for research and development) as well as EUR 72 m (prior year: EUR 92 m) from the sale of tools and machines constructed by the company.

3.2 Other Income

No. 039

in € millions	2014	2013
Exchange gains	8	35
Reversal of provisions	13	1
Reduction of allowances	5	3
Gains on disposal of assets	1	3
Miscellaneous income	22	30
Total	**49**	**72**

The change in **exchange gains** resulted primarily from exchange gains and losses realized on foreign exchange contracts hedging receivables and liabilities denominated in U.S. Dollar.

Reversal of provisions reflects mainly the unutilized portion of the provision for the investigations of the EU antitrust authorities in 2013 (see Note 4.11 for further detail).

3.3 Other expenses

No. 040

in € millions	2014	2013
Increase in allowances	6	6
Losses on disposal of assets	2	4
Miscellaneous expenses	81	425
Total	**89**	**435**

The decrease in **miscellaneous expenses** compared to the prior year resulted primarily from the special item of EUR 380 m in the prior year that was related to the EU antitrust proceedings which have since been finalized (see Note 4.11 for further detail), while in 2014, this line item reflects, among other things, the recognition of provisions for the ongoing investigations of the Korean and Brazilian antitrust authorities. Miscellaneous other expenses also included items such as expenses for commissions for guarantees.

3.4 Personnel expense and headcount

No. 041

Average number of employees by region	2014	2013
Europe	56,755	55,001
Americas	12,200	11,969
Greater China	9,121	7,533
Asia/Pacific	2,692	2,557
Total	**80,768**	**77,060**

The number of employees at December 31, 2014 was 82,294, 5.2 % higher than the prior year level of 78,258.

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

No. 042

in € millions	2014	2013
Wages and salaries	2,934	2,794
Social security contributions	564	530
Other personnel expense	81	72
Total	**3,579**	**3,396**

The increase in personnel expense in 2014 is mainly attributable to pay increases arising from local collective agreements and the targeted expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions.

3.5 Financial result

No. 043

in € millions	2014 Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-488	0	-488
Fair value changes and compensation payments on derivatives	-71	242	171
Foreign exchange gains and losses	-244	0	-244
Amortization of cash flow hedge accounting reserve	5	0	5
Interest income and expense on pensions and partial retirement obligations	-51	0	-51
Other	-26	13	-13
Total	**-875**	**255**	**-620**

in € millions	2013 Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-448	0	-448
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	-46	15	-31
Total	**-641**	**217**	**-424**

[1] Incl. transaction costs.

Interest expense on financial debt includes EUR 320 m (prior year: EUR 388) in interest paid and accrued on the Group's external financing arrangements and EUR 144 m in expenses incurred in connection with the transactions completed in 2014 to refinance the company's debt.

Fair value changes and compensation payments on derivatives consist largely of net gains on interest rate and cross-currency derivatives of EUR 226 m (prior year: net losses of EUR 99 m) and net losses on embedded derivatives of EUR 55 m (prior year: net gains of EUR 114 m). The derecognition of the redemption options related to the bonds that were redeemed in connection with the refinancing transactions in 2014 as well as the impact of amending the terms of the prepayment options related to the institutional loan tranches resulted in losses of EUR 77 m.

Net foreign exchange losses on financial assets and liabilities amounted to EUR 244 m (prior year: net gains of EUR 88 m) and resulted primarily from translating financing instruments denominated in U.S. Dollar to Euro (see Note 1.4). The company has hedged this financial debt using cross-currency derivatives and reports the resulting offsetting impact of EUR 226 m under fair value changes and compensation payments on derivatives.

Additional income of EUR 5 m (prior year: EUR 2 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 presented within interest expense, as well.

Pensions and partial retirement obligations gave rise to net interest expense of EUR 51 m (prior year: EUR 50 m). See Note 4.10 for further detail on pensions.

3.6 Income taxes

No. 044

in € millions	2014	2013
Current income taxes	332	310
Deferred income taxes	-90	142
Income taxes	**242**	**452**

As a corporation, Schaeffler AG was subject to German corporation tax and trade tax during the reporting period 2014. Trade tax is levied by municipalities.

The average domestic tax rate was 28.3 % in 2014 (prior year: 28.1 %). This tax rate consisted of corporation tax, including the solidarity surcharge, of 15.9 % (prior year: 15.9 %) as well as the average trade tax rate of 12.4 % (prior year: 12.2 %). Partnerships located in Germany are only subject to trade tax.

The current income tax benefit related to prior years amounted to EUR 32 m (prior year: EUR 23 m) in 2014. Schaeffler incurred EUR 11 m in deferred tax expense related to prior years (prior year: EUR 49 m) in 2014.

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 2014 is based on the Schaeffler Group's 28.3 % (prior year: 28.0 %) effective combined trade and corporation tax rate including solidarity surcharge.

No. 045

in € millions	2014	2013
Net income before tax	904	586
Expected tax expense	**256**	**164**
Addition/reduction due to deviating local tax bases	8	7
Foreign/domestic tax rate differences	-4	-6
Change in tax rate and law	0	-1
Non-recognition of deferred tax assets	-6	45
Tax credits	-12	-7
Non-deductible expenses	29	217
Taxes for previous years	-21	26
Other	-8	7
Reported tax expense	**242**	**452**

Deviations from the expected tax rate represents the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-recognition of deferred tax assets reflects mainly the capitalization of loss carryforwards not previously recognized which are now considered probable of being utilized in the future. This line item also includes deferred tax assets on temporary differences for which deferred taxes had not previously been recognized.

Non-deductible expenses include non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries. This line item also includes the offsetting impact of capitalizing interest carryforwards not previously considered recoverable. The decrease compared to the prior year resulted primarily from non-deductible expenses in the prior year related to the EU antitrust proceedings which have since been finalized (see Note 4.11 for further detail).

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

No. 046

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2013	**483**	**1,017**	**236**	**1,736**
Additions	0	10	8	18
Disposals	0	-17	0	-17
Foreign currency translation	0	-2	0	-2
Balance as at December 31, 2013	**483**	**1,008**	**244**	**1,735**
Balance as at January 01, 2014	**483**	**1,008**	**244**	**1,735**
Additions	0	19	31	50
Disposals	0	-3	0	-3
Foreign currency translation	0	5	0	5
Balance as at December 31, 2014	**483**	**1,029**	**275**	**1,787**
Accumulated amortization and impairment losses				
Balance as at January 01, 2013	**0**	**993**	**189**	**1,182**
Amortization	0	11	23	34
Disposals	0	-17	0	-17
Foreign currency translation	0	-2	0	-2
Balance as at December 31, 2013	**0**	**985**	**212**	**1,197**
Balance as at January 01, 2014	**0**	**985**	**212**	**1,197**
Amortization	0	14	19	33
Disposals	0	-3	0	-3
Foreign currency translation	0	5	0	5
Balance as at December 31, 2014	**0**	**1,001**	**231**	**1,232**
Net carrying amounts				
As at January 01, 2013	**483**	**24**	**47**	**554**
As at December 31, 2013	**483**	**23**	**32**	**538**
As at January 01, 2014	**483**	**23**	**32**	**538**
As at December 31, 2014	**483**	**28**	**44**	**555**

The carrying amounts of **goodwill** allocated to cash-generating units amounted 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 in Note 1.4.

For purposes of determining recoverable amount, cash flows beyond the detailed forecasting horizon of 2017 are based on an annual growth rate of 1.0 % (prior year: 1.0 %) for each segment. Depending on the underlying business and its country of operation, Schaeffler uses an assumed pre-tax interest rate of 13.7 % (prior year: 14.6 %) as the weighted average cost of capital for the Automotive segment and 13.8 % (prior year: 14.7 %) for the Industrial segment. This corresponds to a post-tax interest rate of 9.7 % for the Automotive segment (prior year: 10.2 %) and 9.7 % for the Industrial segment (prior year: 10.1 %).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2014 and the prior year, they were not impaired.

In 2014, capitalized development costs included in **internally generated intangible assets** increased to EUR 29 m (prior year: EUR 11 m) as a result of additions of EUR 26 m (prior year: EUR 0 m) which were partially offset by EUR 8 m (prior year: EUR 10 m) in amortization.

Internally generated intangible assets include EUR 15 m (prior year: EUR 21 m) in internally generated software, mainly relating to the implementation of ERP systems.

Amortization of internally generated intangible assets totaling EUR 33 m (prior year: EUR 34 m) was recognized in the following line items in the consolidated income statement: cost of sales EUR 9 m (prior year: EUR 10 m), research and development expenses EUR 5 m (prior year: EUR 5 m), selling expenses EUR 2 m (prior year: EUR 3 m), and administrative expenses EUR 17 m (prior year: EUR 16 m).

Internally generated intangible assets with a carrying amount of EUR 26 m (prior year: EUR 5 m) were not yet subject to amortization.

4.2 Property, plant and equipment

No. 047

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2013	**2,202**	**6,510**	**884**	**376**	**9,972**
Additions	31	202	62	260	555
Additions from initial 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**
Balance as at January 01, 2014	**2,209**	**6,650**	**891**	**389**	**10,139**
Additions	21	351	82	439	893
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals	-4	-166	-35	-3	-208
Transfers	52	231	16	-299	0
Foreign currency translation	58	188	16	17	279
Balance as at December 31, 2014	**2,336**	**7,254**	**970**	**543**	**11,103**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2013	**1,061**	**4,689**	**707**	**0**	**6,457**
Depreciation	74	466	73	0	613
Additions from initial consolidation of subsidiaries	1	2	3	0	6
Impairments	0	0	0	5	5
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**
Balance as at January 01, 2014	**1,115**	**4,932**	**718**	**5**	**6,770**
Depreciation	75	469	70	0	614
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Impairments	0	3	0	0	3
Disposals	-4	-162	-33	0	-199
Transfers	0	-1	1	0	0
Foreign currency translation	23	132	12	0	167
Balance as at December 31, 2014	**1,209**	**5,373**	**768**	**5**	**7,355**
Net carrying amounts					
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**
As at January 01, 2014	**1,094**	**1,718**	**173**	**384**	**3,369**
As at December 31, 2014	**1,127**	**1,881**	**202**	**538**	**3,748**

At December 31, 2014, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 262 m (prior year: EUR 177 m).

4.3 Deferred tax assets and liabilities

Deferred tax assets and liabilities

The following items gave rise to the recognized deferred tax assets and liabilites:

No. 048

	12/31/2014		12/31/2013	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	3	-18	1	-12
Property, plant and equipment	88	-147	78	-129
Financial assets	1	-32	4	-22
Inventories	78	-5	76	-5
Trade receivables and other assets	42	-137	37	-122
Provisions for pensions and similar obligations	378	-60	252	-63
Other provisions and other liabilities	219	-108	170	-197
Interest- and loss carryforwards	53	0	14	0
Other	1	-7	0	-6
Deferred taxes (gross)	**863**	**-514**	**632**	**-556**
Netting	-408	408	-414	414
Deferred taxes, net	**455**	**-106**	**218**	**-142**

The group had gross carryforwards under the interest deduction cap, net of prior year adjustments, of EUR 135 m (prior year: EUR 558 m) at the end of the reporting period. The decrease in interest carryforwards was primarily the result of an internal reorganization of the group structure. As no deferred taxes had been recognized on these interest carryforwards in prior years, the decrease did not generate tax expense. As utilization of carryforwards under the interest deduction cap is now considered sufficiently probable, a deferred tax asset of EUR 34 m (prior year: EUR 0 m) was recognized on these carryforwards for the first time.

No deferred tax assets were recognized on EUR 6 m (prior year: EUR 25 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

At December 31, 2014, the Schaeffler Group had gross loss carryforwards of EUR 120 m (prior year: EUR 158 m) for corporation tax and EUR 38 m (prior year: EUR 13 m) for trade tax, including EUR 79 m (prior year: EUR 107 m) in corporation tax losses and EUR 12 m (prior year: EUR 8 m) in trade tax losses for which no deferred taxes have been recognized.

The majority of the unrecognized loss carryforwards and the remaining interest carryforwards can be utilized indefinitely.

No deferred taxes have been recognized on EUR 1,348 m (prior year: EUR 1,895 m) in undistributed profits of certain subsidiaries, as the company intends to continually reinvest these profits rather than distributing them.

As at the end of the reporting period, certain subsidiaries and tax groups that have suffered losses have recognized net deferred tax assets of EUR 29 m (prior year: EUR 18 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2014, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 272 m (prior year: EUR 94 m) and mainly related to changes in the fair value of financial instruments designated as hedging instruments and of available for sale financial assets as well as remeasurements of pensions and similar obligations.

Income tax receivables and payables

At December 31, 2014, income tax receivables amounted to EUR 50 m (prior year: EUR 104 m), including non-current balances of EUR 8 m (prior year: EUR 12 m).

At December 31, 2014, income tax payables amounted to EUR 392 m (prior year: EUR 387 m), including non-current balances of EUR 237 m (prior year: EUR 235 m).

4.4 Inventories

No. 049

in € millions	12/31/2014	12/31/2013
Raw materials and supplies	317	294
Work in progress	431	399
Finished goods and merchandise	960	840
Advance payments	5	3
Total	**1,713**	**1,536**

EUR 8,523 m (prior year: EUR 7,877 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2014.

Write-downs of inventories recognized in 2014 amounted to EUR 209 m (prior year: EUR 217 m).

4.5 Trade receivables

No. 050

in € millions	12/31/2014	12/31/2013
Trade receivables (gross)	**1,924**	**1,699**
Impairment allowances	-24	-23
Trade receivables (net)	**1,900**	**1,676**

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

No. 051

in € millions	2014	2013
Impairment allowances as at January 01	**-23**	**-23**
Additions	-6	-6
Allowances used to cover write-offs	0	3
Reversals	5	3
Impairment allowances as at December 31	**-24**	**-23**

Trade receivables past due were as follows:

No. 052

in € millions		12/31/2014	12/31/2013
Carrying amount		**1,900**	**1,676**
Not past due		**1,767**	**1,572**
Past due	up to 60 days	122	91
	61 - 120 days	7	8
	121 - 180 days	1	3
	181 - 360 days	2	1
	> 360 days	1	1

At December 31, 2014, trade receivables of EUR 940 m (prior year: EUR 864 m) were pledged as collateral under loan and bond agreements.

The Schaeffler Group's exposure to currency and liquidity risk related to trade receivables is disclosed in Note 4.13.

4.6 Other financial assets and other assets

No. 053

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial assets						
Loans receivable and financial receivables	1,701	271	1,972	2	114	116
Marketable securities	11	1	12	9	0	9
Derivative financial assets	244	25	269	189	60	249
Miscellaneous financial assets	4	46	50	2	58	60
Total	**1,960**	**343**	**2,303**	**202**	**232**	**434**

The increase in non-current **loans receivable and financial receivables** was primarily related to the capital increase by way of a contribution in kind received in December 2014. As part of this transaction, EUR 1,700 m in loans receivable from related companies were contributed to the Schaeffler Group (see Notes 4.8 and 5.5). The current portion also included financial receivables due from related companies.

At December 31, 2014, non-current **derivative financial assets** consisted mainly of derivatives used to hedge currency risk and prepayment options on financial debt. The current portion of derivative financial assets represented fair values of derivatives the Schaeffler Group uses to hedge currency risk.

Current miscellaneous financial assets consisted largely of amounts due from employees, claims for damages, and deposits paid.

The Schaeffler Group did not recognize a valuation allowance on other financial assets at December 31, 2014 (prior year: EUR 1 m).

At December 31, 2014, other financial assets of EUR 2,099 m were pledged as collateral under loan- and bond agreements (prior year: EUR 203 m).

The Schaeffler Group's exposure to currency and liquidity risk related to other financial assets is disclosed in Note 4.13 on financial instruments.

No. 054

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other assets						
Pension asset	36	0	36	38	0	38
Tax receivables	1	145	146	1	116	117
Miscellaneous assets	21	36	57	15	25	40
Total	**58**	**181**	**239**	**54**	**141**	**195**

Tax receivables consisted largely of value-added tax refunds receivable.

At December 31, 2014, other assets of EUR 3 m (prior year: EUR 0 m) were pledged as collateral under loan- and bond agreements.

4.7 Cash and cash equivalents

At December 31, 2014, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 172 m (prior year: EUR 151 m) held by subsidiaries in Argentina, Brazil, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Thailand, 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.

At the end of the reporting period, cash and cash equivalents of EUR 296 m (prior year: EUR 36 m) were pledged as collateral under loan- and bond agreements.

4.8 Shareholders‘ equity

No. 055

in € millions	12/31/2014	12/31/2013
Share capital	600	500
Capital reserves	1,600	0
Other reserves	-1,276	-2,031
Accumulated other comprehensive income (loss)	-737	-492
Equity attributable to shareholders of the parent company	**187**	**-2,023**
Non-controlling interests	71	57
Total shareholders' equity	**258**	**-1,966**

As the legal group structure of Schaeffler AG, (formerly INA Beteiligungsgesellschaft mit beschränkter Haftung) did not exist until December 31, 2013, the required historical financial information, the comparative periods (prior year comparisons), was prepared by way of a carve out (see Note 1.3).

The amount of shareholders' equity as at December 31, 2013 was derived as the difference between the assets and liabilities transferred to the scope of consolidation of Schaeffler AG (until October 24, 2014: INA Beteiligungsgesellschaft mit beschränkter Haftung) measured at their carrying amounts in the consolidated financial statements (predecessor accounting).

To strengthen its equity base, Schaeffler AG completed the equity transactions described below in 2014.

The transformation of INA Beteiligungsgesellschaft mit beschränkter Haftung to a stock corporation ("Aktiengesellschaft") on October 24, 2014 did not affect the amount of its shareholders' equity. Its share capital ("Stammkapital") of EUR 500 m was converted to Schaeffler AG's share capital ("Grundkapital") in the transformation and is divided into 50,000,000 registered no-par-value shares.

On November 03, 2014, the company's shareholder Schaeffler Verwaltung Zwei GmbH partially waived its loan receivable from Schaeffler AG, increasing **other reserves** by the amount waived of EUR 101 m.

On December 12, 2014, the extraordinary shareholder meeting of Schaeffler AG passed a resolution to increase its **share capital** by EUR 100 m by issuing 10,000,000 new registered no-par-value shares. Subscription of the new shares was exclusive to Schaeffler Verwaltungs GmbH, Herzogenaurach. The new shares participate in profits starting January 01, 2015. The capital increase was registered in the Commercial Register on December 30, 2014.

Schaeffler Verwaltungs GmbH made a contribution in kind in consideration for the new shares it received in the capital increase. This contribution in kind consisted of loans receivable by Schaeffler Verwaltungs GmbH from Schaeffler Verwaltung Zwei GmbH with a principal of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG with a principal of EUR 629 m. Both loans mature in December 2024 and bear interest at 4.0 % p. a. at the end of the reporting period (see Note 5.5). The excess of the fair value of the contribution in kind over the increase in share capital of EUR 1,600 m was recognized in **capital reserves**.

As a result, Schaeffler AG's **share capital** amounted to EUR 600 m at December 31, 2014 and was divided into 60,000,000 registered no-par-value shares, of which 83.3 % were held by Schaeffler Verwaltung Zwei GmbH and 16.7 % were held by Schaeffler Verwaltungs GmbH. The share capital is fully paid up and Schaeffler AG had no authorized or contingent capital or any resolutions with respect to these types of capital as at December 31, 2014. Each share carries one vote.

At December 31, 2014, **capital reserves** resulted from the capital increase completed during the year.

Other reserves consisted largely of the difference between the assets and liabilities received in the carve out (see Note 1.3) determined as at December 31, 2013, retained prior year earnings, consolidated net income for the year, and the impact of the waiver of the loan described above.

Accumulated other comprehensive income mainly consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments and of available for sale financial assets, as well as remeasurements of pensions and similar obligations.

At December 31, 2014, **non-controlling interests** related primarily to third-party interests in the equity of FAG Bearings India Ltd., India which do not convey control to the holder.

A dividend of EUR 250 m (or EUR 4.17 per share) will be proposed to the Schaeffler AG annual general meeting for 2014.

4.9 Current/Non-current financial debt

No. 056

	12/31/2014			12/31/2013		
in € millions	Total	Due in up to 1 year	Due in more than 1 year	Total	Due in up to 1 year	Due in more than 1 year
Bank and institutional loans	1,775	1	1,774	2,236	27	2,209
Bonds	4,634	0	4,634	3,506	0	3,506
Other finanical debt	5	0	5	11	6	5
Financial debt	**6,414**	**1**	**6,413**	**5,753**	**33**	**5,720**

The increase in financial debt compared to December 31, 2013 resulted primarily from financing obtained for the antitrust penalty in the second quarter of 2014 and from the impact of translating the financial debt denominated in U.S. Dollar to Euro. The Schaeffler Group did not have any loans payable to its controlling shareholders as at December 31, 2014 (prior year: EUR 6 m).

In May 2014, Schaeffler Finance B.V. placed four new bond issues with a total principal of approximately EUR 2.0 bn that are listed on the Euro MTF market of the Luxembourg Stock Exchange. As part of this placement, loan tranches C EUR and C USD were repaid in full using the proceeds of new loan tranches (E EUR and E USD). The new loan tranches carry more favorable terms and improved maturities. Both loan tranches are secured and carry an interest rate floor of 0.75 %. The proceeds of the refinancing transaction completed in May 2014 were used to redeem the 2017 EUR retail bonds and the 2019 EUR and USD bonds. The Schaeffler Group also prepaid the two institutional loan tranches and EUR 309 m of loan tranche D. In May 2014, the Schaeffler Group made an additional partial prepayment of EUR 171 m on loan tranche D.

In October 2014, Schaeffler completed another successful refinancing transaction in which loan tranches D, E EUR, and E USD were repaid in full using new loan tranches B EUR and B USD. Both loan tranches carry an interest rate floor of 0.75 %. In addition, the existing revolving credit facility was replaced with a new revolving credit facility maturing in 2019.

At December 31, 2014, the group's debt consisted of two loan tranches with a total principal equivalent to approximately EUR 1,821 m obtained from institutional investors (Facilities Agreement), eight bond issues totaling the equivalent of approximately EUR 4,671 m and a revolving line of credit of EUR 1,000 m.

The Facilities Agreement consists of the following loan tranches:

No. 057

Tranche	Currency	Face value in millions 12/31/2014	Face value in millions 12/31/2013	Carrying amount in € millions 12/31/2014	Carrying amount in € millions 12/31/2013	Coupon 12/31/2014	Coupon 12/31/2013	Maturity
Senior Term Loan E	EUR	0	299	0	292	-	Euribor + 3.75 %	-
Senior Term Loan E	USD	0	1,699	0	1,213	-	Libor + 3.25 %	-
Senior Term Loan B EUR [1]	EUR	750	0	757	0	Euribor + 3.50 % [2]	-	05/15/2020
Senior Term Loan B USD [3]	USD	1,300	0	1,031	0	Libor + 3.50 % [4]	-	05/15/2020
Senior Term Loan D	EUR	0	730	0	713	-	Euribor + 2.875 %	
Revolving Credit Facility [5]	EUR	1,000	1,000	-14	-9	Euribor + 2.875 %	Euribor + 2.875 %	10/27/2019

[1] Since October 27, 2014, previously Senior Term Loan E EUR.
[2] Euribor floor of 0.75 % since October 27, 2014.
[3] Since October 27, 2014, previously Senior Term Loan E USD.
[4] Libor floor of 0.75 % since October 27, 2014.
[5] EUR 34 m (December 31, 2013: EUR 49 m) were drawn down as at December 31, 2014, primarily in the form of letters of credit.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at the end of the reporting period:

No. 058

ISIN	Currency	Face value in millions 12/31/2014	Face value in millions 12/31/2013	Carrying amount in € millions 12/31/2014	Carrying amount in € millions 12/31/2013	Coupon	Maturity
XS0741938624	EUR	800	800	791	788	7.75 %	02/15/2017
US806261AC75	USD	600	600	489	428	7.75 %	02/15/2017
XS0923613060	EUR	600	600	596	595	4.25 %	05/15/2018
XS1067864881	EUR	500	-	496	-	3.25 %	05/15/2019
XS1067862919	EUR	500	-	496	-	2.75 %	05/15/2019
US806261AJ29	USD	700	-	571	-	4.25 %	05/15/2021
US806261AE32	USD	850	850	696	612	4.75 %	05/15/2021
XS1067864022	EUR	500	-	499	-	3.50 %	05/15/2022
XS0801261156 [1]	EUR	-	326	-	323	6.75 %	-
XS0741939788 [1]	EUR	-	400	-	398	8.75 %	-
US806261AA10 [1]	USD	-	500	-	361	8.50 %	-

[1] Redeemed early on May 14, 2014.

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

An additional EUR 55 m (prior year: EUR 71 m) in interest accrued on the bonds up to December 31, 2014 have been reported in other financial liabilities (see Note 4.12).

Both the Facilities Agreement and the bond agreements contain certain constraints including a requirement to meet certain financial covenants. The financial covenants relevant to the Facilities Agreement are senior debt leverage cover and senior interest 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 in connection with the loan and bond agreements. Details of such collateral have been disclosed as required in the notes relating to the various assets concerned.

4.10 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler Group provides 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 recognized in the consolidated statement of financial position. These provisions also include a minor amount of obligations similar to pensions.

Defined benefit plans

The Schaeffler Group's defined benefit plans include pension plans, termination payments mandatorily payable upon retirement regardless of the reason employment is terminated, and other post-employment benefits. The company's pension obligations relate to Germany, the U.S., and the United Kingdom, with the majority of the obligation attributable to Germany.

Germany

In Germany, the company grants pension benefits largely in the form of pension commitments based on pension units and as part of deferred compensation arrangements.

Benefits under pension commitments based on pension units are always paid on an annuity basis. Some plans include guaranteed minimum benefits with the amount of the guarantee determined by the terms of the relevant pension scheme. The pension obligations arising from these pension commitments are unfunded.

In addition, employees have various deferred compensation arrangements to choose from. Some Schaeffler Group subsidiaries offer their staff a company pension model under which the employees contribute a portion of their pre-tax salary in return for a pension commitment. The compensation deferred is invested in equity, fixed-income, and money market funds under a lifecycle model, i.e. plan assets are moved to lower-risk asset classes as the beneficiary's age increases. In addition, Schaeffler guarantees a minimum annual return. As benefits are paid in up to five annual installments starting when the beneficiary reaches retirement age, longevity risk is minimized. Benefit obligations resulting from the deferral of pre-tax compensation are covered by assets held separately under a contractual trust agreement (CTA).

U.S. and United Kingdom

Additional significant defined benefit pension plans cover employees in the U.S. and in the United Kingdom. The Schaeffler Group finances its pension obligations in these countries using external pension funds with restricted access. At the end of 2014, approximately 72 % (prior year: 77 %) of pension obligations in the U.S. and approximately 102 % (prior year: 102 %) of pension obligations in the United Kingdom were covered by plan assets. These pension plans were closed to new entrants in 2006 (U.S.) and 2009 (United Kingdom) and replaced with defined contribution plans. As a result, employees can no longer earn additional defined benefits.

Net defined benefit obligation

The company's obligations under defined benefit plans and the related plan assets are presented as follows in the consolidated statement of financial position as at December 31, 2014:

No. 059

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,819	-63	-7	-95	-1,984
Pension asset (plan assets net of related liabilities)	26	0	10	0	36
Net defined benefit liability	**-1,793**	**-63**	**3**	**-95**	**-1,948**

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,392	-38	-5	-75	-1,510
Pension asset (plan assets net of related liabilities)	30	0	8	0	38
Net defined benefit liability	**-1,362**	**-38**	**3**	**-75**	**-1,472**

The increase in the net defined benefit obligation as at December 31, 2014 was mainly the result of a further decrease in the discount rate used to measure defined benefit plan obligations, particularly those under the German plans. In addition to the change in the discount rate, the mortality tables used to measure the U.S. plans were also updated as at the end of the reporting date, resulting in an increase in defined benefit obligations of approximately EUR 14 m which was recognized in the consolidated statement of comprehensive income and is reported under accumulated other comprehensive income.

At the end of the reporting period, the defined benefit obligations and related plan assets amounted to the following:

No. 060

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-1,013	-83	0	-226	-1,322
Present value of defined benefit obligation (deferred members)	-113	-42	-131	-13	-299
Present value of defined benefit obligation (pensioners)	-846	-97	-57	-47	-1,047
Present value of defined benefit obligations (total)	**-1,972**	**-222**	**-188**	**-286**	**-2,668**
Fair value of plan assets	179	159	191	191	720
Net defined benefit liability	**-1,793**	**-63**	**3**	**-95**	**-1,948**

	12/31/2013				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-667	-62	0	-177	-906
Present value of defined benefit obligation (deferred members)	-87	-31	-102	-8	-228
Present value of defined benefit obligation (pensioners)	-747	-72	-51	-37	-907
Present value of defined benefit obligations (total)	**-1,501**	**-165**	**-153**	**-222**	**-2,041**
Fair value of plan assets	139	127	156	150	572
Change due to asset ceiling	0	0	0	-3	-3
Net defined benefit liability	**-1,362**	**-38**	**3**	**-75**	**-1,472**

In the prior year, for the first time, the net pension asset recognized for a Canadian pension plan was 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, the net pension asset recognized for this plan was reduced by EUR 3 m in 2013. As the defined benefit obligations exceeded the fair value of the plan assets as at the reporting date 2014, the asset ceiling is not applicable as at December 31, 2014. The resulting adjustment of EUR 3 m was recognized in other comprehensive income and reported in accumulated other comprehensive income.

Movements in the net defined pension benefit liability in 2014 can be reconciled as follows:

No. 061

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2014
Net defined benefit liability/asset as at January 01	**-1,362**	**-38**	**3**	**-75**	**-1,472**
Benefits paid	59	0	-1	4	62
Service cost	-30	1	0	-18	-47
Net interest on net defined benefit liability	-47	-2	0	-2	-51
Employer contributions	0	9	0	17	26
Transfers in/out	-16	-1	0	0	-17
Remeasurement of net defined benefit liability	-398	-28	0	-18	-444
Changes in foreign exchange rates	1	-4	1	-3	-5
Net defined benefit liability/asset as at December 31	**-1,793**	**-63**	**3**	**-95**	**-1,948**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					2013
Net defined benefit liability/asset as at January 01	**-1,349**	**-70**	**13**	**-95**	**-1,501**
Benefits paid	58	0	0	7	65
Service cost	-29	0	0	-13	-42
Net interest on net defined benefit liability	-44	-2	1	-4	-49
Employer contributions	0	3	0	23	26
Transfers in/out	1	-2	0	0	-1
Remeasurement of net defined benefit liability	1	30	-11	4	24
Changes in foreign exchange rates	0	3	0	3	6
Net defined benefit liability/asset as at December 31	**-1,362**	**-38**	**3**	**-75**	**-1,472**

Funding requirements for defined benefit plans are generally met from cash flows from operating activities, 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 as at the end of the reporting period can be reconciled as follows:

No. 062

2014					
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,501**	**-165**	**-153**	**-222**	**-2,041**
Benefits paid	62	8	6	10	86
Current service cost	-30	0	0	-13	-43
Past service cost	0	0	0	-5	-5
Interest cost	-52	-8	-7	-8	-75
Employee contributions	-8	-1	0	-1	-10
Transfers in/out	-39	0	0	0	-39
Settlements paid	0	3	0	0	3
Gains (+) / losses (-) on settlements	0	1	0	0	1
Gains (+) / losses (-) – changes in financial assumptions	-401	-23	-24	-36	-484
Gains (+) / losses (-) – changes in demographic assumptions	0	-14	0	-3	-17
Gains (+) / losses (-) – experience adjustments	-2	-1	0	2	-1
Changes in foreign exchange rates	-1	-22	-10	-10	-43
Present value of defined benefit obligations as at December 31	**- 1,972**	**-222**	**- 188**	**-286**	**- 2,668**

2013					
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,474**	**-190**	**-146**	**-227**	**-2,037**
Benefits paid	61	7	4	14	86
Current service cost	-29	0	0	-13	-42
Interest cost	-50	-7	-6	-8	-71
Employee contributions	-8	-1	0	-1	-10
Transfers in/out	1	0	0	0	1
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	-2	0	0	-5	-7
Changes in foreign exchange rates	1	8	3	10	22
Present value of defined benefit obligations as at December 31	**- 1,501**	**- 165**	**- 153**	**-222**	**- 2,041**

The transfers shown for 2014 resulted from the adjustments to the group structure completed in 2014. These adjustments also included the defined benefit pension obligations and the related plan assets of the transferred employees (see also Note 5.5).

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

2014 in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**139**	**127**	**156**	**150**	**572**
Benefits paid	-3	-8	-7	-6	-24
Interest income on plan assets	5	6	7	6	24
Employee contributions	8	1	0	1	10
Employer contributions	0	9	0	17	26
Transfers in/out	23	-1	0	0	22
Settlements paid	0	-3	0	0	-3
Return on plan assets excluding interest income	5	10	24	16	55
Changes in foreign exchange rates	2	18	11	7	38
Fair value of plan assets as at December 31	**179**	**159**	**191**	**191**	**720**

2013 in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**125**	**120**	**159**	**132**	**536**
Benefits paid	-3	-7	-4	-7	-21
Interest income on plan assets	6	5	7	4	22
Employee contributions	8	1	0	1	10
Employer contributions	0	3	0	23	26
Transfers in/out	0	-2	0	0	-2
Return on plan assets excluding interest income	4	12	-3	4	17
Changes in foreign exchange rates	-1	-5	-3	-7	-16
Fair value of plan assets as at December 31	**139**	**127**	**156**	**150**	**572**

The Schaeffler Group expects to make contributions to plan assets of EUR 12 m in 2015.

Plan assets before application of the asset ceiling consist of the following:

No. 064

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2014
Equity instruments	93	63	46	19	221
Debt instruments	33	96	38	101	268
Real estate	0	0	0	12	12
Cash	6	0	1	2	9
(Reimbursement) insurance policies	25	0	0	57	82
Mixed funds	22	0	106	0	128
Total	**179**	**159**	**191**	**191**	**720**

in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
					12/31/2013
Equity instruments	84	77	41	24	226
Debt instruments	29	46	56	69	200
Real estate	0	4	0	12	16
Cash	21	0	59	2	82
(Reimbursement) insurance policies	5	0	0	43	48
Mixed funds	0	0	0	0	0
Total	**139**	**127**	**156**	**150**	**572**

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

2014 in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	30	0	0	13	43
Past service cost	0	0	0	5	5
• plan amendments	0	0	0	5	5
Gains (-)/losses (+) on settlements	0	-1	0	0	-1
Service cost	**30**	**-1**	**0**	**18**	**47**
Interest cost	52	8	7	8	75
Interest income	-5	-6	-7	-6	-24
Net interest on net defined benefit liability/asset	**47**	**2**	**0**	**2**	**51**
Gains (-)/losses (+) – changes in financial assumptions	401	23	24	36	484
Gains (-)/losses (+) – changes in demographic assumptions	0	14	0	3	17
Gains (-)/losses (+) – experience adjustments	2	1	0	-2	1
Return on plan assets excluding interest income	-5	-10	-24	-16	-55
Impact of asset ceiling	0	0	0	-3	-3
Remeasurements of net defined benefit liability/asset	**398**	**28**	**0**	**18**	**444**
Total comprehensive income on defined benefit obligations	**475**	**29**	**0**	**38**	**542**

2013 in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	29	0	0	13	42
Service cost	**29**	**0**	**0**	**13**	**42**
Interest cost	50	7	6	8	71
Interest income	-6	-5	-7	-4	-22
Net interest on net defined benefit liability/asset	**44**	**2**	**-1**	**4**	**49**
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	2	0	0	5	7
Return on plan assets excluding interest income	-4	-12	3	-4	-17
Impact of asset ceiling	0	0	0	3	3
Remeasurements of net defined benefit liability/asset	**-1**	**-30**	**11**	**-4**	**-24**
Total comprehensive income on defined benefit obligations	**72**	**-28**	**10**	**13**	**67**

Service cost and interest on the net defined benefit liability are included in the following line items of the consolidated income statement:

No. 066

in € millions	2014 Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	18	-1	0	14	31
Research and development expenses	6	0	0	1	7
Selling expenses	2	0	0	2	4
Administrative expenses	4	0	0	1	5
Included in EBIT	**30**	**-1**	**0**	**18**	**47**
Interest expense	52	8	7	8	75
Interest income on plan assets	-5	-6	-7	-6	-24
Included in financial result	**47**	**2**	**0**	**2**	**51**
Total	**77**	**1**	**0**	**20**	**98**

in € millions	2013 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	4	0	0	4	8
Included in EBIT	**29**	**0**	**0**	**13**	**42**
Interest expense	50	7	6	8	71
Interest income on plan assets	-6	-5	-7	-4	-22
Included in financial result	**44**	**2**	**-1**	**4**	**49**
Total	**73**	**2**	**-1**	**17**	**91**

Duration

The weighted average duration of defined benefit obligations is 18.7 years (prior year: 16.3 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 19.2 years (prior year: 16.5 years), 13.1 years (prior year: 12.0 years), and 25.5 years (prior year: 24.6 years), respectively.

The increase in the duration compared to the prior year is mainly the result of the reduction in the discount rate used to determine duration.

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

No. 067

					2014
	Germany	U.S.A.	United Kingdom	Other countries	**Total**
Discount rate as at December 31	2.1 %	3.9 %	3.9 %	2.6 %	**2.5 %**
Future salary increases	3.3 %	n.a. [1]	n.a. [1]	3.1 %	**3.2 %**
Future pension increases	1.8 %	2.5 %	3.2 %	1.1 %	**1.9 %**

					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 %**

[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 Prof. 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.

No. 068

		Change in present value of defined benefit obligation				
						2014
in € millions		Germany	U.S.A.	United Kingdom	Other countries	**Total**
Discount rate	Plus 1.0 %	-311	-26	-41	-37	**-415**
	Minus 1.0 %	426	32	57	46	**561**
Future salary increases	Plus 1.0 %	44	n.a. [1]	n.a. [1]	18	**62**
	Minus 1.0 %	-38	n.a. [1]	n.a. [1]	-16	**-54**
Future pension increases	Plus 1.0 %	215	0	24	16	**255**
	Minus 1.0 %	-179	0	-20	-10	**-209**
						2013
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 %	24	n.a. [1]	n.a. [1]	16	**40**
	Minus 1.0 %	-28	n.a. [1]	n.a. [1]	-10	**-38**
Future pension increases	Plus 1.0 %	149	0	19	12	**180**
	Minus 1.0 %	-133	0	-16	-7	**-156**

[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 94 m (prior year: EUR 65 m) in Germany, EUR 7 m (prior year: EUR 5 m) in the U.S., and EUR 7 m (prior year: EUR 5 m) in the United Kingdom.

Risk

The defined benefit plans expose the Schaeffler Group to actuarial risk such as longevity risk, currency risk, interest rate risk and investment risk.

Defined contribution pension plans

In 2014, Schaeffler incurred EUR 10 m (prior year: EUR 12 m) in expenses related to defined contribution plans. At EUR 6 m (prior year: EUR 8 m), the majority of this amount relates to plans in the U.S.

4.11 Provisions

No. 069

in € millions	Employee benefits	Warranties	Other taxes	Liability and litigation risks	Other	Total
Balance as at January 01, 2014	**130**	**80**	**34**	**11**	**429**	**684**
Additions	34	27	4	2	77	144
Utilization	-41	-39	-8	-5	-390	-483
Reversals	-32	-5	0	-2	-13	-52
Interest expense	5	0	0	0	1	6
Foreign currency translation	0	1	0	0	2	3
Balance as at December 31, 2014	**96**	**64**	**30**	**6**	**106**	**302**

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

No. 070

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	55	41	96	81	49	130
Warranties	0	64	64	0	80	80
Other taxes	0	30	30	0	34	34
Liability and litigation risks	0	6	6	0	11	11
Other	15	91	106	14	415	429
Total	**70**	**232**	**302**	**95**	**589**	**684**

Provisions for employee benefits consisted primarily of EUR 29 m (prior year: EUR 20 m) in provisions for long-time service awards and EUR 25 m (prior year: EUR 39 m) in provisions for personnel-related structural measures at the Schweinfurt and Wuppertal locations.

Provisions for other taxes comprised primarily land transfer tax related to internal reorganizations of the group structure.

The decrease in **other provisions** compared to the prior year resulted largely from the utilization of the provision for the EU antitrust proceedings in 2014, for which the company had recognized a provision of EUR 380 m in December 2013. In March 2014, the European Commission imposed a penalty of EUR 370.5 m on certain Schaeffler Group companies. The penalty was paid in June 2014. The reversal of the remaining provision of EUR 9.5 m was recognized as other income (see Note 3.2).

At December 31, 2014, other provisions included, among other things, provisions for the ongoing investigations of the Korean and Brazilian antitrust authorities. Provisions for environmental risks, document retention, and inventors' bonuses, among other things, were also included in this line item.

4.12 Other financial liabilities and other liabilities

No. 071

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial liabilities						
Amounts payable to staff	0	240	240	0	180	180
Derivative financial liabilities	10	77	87	152	15	167
Miscellaneous financial liabilities	11	241	252	10	210	220
Total	**21**	**558**	**579**	**162**	**405**	**567**

Amounts payable to staff consist primarily of profit sharing accruals. The increase from the prior year can largely be attributed to the positive development in the Schaeffler Group's business in 2014 and targeted staff increases.

Derivative financial liabilities included forward exchange contracts and cross-currency swaps used to hedge the Schaeffler Group's currency risk. The decrease was primarily caused by the increase in the fair value of cross-currency swaps which was partially offset by adverse changes in the fair value of forward exchange contracts.

Miscellaneous financial liabilities mainly included accrued selling costs (customer bonuses, rebates, early-payment discounts) and accrued bond interest.

The Schaeffler Group's exposure to currency and liquidity risk related to other financial liabilities is disclosed in Note 4.13.

No. 072

	12/31/2014			12/31/2013		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other liabilities						
Social security contributions payable	3	40	43	3	38	41
Advance payments received	0	31	31	0	31	31
Other tax payables	0	84	84	0	78	78
Miscellaneous liabilities	5	158	163	3	135	138
Total	**8**	**313**	**321**	**6**	**282**	**288**

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

Miscellaneous liabilities primarily contained accrued vacation and overtime accounts.

4.13 Financial Instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position 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

in € millions	Category per IFRS 7.8	12/31/2014 Carrying amount	12/31/2014 Fair value	12/31/2013 Carrying amount	12/31/2013 Fair value
Financial assets, by class					
Trade receivables	LaR	1,900	1,900	1,676	1,676
Other investments [1]	AfS	14	-	14	-
Other financial assets					
• Marketable securities	AfS	12	12	9	9
• Derivatives designated as hedging instruments	n.a.	24	24	42	42
• Derivatives not designated as hedging instruments	HfT	245	245	207	207
• Miscellaneous financial assets	LaR	2,022	2,036	177	177
Cash and cash equivalents	LaR	636	636	300	300
Financial liabilities, by class					
Financial debt	FLAC	6,414	6,846	5,753	6,325
Trade payables	FLAC	1,261	1,261	1,022	1,022
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	64	64	104	104
• Derivatives not designated as hedging instruments	HfT	23	23	63	63
• Miscellaneous financial liabilities	FLAC	492	492	400	400
Summary by category					
Available-for-sale financial assets (AfS)		26	-	23	-
Financial assets held for trading (HfT)		245	-	207	-
Loans and receivables (LaR)		4,558	-	2,153	-
Financial liabilities at amortized cost (FLAC)		8,167	-	7,175	-
Financial liabilities held for trading (HfT)		23	-	63	-

[1] Investments accounted for at cost.

The carrying amounts of trade receivables, miscellaneous financial assets, and cash and cash equivalents are assumed to represent their fair value due to the short maturities of these instruments. The loans receivable of EUR 1,700 m included in other financial assets represent an exception to this approach, as they have a maturity of ten years (see Notes 4.6, 4.8, and 5.5).

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 2014, 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 and forward exchange contracts as hedging instruments here.

The carrying amounts of trade payables and miscellaneous 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 Facilities Agreement and the bond agreements (see Note 4.9). Collateral has generally been provided for the term of the loan and bond agreements 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 to the consolidated financial statements have been classified using a fair value hierarchy that reflects the significance of the inputs used in arriving at the measurements (Level 1 to 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 cross-currency swaps and forward exchange contracts, this level also includes the company's long-term loans receivable, 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, 2014			
Marketable securities	12		12
Derivatives designated as hedging instruments		24	24
Derivatives not designated as hedging instruments		245	245
Other financial assets		1,714	1,714
Total financial assets	**12**	**1,983**	**1,995**
Financial debt		6,846	6,846
Derivatives designated as hedging instruments		64	64
Derivatives not designated as hedging instruments		23	23
Total financial liabilities	**0**	**6,933**	**6,933**
December 31, 2013			
Marketable securities	9		9
Derivatives designated as hedging instruments		42	42
Derivatives not designated as hedging instruments		207	207
Other financial assets		0	0
Total financial assets	**9**	**249**	**258**
Financial debt		6,325	6,325
Derivatives designated as hedging instruments		104	104
Derivatives not designated as hedging instruments		63	63
Total financial liabilities	**0**	**6,492**	**6,492**

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	**2014**	**2013**
Available-for-sale financial assets	-	1			1	1
Financial assets and liabilities held for trading	-2	174			172	91
Loans and receivables	9		-1	26	34	-6
Financial liabilities at amortized cost	-489			-260	-749	-346
Total	**-482**	**175**	**-1**	**-234**	**-542**	**-260**

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 172 m (prior year: EUR 91 m) relates entirely to derivatives. EUR 190 m (prior year: EUR 38 m) of this net gain is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 55 m (prior year: gains of EUR 114 m).

The impairment loss on financial assets classified as loans and receivables consisted of an impairment reversal of EUR 5 m (prior year: EUR 3 m) and an impairment loss of EUR 6 m (prior year: EUR 6 m) and related entirely to the trade receivables class in 2014.

Financial risk management

Its financial instruments expose the Schaeffler group to various risks.

Schaeffler's Board of Managing Directors 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.

The Schaeffler Group has guidelines for the use of hedging instruments, and compliance with these guidelines is reviewed on a regular basis. Internal execution risk is minimized by strict segregation of duties.

Please refer to the "Report on opportunities and risks" in the combined management report for further details on the group's financial risk management.

The Schaeffler Group distinguishes between liquidity risk, counterparty risk, and market risk (interest rate, currency, and other price risk).

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's approach to managing liquidity risk is to ensure that there is always sufficient liquidity available to meet liabilities as they come due without incurring unacceptable losses or risking damage to Schaeffler's reputation.

Liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period ranging from four weeks through 13 weeks to twelve and 18 months. 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. Schaeffler has access to a line of credit of EUR 1,000 m which bears interest at Euribor plus 287.5 basis points.

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

No. 076

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2014					
Non-derivative financial liabilities	**8,167**	**9,703**	**2,066**	**3,879**	**3,758**
• Financial debt	6,414	7,949	320	3,871	3,758
• Trade payables	1,261	1,261	1,261	0	0
• Other non-derivative financial liabilities	492	493	485	8	0
Derivative financial liabilities	**87**	**17**	**74**	**-11**	**-46**
Total	**8,254**	**9,720**	**2,140**	**3,868**	**3,712**
December 31, 2013					
Non-derivative financial liabilities	**7,175**	**8,690**	**1,711**	**5,450**	**1,529**
• Financial debt	5,753	7,268	297	5,442	1,529
• Trade payables	1,022	1,022	1,022	0	0
• Other non-derivative financial liabilities	400	400	392	8	0
Derivative financial liabilities	**167**	**149**	**25**	**95**	**29**
Total	**7,342**	**8,839**	**1,736**	**5,545**	**1,558**

Contractual cash flows for financial debt include expected interest as well as the settlement amount of the loans. Contractual cash flows for derivative financial liabilities consist of the undiscounted expected cash flows translated at closing rates.

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 miscellaneous financial assets.

Counterparty risk arising on trade receivables is managed by constant monitoring of customers' financial status, creditworthiness and payment history. Additional measures to manage counterparty risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline.

Counterparty risk inherent in derivative financial instruments is the risk that counterparties will not meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The counterparty risk inherent in Schaefflers's long-term loans receivable from related companies of EUR 1,700 m is limited as Schaeffler Beteiligungsholding GmbH & Co. KG has pledged shares in Continental AG with a market value (reference XETRA, December 12, 2014) equal to twice the loan principal as collateral.

The maximum counterparty risk at the reporting date, excluding collateral, is represented by the carrying amount of the corresponding financial asset.

The Schaeffler Group's Board of Managing Directors 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. Except for amounts recognized in impairment provisions, there are no indications that the counterparties to other financial assets, i.e. marketable securities, derivative financial assets, and miscellaneous 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).

Interest rate risk

Variable interest features give rise to the risk of rising interest rates on financial liabilities and falling interest rates on financial assets. This risk is measured, assessed and, where necessary, hedged using derivative interest rate hedging instruments. The hedged item is the Schaeffler Group's interest-bearing net financial debt.

Schaeffler's financial debt can be summarized by type of interest as follows:

No. 077

	Carrying amount	
in € millions	**12/31/2014**	**12/31/2013**
Variable interest instruments	**1,775**	**2,212**
• Financial debt	1,775	2,212
Fixed interest instruments	**4,639**	**3,527**
• Financial debt	4,639	3,527

IFRS 7 requires the disclosure of the impact of financial instruments on net income and shareholders' equity as a result of changes in interest rates; this disclosure is required to be made using sensitivity analyses.

The sensitivity calculation assumes that all other variables, particularly exchange rates, remain constant and that contractual arrangements prevent interest rates from falling below 0 %. With regard to variable interest instruments, a shift in the yield curve of 100 basis points (Bp) as at December 31, 2014 would affect (increase/decrease) net income and shareholder's equity as follows:

No. 078

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2014				
Variable interest instruments	-7	0	0	0
Interest rate derivatives not designated as hedging instruments	-4	3	0	0
Total	**-11**	**3**	**0**	**0**
As at December 31, 2013				
Variable interest instruments	-8	1	0	0
Interest rate derivatives not designated as hedging instruments	-30	55	0	0
Total	**-38**	**56**	**0**	**0**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge. In the prior year, the impact of interest rate derivatives not designated as hedging instruments on net income would have been 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.

Currency risk from operations

The international nature of the Schaeffler Group's operations gives rise to flows of goods and cash in a wide range of currencies. This represents a currency risk, as the value of assets denominated in a currency with a falling exchange rate declines while the value of liabilities denominated in a currency whose exchange rate is rising will increase.

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

No. 079

in € millions	USD	CNY	RON	HUF
December 31, 2014				
Estimated currency risk from operations	1,197	181	-194	-114
Forward exchange contracts	-476	0	76	68
Remaining currency risk from operations	**721**	**181**	**-118**	**-46**
December 31, 2013				
Estimated currency risk from operations	1,026	0	-167	-115
Forward exchange contracts	-608	0	177	86
Remaining currency risk from operations	**418**	**0**	**10**	**-29**

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 4.7) 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 -321 m (prior year: EUR -225 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.

IFRS 7 requires entities to disclose the impact of hypothetical changes in exchange rates on net income and shareholders' equity using sensitivity analyses. Exchange rate changes are applied to all of the Schaeffler Group's financial instruments as at the end of the reporting date. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk.

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, 2014, assuming 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. 080

	12/31/2014		12/31/2013	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	15	-45	14	-61
CNY	10	0	0	0
HUF	1	5	0	8
RON	-2	9	0	18

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31, 2014 would have had the same but opposite effect, again holding all other variables constant.

Currency risk from financing

Loans between Schaeffler Group companies 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.

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

A portion of the company's external financial debt denominated in a currency other than the functional currency is hedged using cross-currency swaps with notional amounts totaling USD 2,510 m (prior year: USD 2,650 m). Changes in the fair value of these cross-currency swaps, which are not subject to hedge accounting, (notional amount of USD 1,510 m; prior year: USD 1,250 m) were recognized directly in profit or loss in 2014. The Schaeffler Group also uses forward exchange contracts in these hedging activities.

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, 2014. 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. 081

	12/31/2014		12/31/2013	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-207	-77	-192	-72
Foreign exchange gains and losses on derivatives	211	14	192	21
Total	**4**	**-63**	**0**	**-51**

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.

Derivative financial instruments and hedging relationships

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. 082

	12/31/2014		12/31/2013	
in € millions	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	975	27	1,353	60
thereof: hedge accounting	566	9	787	42
Cross currency swaps	1,376	79	0	0
thereof: hedge accounting	305	15	0	0
Interest rate hedging				
Interest rate cap	0	0	400	0
thereof: hedge accounting	0	0	0	0
Financial liabilities				
Currency hedging				
Forward exchange contracts	1,238	77	712	15
thereof: hedge accounting	159	55	310	4
Cross currency swaps	537	10	2,020	152
thereof: hedge accounting	461	10	1,070	100

The Schaeffler Group applies hedge accounting to certain hedging relationships using the cash flow and net investment hedge accounting models. The Group does not use fair value hedge accounting.

Cash Flow hedges

A portion of Schaeffler's 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 forecasted 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. 083

in € millions	2014	2013
Balance as at January 01	**37**	**23**
Additions	-45	37
Reclassified to income statement		
• to other income	37	23
• to other expense	0	0
Balance as at December 31	**-45**	**37**

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 value of USD 1,000 m (prior year: USD 1,400 m). As a result, accumulated losses of EUR 9 m (prior year: EUR 23 m) representing the effective portion of fair value changes on designated financial instruments were recognized in other comprehensive income and reported in accumulated other comprehensive income as at December 31, 2014. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2015 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. 084

in € millions	2014	2013
Balance as at January 01	**-47**	**-24**
Additions	81	-74
Reclassified to income statement		
• to financial income	-90	0
• to financial expense	0	51
Balance as at December 31	**-56**	**-47**

The changes in fair value recognized in other comprehensive income without affecting net income up to November 21, 2013 under a cash flow hedge that has since been terminated were amortized to net income on a straight-line basis over the remaining term of the hedged item, which ended June 30, 2014.

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

No. 085

in € millions	2014	2013
Balance as at January 01	**5**	**2**
Additions	0	-33
Reclassified to income statement		
• to financial income	-5	0
• to financial expense	0	36
Balance as at December 31	**0**	**5**

Net investment hedge

The Schaeffler Group hedges the currency 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 940 m; prior year: USD 999 m) under a net investment hedge. This mitigates the group's translation risk on the U.S. subsidiaries. As a result, foreign exchange losses of EUR 105 m (prior year: gains of EUR 42 m) on designated financial debt were recognized in other comprehensive income and reported in accumulated other comprehensive income in 2014. 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.

Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag für Finanztermingeschäfte" – DRV) or on the master agreement of the International Swaps and Derivatives Associations (ISDA). These agreements permit each counterparty to combine all amounts relating to outstanding transactions due on the same date and in the same currency, arriving at one net amount to be paid by one of the parties to the other. In certain cases, for instance when a credit event such as default occurs, all transactions outstanding under this agreement are terminated, their fair value upon termination is determined, and only a single net amount is payable in settlement of all of these transactions.

The German Master Agreements and ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position, as the Schaeffler Group does not currently have a legal right to settle the recognized amounts on a net basis. The right to settle net is only legally enforceable upon the occurrence of future events such as the insolvency of one of the parties to the contract. Hedging transactions entered into directly by Schaeffler Group subsidiaries do not permit net settlement, either.

The carrying amounts of the financial assets and liabilities subject to these agreements are as follows:

No. 086

in € millions	12/31/2014	12/31/2013
Financial assets		
Gross amount of financial assets	269	249
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	269	249
Amounts subject to master netting arrangements		
Derivatives	-59	-56
Net amount of financial assets	210	193
Financial liabilities		
Gross amount of financial liabilities	87	167
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	87	167
Amounts subject to master netting arrangements		
Derivatives	-59	-56
Net amount of financial liabilities	28	111

4.14 Capital management

The Schaeffler Group has a long-term strategy of pursuing profitable growth. Actively managing its capital provides the financial resources that strategy requires, ensures the Schaeffler Group's liquidity, and secures its credit standing. Capital management also serves to administer and continually improve the company's existing financial debt. To this end, the Schaeffler Group has made preparations to obtain external financing via the capital markets. The Schaeffler Group's management will continue to focus on the group's ability to place financial instruments with a broad range of investors and to further improve the terms of its existing loans and bonds.

Under these existing financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.9). 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.

As in the prior year, the company has complied with the financial covenants in 2014 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group 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 further financial indicators. One such further indicator is the ratio of net debt to EBITDA (earnings before financial result, income from equity-accounted investees, income taxes, depreciation, amortization, and impairment losses), which is calculated as follows:

No. 087

in € millions	12/31/2014	12/31/2013
Current financial debt	1	33
Non-current financial debt	6,413	5,720
Total financial debt	**6,414**	**5,753**
Cash and cash equivalents	636	300
Total net financial debt	**5,778**	**5,453**
Shareholder loans	0	6
Net financial debt excluding shareholder loans	**5,778**	**5,447**
Earnings before financial result, income from equity-accounted investees, income taxes, depreciation and amortization (EBITDA)	**2,172**	**1,660**
Net financial debt excluding shareholder loans to EBITDA ratio	**2.7**	**3.3**

5. Other disclosures

5.1 Leases

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

No. 088

in € millions	12/31/2014	12/31/2013
Less than one year	54	48
Between one and five years	59	53
More than five years	7	5
Total	**120**	**106**

The obligations consisted primarily of rental agreements for real estate, leases of company vehicles, and contracts for IT and logistics services.

In 2014, expenses of EUR 75 m related to operating rental and lease agreements were recognized in profit or loss (prior year: EUR 71 m).

5.2 Contingent liabilities

At December 31, 2014, the Schaeffler Group had contingent liabilities of EUR 19 m (prior year: EUR 19 m) consisting 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.

In addition, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts, particularly for the automotive and other industrial sectors, since 2011. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and certain Schaeffler Group companies are among the entities subject to these investigations. During the year, the investigations of the Korean antitrust authorities have become sufficiently concrete for the Schaeffler Group to recognize a provision as at December 31, 2014. The investigations of the Brazilian antitrust authorities relate to various Schaeffler Group products. As at the end of the reporting period, the Schaeffler Group has recognized provisions for a portion of these investigations; other parts of the investigations have not yet become sufficiently concrete. In addition, there is a risk that third parties may claim

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damages resulting from antitrust proceedings that are either ongoing or have been finalized. 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 and can currently not be estimated.

5.3 Additional disclosures on the consolidated statement of cash flows

Changes in balance sheet items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position as they have been adjusted for the impact of foreign currency translation.

EUR 731 m in receipts from loans and EUR 236 m in repayments of loans were related to the refinancing arrangements completed in May and October 2014. The prepayment penalty and transaction costs paid for the refinancing arrangement are included in cash flows from operating activities. All other transactions under these two refinancing arrangements were non-cash in nature (see Note 4.9 for further detail).

Decreases in current financial debt have reduced the amount of receipts from loans reported in the consolidated statement of cash flows to EUR 727 m. Additional funds of EUR 171 m were used to partially prepay debt, financed largely by a loan of EUR 168 m from the company's shareholder Schaeffler Verwaltung Zwei GmbH (see Note 5.5).

The capital increase Schaeffler AG completed in December 2014 represented another non-cash transaction (see Notes 4.8 and 5.5).

The financial allocation account was cleared in full in 2013 (see Note 1.3)

5.4 Segment reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and leadership structure including the internal reporting system to the Schaeffler Group Board of Managing Directors. 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's Board of Managing Directors 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 reports provided to the Schaeffler Group's Board of Managing Directors. 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, drive technology, wind power, construction machinery/tractors, consumer goods, heavy industries, rail traffic, and power transmission sectors as well as in the industrial aftermarket. The business with customers in the aerospace industry is also included in this segment. This segment's key products 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 Board of Managing Directors 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 divisions. 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. 089

Reconciliation to earnings before income taxes in € millions	2014	2013
EBIT Automotive [1]	1,234	683
EBIT Industrial [1]	289	325
EBIT	**1,523**	**1,008**
Financial result	-620	-424
Income from equity-accounted investees	1	2
Earnings before income taxes	**904**	**586**

[1] Prior year information presented based on 2014 segment structure.

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, Americas, Asia/Pacific, and Greater China.

In 2014, the Schaeffler Group generated revenue of EUR 1,573 m (prior year: EUR 1,396 m) from one key customer, representing approximately 13.0 % (prior year: 12.5 %) of total group revenue and approximately 17.5 % (prior year: 17.1 %) of Automotive segment revenue.

The Schaeffler Group's operations are geographically divided into the regions Europe, Americas, Greater China, and Asia/Pacific regions. Revenue and non-current assets of the four regions for 2014 were as follows:

Information about geographical areas

No. 090

	Revenue [1]		Non-current assets [2]	
in € millions	**2014**	**2013**	**12/31/2014**	**12/31/2013**
Europe	6,906	6,526	2,688	2,614
Americas	2,473	2,359	613	505
Asia/Pacific	1,205	1,130	293	243
Greater China	1,540	1,190	709	545
Total	**12,124**	**11,205**	**4,303**	**3,907**

[1] Revenue by market (customer location). Prior year information presented based on 2014 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

EUR 2,905 m (prior year: EUR 2,796 m) of revenue and EUR 1,573 m (prior year: EUR 1,541 m) of non-current assets included in the Europe region relate to Germany.

5.5 Related parties

Related persons

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler. Under the definitions of IAS 24, Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler and the close members of their family are related parties of the Schaeffler Group.

The Schaeffler Group does not have any significant direct business relations with Maria-Elisabeth Schaeffler-Thumann and Georg F. W. Schaeffler.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Schaeffler Group, directly or indirectly. For the Schaeffler Group, the members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG represent key management personnel, making them and the close members of their families related parties of Schaeffler AG. In addition, the managing directors of the legal predecessor of Schaeffler AG, IBH, and the close members of their families are also related parties of Schaeffler AG.

Total remuneration of the Board of Managing Directors of Schaeffler AG appointed since October 24, 2014 and of the managing directors of its legal predecessor IBH for the year was EUR 2 m (prior year: EUR 6 m), including EUR 1 m (prior year: EUR 5 m) in short-term benefits. Expenses of EUR 1 m (prior year: EUR 1 m) were recognized for post-employment benefits.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 0.2 m (prior year: EUR 0 m).

The company did not pay any other benefits to its key management personnel.

Former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 1 m in 2014 (prior year: EUR 0 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 1 m at December 31, 2014 (prior year: EUR 0 m).

Members of the Board of Managing Directors of Schaeffler AG, the managing directors of its legal predecessor IBH, and members of the Schaeffler AG Supervisory Board as well as close members of their family have acquired bonds issued in 2014 by Schaeffler Finance B.V. totaling EUR 2 m (prior year: EUR 3 m). Additionally, bonds issued in 2012 and 2013 with a value of EUR 1 m were repurchased from key management personnel and close members of their family. At December 31, 2014, members of the Board of Managing Directors of Schaeffler AG, managing directors of its legal predecessor IBH and members of the Schaeffler AG Supervisory Board and close members of their family held bonds issued by Schaeffler Finance B.V. with a principal totaling EUR 6 m (prior year: EUR 6 m). Key management personnel and close members of their family received interest of EUR 0.3 m (prior year: EUR 0.3 m) on these bonds.

No advances or loans were granted to members of the Schaeffler Group's Board of Managing Directors or Schaeffler AG's Supervisory Board or to managing directors of IBH.

Related entities

Pursuant to IAS 24, the Schaeffler Group's related entities consist of the entities controlled or jointly controlled by Schaeffler AG's ultimate parent company, INA-Holding Schaeffler GmbH & Co. KG, or over which INA-Holding Schaeffler GmbH & Co. KG has significant influence.

As transactions with significant subsidiaries have been eliminated upon consolidation, they need not be discussed any further. Transactions with associated companies and joint ventures were insignificant in 2014.

In 2014 and 2013, Schaeffler Group companies had various business relationships its related entities.

As part of the realignment of the group structure (see Note 1.2), all operating assets, liabilities and contractual relationships were transferred from Schaeffler Verwaltung Zwei GmbH to Schaeffler AG. This applies, in particular, to existing employment contracts and the related personnel provisions. Schaeffler Verwaltung Zwei GmbH committed to paying EUR 35 m in consideration for the transfer of the operating assets and liabilities. The related receivable is reported within other financial assets.

In May 2014, Schaeffler Beteiligungsholding GmbH & Co. KG passed a dividend of EUR 168 m paid by Continental AG to Schaeffler AG by via Schaeffler Verwaltung Zwei GmbH as a loan. On November 03, 2014, Schaeffler Verwaltung Zwei GmbH waived EUR 101 m of this loan receivable (see Note 4.8). The remainder of the loan due to Schaeffler Verwaltung Zwei GmbH was paid off in full in 2014.

The loan receivable from higher-level holding companies with a balance of EUR 6 m outstanding at December 31, 2013 was paid off in full in 2014.

Schaeffler AG has been managing the Schaeffler Group's cash pool since October 01, 2014. The assumption of the cash pooling function by Schaeffler AG before the group structure was realigned led to various amounts due to and from Schaeffler Verwaltung Zwei GmbH in the form of clearing accounts and loan accounts. Interest on clearing accounts is calculated based on rolling average balances using Eonia (Euro OverNight Index Average). Loan accounts bear interest at market rates. On December 31, 2014, the clearing account with Schaeffler Verwaltung Zwei GmbH amounted to EUR 236 m.

As part of the realignment of the group structure, the company comleted a capital increase by way of a contribution in kind in the form of loans receivable. As a result, Schaeffler AG has a loan receivable from Schaeffler Verwaltung Zwei GmbH with a principal of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG with a principal of EUR 629 m (see Note 4.8). Both loans mature in December 2024 and bore interest at 4.0 % p.a. in 2014.

The terms of these loans relating to the payment of interest stipulate that Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG have the option of capitalizing the interest accrued during any one interest period rather than paying such interest to Schaeffler AG. Interest on the entire loan balance, including the interest capitalized, is then calculated at the rate applicable to the original loan plus an interest premium, for a total rate of between 4.75 % and 6.0 %. Interest income earned on these loans in 2014 amounted to EUR 4 m.

For both loans, it was agreed that shares in Continental AG with a market value (reference XETRA, December 12, 2014) equal to twice the loan principal would be pledged as collateral within 30 working days after closing of the loan agreement. The Continental AG shares serving as collateral are held by Schaeffler Beteiligungsholding GmbH & Co. KG.

In the prior year, Schaeffler Verwaltung Zwei GmbH made a contribution to IBH by assigning a receivable of EUR 638 m due from IBH to that company. The contribution had the effect of increasing reserves.

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 leases of commercial real estate. The transactions with the Continental Group were entered into at arm's length conditions.

The following table summarizes all income and expenses from transactions with related 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. 091

	Receivables		Expenses	
in € millions	**12/31/2014**	**12/31/2013**	**12/31/2014**	**12/31/2013**
Related Parties	1,985	127	21	32

No. 092

	Expenses		Income	
in € millions	**2014**	**2013**	**2014**	**2013**
Related Parties	136	115	107	129

5.6 Auditors’ fees

Fees paid to the group auditors and their related companies for services rendered in 2014 and required to be disclosed by section 314 (1)(9) HGB total EUR 3.6 m (prior year: EUR 2.4 m) and consist of EUR 2.2 m (prior year: EUR 1.3 m) for financial statement audit services, EUR 0.3 m (prior year: EUR 0.4 m) for other attestation services, EUR 0.8 m (prior year: EUR 0.6 m) for tax advisory services, and EUR 0.3 m (prior year: EUR 0.1 m) 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 Exemptions under section 264 (3) HGB and section 264b HGB

The following domestic subsidiaries meet the requirements set out in section 264 (3) HGB or section 264b HGB to be eligible for these exemptions for 2014 and are availing themselves of these exemptions:

- AS Auslandsholding GmbH, Bühl
- Dürkopp Maschinenbau GmbH, Schweinfurt
- Egon von Ruville GmbH, Hamburg
- FAG Industrial Services GmbH, Herzogenrath
- FAG Kugelfischer GmbH, Schweinfurt
- Gesellschaft für Arbeitsmedizin und Umweltschutz mbH – AMUS, Homburg
- IAB Holding GmbH, Herzogenaurach
- IAB Verwaltungs GmbH, Herzogenaurach
- IFT Ingenieurgesellschaft für Triebwerks-Technik mbH, Clausthal-Zellerfeld
- INA Automotive GmbH, Herzogenauarch
- INA Beteiligungsverwaltungs GmbH, Herzogenaurach
- Industrieaufbaugesellschaft Bühl mbH, Bühl
- Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Herzogenaurach
- LuK Auslandsholding GmbH, Bühl
- LuK Beteiligungsgesellschaft mbH, Bühl
- LuK Vermögensverwaltungsgesellschaft mbH, Bühl
- PD Qualifizierung und Beschäftigung GmbH, Schweinfurt
- Schaeffler Beteiligungsverwaltungs GmbH, Herzogenaurach
- Schaeffler Engineering GmbH, Werdohl
- Schaeffler Europa Logistik GmbH, Herzogenaurach
- Schaeffler Versicherungs-Vermittlungs GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Eins GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Zwei GmbH, Herzogenaurach
- Schaeffler Verwaltungsholding Drei GmbH, Herzogenaurach
- CVT Verwaltungs GmbH & Co. Patentverwertungs KG, Bühl

- FAG Aerospace GmbH & Co. KG, Schweinfurt
- GURAS Beteiligungs GmbH & Co. Vermietungs-KG, Pullach
- INA – Drives & Mechatronics GmbH & Co. KG, Suhl
  (since January 01, 2015: INA – Drives & Mechatronics AG & Co. KG, Suhl)
- LuK GmbH & Co. KG, Bühl
- LuK Truckparts GmbH & Co. KG, Kaltennordheim
- LuK Unna GmbH & Co. KG, Unna
- Schaeffler Automotive Aftermarket GmbH & Co. KG, Langen

- Schaeffler Elfershausen GmbH & Co. KG, Herzogenaurach
  (since January 01, 2015: Schaeffler Elfershausen AG & Co. KG, Herzogenaurach)
- Schaeffler Immobilien GmbH & Co. KG, Herzogenaurach
  (since January 01, 2015: Schaeffler Immobilien AG & Co. KG, Herzogenaurach)
- Schaeffler Motorenelemente GmbH & Co. KG, Herzogenaurach
  (since January 01, 2015: Schaeffler Motorenelemente AG & Co. KG, Herzogenaurach)
- Schaeffler Technologies GmbH & Co. KG, Herzogenaurach,
  (since January 01, 2015: Schaeffler Technologies AG & Co. KG, Herzogenaurach)
- WPB Water Pump Bearing GmbH & Co. KG, Herzogenaurach

5.8 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, 2014.

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

The parent company is Schaeffler AG, which is based in Herzogenaurach.

No. 093

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated **I. Germany (53)**			
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
Dürkopp 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 für Arbeitsmedizin und Umweltschutz mbH – AMUS	Homburg	DE	100.00
GURAS Beteiligungs GmbH & Co. Vermietungs-KG	Pullach	DE	99.00
IAB Grundstücksverwaltungsgesellschaft 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 für Triebwerks-Technik mbH	Clausthal-Zellerfeld	DE	100.00
INA – Drives & Mechatronics GmbH & Co. KG (since January 01, 2015: INA – Drives & Mechatronics AG & Co. KG)	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Bühl 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 Vermögensverwaltungsgesellschaft mbH	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschäftigung GmbH	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
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 GmbH & Co. KG (since January 01, 2015: Schaeffler Elfershausen AG & 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 (since January 01, 2015: Schaeffler Immobilien AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente GmbH & Co. KG (since January 01, 2015: Schaeffler Motorenelemente AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Technologies GmbH & Co. KG (since January 01, 2015: Schaeffler Technologies AG & Co. KG)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH	Herzogenaurach	DE	100.00
Unterstützungskasse 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 (102)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
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
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00
Schaeffler Finland Oy	Espoo	FI	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	Sheffield	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Sheffield	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	Changwon-si	KR	100.00

LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100.00
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Irapuato	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 Peru S.A.C.	Lima	PE	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
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	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 Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00

LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Roland Corporate Housing LLC [1)]	Cheraw	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
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 (3)

Contitech-INA Beteiligungsgesellschaft mbH [2)]	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [2)]	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00

II. Foreign (2)

Colinx, LLC	Greenville	US	20.00
Eurings Zrt.	Debrecen	HU	37.00

[1)] Accounted for under the equity method. Company is insignificant to the Schaeffler Group's earnings, financial position, and net assets.
[2)] Joint ventures accounted for using the equity method.

5.10 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on March 09, 2015 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 09, 2015

The Board of Managing Directors

Members of the Supervisory Board

Georg F. W. Schaeffler [1)]
Chairman

Maria-Elisabeth Schaeffler-Thumann [1)]
Deputy Chairperson

Jürgen Wechsler* [3)]
Deputy Chairman

Jürgen Bänsch* [3)]
Prof. Dr. Hans-Jörg Bullinger [2)]
Dr. Holger Engelmann [2)]
Prof. Dr. Bernd Gottschalk [2)]
Norbert Lenhard* [3)]
Dr. Siegfried Luther [2)]
Dr. Reinold Mittag* [3)]
Thomas Mölkner* [3)]
Stefanie Schmidt* [3)]
Dirk Spindler* [3)]
Robin Stalker [2)]
Jürgen Stolz* [3)]
Salvatore Vicari* [3)]
Dr. Otto Wiesheu [2)]
Prof. KR Ing. Siegfried Wolf [1)]
Jürgen Worrich* [3)]
Prof. Dr.-Ing. Tong Zhang [2)]

* Employee representative.
[1)] Member of the Supervisory Board since October 02, 2014; appointed on December 01, 2014.
[2)] Appointed by the general shareholders' meeting on December 01, 2014.
[3)] Appointed by the court on December 02, 2014.

Members of the Board of Managing Directors

Klaus Rosenfeld [1)]
Chief Executive Officer and Chief Financial Officer

Prof. Dr.-Ing. Peter Gutzmer [1)]
Deputy Chief Executive Officer and Chief Technology Officer

Norbert Indlekofer [1)]
CEO Automotive

Oliver Jung [1)]
Chief Operating Officer

Kurt Mirlach [1)]
Human Resources

Prof. Dr. Peter Pleus [1)]
CEO Automotive

Robert Schullan [1)]
CEO Industrial

[1)] Appointed to the Schaeffler AG Board of Managing Directors on October 02, 2014; previously managing director of IBH.

Independent Auditors' Report

The following auditor's report, prepared in accordance with § 322 HGB ["Handelgesetzbuch": "German Commercial Code"], refers to the complete consolidated financial statements, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in shareholders` equity and the notes to the consolidated financial statements, together with the combined management report of Schaeffler AG for the financial year from January 01, 2014 to December 31, 2014.

To Schaeffler AG, Herzogenaurach:

We have audited the consolidated financial statements prepared by the Schaeffler AG (until October 23, 2014: INA Beteiligungsgesellschaft mit beschränkter Haftung), Herzogenaurach, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the statement of changes in shareholders' equity and the notes to the consolidated financial statements, and its report on the position of the Company and the Group for the business year from January 01, 2014 to December 31, 2014. 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 10, 2015

KPMG AG

Wirtschaftsprüfungsgesellschaft

Sailer	Pritzer
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

Georg F. W. Schaeffler

Ladies and Gentlemen,

Since the date it became operational, the Supervisory Board has performed the duties mandated by law, the company's articles of association, and its internal rules of procedure. It has provided advice to the Board of Managing Directors and supervised its activities. It was directly involved on a timely basis in all decisions that were of fundamental importance to the company, and advised the Board of Managing Directors on significant decisions. The Board of Managing Directors 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 updated in detail about the development of revenue and earnings of the group and the divisions, as well as about the financial position of the company.

The members of the Supervisory Board were also available for consultations with the Board of Managing Directors between meetings. The Chairman of the Supervisory Board regularly kept in close contact with the Board of Managing Directors and particularly with the Chief Executive Officer, and ensured that he was kept informed about all current issues and developments at the company on an ongoing basis.

Structure of the group

Schaeffler AG was created from INA Beteiligungsgesellschaft mbH, Herzogenaurach, by a change in that company's legal form on October 02, 2014. The Supervisory Board was initially established with three members representing the shareholders. Until December 01, 2014, this Supervisory Board consisted of Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson), and Prof. KR Ing. Siegfried Wolf.

From October 28, 2014, until November 28, 2014, the company performed a procedure known as status proceedings ["Statusverfahren"]. Following the successful completion of the status proceedings, Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Dr. Siegfried Luther, Georg F. W. Schaeffler, Maria-Elisabeth Schaeffler-Thumann, Robin Stalker, Dr. Otto Wiesheu, Prof. KR Ing. Siegfried Wolf, and Prof. Dr.-Ing. Tong Zhang were appointed to the Supervisory Board as shareholder representatives at a general shareholder meeting held on December 01, 2014.

In addition, on December 01, 2014, a resolution was passed adopting a compensation policy for the Supervisory Board, which is subject to co-determination.

The court appointed Jürgen Bänsch, Norbert Lenhard, Dr. Reinold Mittag, Thomas Mölkner, Stefanie Schmidt, Dirk Spindler, Jürgen Stolz, Salvatore Vicari, Jürgen Wechsler, and Jürgen Worrich to the Supervisory Board as employee representatives on December 02, 2014.

In its initial meeting on December 12, 2014, the Supervisory Board appointed Georg F. W. Schaeffler Chairman, Jürgen Wechsler Deputy Chairman, pursuant to section 27 (1) of the German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG), and Maria-Elisabeth Schaeffler-Thumann additional Deputy Chairperson, pursuant to section 11.1 of the company's articles of association.

Committees

On December 12, 2014, the Supervisory Board passed resolutions to adopt internal rules of procedure and to establish the following committees:

- Mediation committee established in accordance with section 27 (3) MitbestG, consisting of
  Georg F. W. Schaeffler (Chairman),
  Norbert Lenhard, Maria-Elisabeth Schaeffler-Thumann, and Jürgen Wechsler

- Executive committee, consisting of
  Georg F. W. Schaeffler (Chairman),
  Norbert Lenhard, Dr. Reinhold Mittag, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler, and
  Prof. KR Ing. Siegfried Wolf

- Audit committee, consisting of
  Dr. Siegfried Luther (Chairman),
  Jürgen Bänsch, Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, and Jürgen Worrich

Appointment of the Board of Managing Directors

The company's Board of Managing Directors consists of Klaus Rosenfeld (Chief Executive Officer), Prof. Dr.-Ing. Peter Gutzmer (Deputy Chief Executive Officer), Norbert Indlekofer, Oliver Jung, Kurt Mirlach, Prof. Dr. Peter Pleus, and Robert Schullan, all of whom were appointed by the Supervisory Board at its meeting on October 02, 2014.

In its internal rules of procedure dated October 31, 2014, the Board of Managing Directors has assigned specific responsibilities to its members. As a result, Klaus Rosenfeld is responsible for the CEO and Finance functions, Prof. Dr.-Ing. Peter Gutzmer for Technology, Prof. Dr. Peter Pleus and Norbert Indlekofer for the Automotive division, Robert Schullan for the Industrial division, Oliver Jung for Operations, and Kurt Mirlach is responsible for Human Resources.

Main activities

The Supervisory Board held one meeting during the year which was attended by all Supervisory Board members except for two absentees. The Supervisory Board addressed recent developments in the Schaeffler Group's business, the results for the third quarter of 2014, the forecast as at December 31, 2014, the budget for 2015, and the medium-range plan for the years 2015 to 2017. It also discussed and approved a refinancing project and a capital contribution to be received in kind by the company.

In addition, Dr. Ulrich Hauck was appointed to the Board of Managing Directors as Chief Financial Officer, effective April 01, 2015.

At their meeting on October 02, 2014, the shareholders appointed KPMG AG, Wirtschaftsprüfungsgesellschaft, as auditors of the separate financial statements and the dependency report of the company and of the consolidated financial statements. KPMG has confirmed that there are no circumstances affecting their independence as auditors. The audit committee engaged the auditors in a resolution passed in writing on December 12, 2014.

The executive committee established on December 12, 2014, approved details of the "European Distribution Center" project in a resolution passed in writing on December 12, 2014.

Separate and consolidated financial statements for 2014

KPMG has audited the separate financial statements as at December 31, 2014, prepared by the Board of Managing Directors in accordance with German commercial law, including the accounting records and the system of internal controls over financial reporting.

KPMG has also audited the report on relations with affiliated companies ("dependency report") prepared by the Board of Managing Directors, in accordance with section 312 of the German Stock Companies Act ("Aktiengesetz" – AktG). The report covers the period from October 24, 2014 (the date the transformation became effective and Schaeffler AG was created) to December 31, 2014. The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2014, 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 combined 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 an occasion for an assessment substantially different from that of the Board of Managing Directors."

The audit committee discussed the financial statement documents, the dependency report, and the long-form audit reports with the Board of Managing Directors and the auditors on March 24, 2015. The audit committee scrutinized the development of earnings for 2014, 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 25, 2015. 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 dependency report (including the closing statement of the Board of Managing Directors), and the consolidated financial statements along with the combined 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 Board of Managing Directors. The Supervisory Board has approved the separate financial statements and the consolidated financial statements. The separate financial statements have thus been adopted.

2014 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 Board of Managing Directors, to management, and to all of the 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 25, 2015

Additional information

Financial glossary

A

AfS: Abbreviation of “Available for sale.”

C

Cash Flow: Net inflow of funds generated by an entity’s business activities. Used to assess an entity’s financial strength.

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

Covenants: Also called “financial covenants” or “financial ratios”; used to monitor compliance with loan agreements. If the agreed upon financial ratios are not met, the creditors can call the corresponding loans.

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.

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 of “earnings before interest and taxes:” Earnings before financial result, income from equity-accounted investees, and income taxes.

EBITDA: Abbreviation for “earnings before interest, taxes, depreciation and amortization:” Earnings before financial result, income from equity-accounted investees, income taxes, 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.

Euribor: Abbreviation of “Euro Interbank Offered Rate:” Interest rate that European banks charge each other on unsecured loans denominated in Euro.

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 of “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 of "Held for trading."

I

IAS: Abbreviation of "International Accounting Standards."

IASB: Abbreviation of "International Accounting Standards Board."

IFRIC: Abbreviation of "International Financial Reporting Standards Interpretation."

IFRS: Abbreviation of "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.

Interest rate cap: Contractually agreed upper limit of a reference interest rate (Euribor).

L

LaR: Abbreviation of “Loans and receivables.”

N

Net financial debt: Total of current and non-current financial debt net of cash and cash equivalents.

P

Production volume: Production volume represents production output delivered to a finished goods or work-in-process warehouse, valued at group production cost.

R

Rating: Assessment of a company’s creditworthiness 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 of the former “Standing Interpretations Committee.”

General glossary

A

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.

C

Centrifugal pendulum-type absorber: A centrifugal pendulum-type absorber is a vibration damper for installation in dual-mass flywheels.

Compliance: Ensuring that all rules and regulations applicable to a process are adhered to.

D

Dual-mass flywheel: Component of the drive train of modern vehicles (passenger cars, buses, commercial vehicles) that helps reduce torsional vibration.

E

EnES: Energy, environment, and safety.

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

E-Wheel Drive: The E-Wheel Drive is a wheel hub drive that facilitates the development of ground-breaking vehicle architectures and interior concepts, particularly in electric city vehicles. In addition to increasing useable space and improving maneuverability, further advantages of the E-Wheel Drive include its braking assistance function providing increased driving safety and its more rapid response

F

FIA Formula E: Auto racing series established in 2014, in which fully electric race cars race on city-center circuits.

H

HOPE: „Health, Occupational skills for employability, Preservation of national heritage, art and culture and Empowerment of underserved and weaker section:" Schaeffler Group assistance program to improve medical care in India.

I

Industrial: Division of the Schaeffler Group that includes the business with customers in the mobility, production machinery, energy and raw materials, and aerospace sectors.

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

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 of "Occupational Health and Safety Assessment Series." OHSAS 18001 is a standard for occupational safety management systems.

P

Planet gear: The outer gear revolves around the center gear having external teeth like a planet, which has resulted in the commonly used but not always accurate term planet gear train to refer to epicyclic gear trains. The gears are referred to as the planet gear which rotates around the sun gear.

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.

SupplyOn: Supply chain collaboration platform for globally active companies. Further information available at www.supplyon.de.

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

T

TAROL: Tapered Roller Bearing: TAROL units are double row tapered roller bearings that are supplied with factory-set clearance, greased, and sealed. The TAROL units are thus supplied ready-to-fit and are pressed onto the shaft journal by means of a hydraulic unit. TAROL units are used as wheelset bearing supports on rail vehicles such as freight cars and passenger carriages.

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 %.

Torque converter: A torque converter is a hydraulic component that facilitates the transmission of force between components rotating at different speeds.

Triondur: Schaeffler Group brand for tribological coatings applied using vapour deposition.

X

X-Life: Seal of quality for particularly high-performance products featuring longer economic and operating lives as a result of higher dynamic load ratings than the previous standard.

List of tables

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Printed on FSC-certified paper. By using FSC paper we are actively supporting the preservation of our forests, promoting plant and wildlife protection, and are taking a stand against the exploitation of human beings in the forestry industry.

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March 2015

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 2013 to 4th quarter 2014

No. 094

in € millions	2013 1st quarter	2013 2nd quarter	2013 3rd quarter	2013 4. Quartal	2014 1st quarter	2014 2nd quarter	2014 3rd quarter	2014 4th quarter
Income statement								
Revenue	2,756	2,858	2,811	2,780	2,976	3,014	3,034	3,100
EBITDA	525	538	482	115	572	541	590	469
• in % of revenue	19.0	18.8	17.1	4.1	19.2	17.9	19.4	15.1
EBIT	368	377	324	-61	418	383	429	293
• in % of revenue	13.4	13.2	11.5	-2.2	14.0	12.7	14.1	9.5
Net income [1)]	**117**	**121**	**158**	**-269**	**220**	**-10**	**229**	**215**
Statement of financial position								
Total assets	8,707	8,668	8,498	8,387	8,704	9,095	9,675	11,617
Shareholders' equity [2)]	-2,487	-2,419	-2,292	-1,966	-1,808	-1,815	-1,666	258
• in % of total assets	-28.6	-27.9	-27.0	-23.4	-20.8	-20.0	-17.2	2.2
Net financial debt [3)]	6,547	6,134	5,445	5,447	5,529	5,755	5,768	5,778
• Financial debt to EBITDA ratio [4)]				3.3	3.2	3.4	3.2	2.7
Statement of cash flows								
Cash flows from operating activities	177	328	252	270	134	-163	439	490
Capital expenditures (capex) [5)]	121	108	114	229	155	143	202	357
• in % of revenue (capex ratio)	4.4	3.8	4.1	8.2	5.2	4.7	6.7	11.5
Free cash flow	57	228	142	46	-19	-306	238	135
Employees								
Headcount (at end of reporting period)	75,890	76,541	77,549	78,258	79,369	80,054	81,353	82,294
Automotive [6)]								
Revenue	1,987	2,088	2,054	2,035	2,212	2,225	2,230	2,316
EBIT	269	292	261	-139	325	300	319	291
• in % of revenue	13.5	14.0	12.7	-6.8	14.7	13.5	14.3	12.6
Industrial [6)]								
Revenue	769	770	757	745	764	789	804	784
EBIT	99	85	63	78	93	83	110	2
• in % of revenue	12.9	11.0	8.3	10.5	12.2	10.5	13.7	0.3

1) Attributable to shareholders of the parent company.
2) Including non-controlling interests.
3) Excluding shareholder loans.
4) EBITDA based on the last twelve months.
5) Capital expenditures on intangible assets and property, plant and equipment.
6) Prior year information based on 2014 segment structure.

Multi-year comparison

No. 095

in € millions	2010 [1]	2011	2012	2013	2014
Income statement					
Revenue	9,495	10,694	11,125	11,205	12,124
EBITDA	2,097	2,290	2,087	1,660	2,172
• in % of revenue	22.1	21.4	18.8	14.8	17.9
EBIT	1,509	1,736	1,469	1,008	1,523
• in % of revenue	15.9	16.2	13.2	9.0	12.6
Net income [2]	**63**	**610**	**380**	**127**	**654**
Statement of financial position					
Total assets	13,344	8,192	8,463	8,387	11,617
Shareholders' equity [3]	3,341	-2,862	-2,598	-1,966	258
• in % of total assets	25.0	-34.9	-30.7	-23.4	2.2
Net financial debt [4]	5,711	6,671	6,541	5,447	5,778
• Financial debt to EBITDA ratio	2.7	2.9	3.1	3.3	2.7
Statement of cash flows					
Cash flows from operating activities	892	1,069	1,133	1,027	900
Capital expenditures (capex) [5]	361	773	860	572	857
• in % of revenue (capex ratio)	3.8	7.2	7.7	5.1	7.1
Free cash flow	566	304	301	473	48
Employees					
Headcount (at end of reporting period)	67,509	73,786	75,810	78,258	82,294

[1] Amounts taken from the 2010 consolidated financial statements of Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG).
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Excluding shareholder loans.
[5] Capital expenditures on intangible assets and property, plant and equipment.

Financial calendar 2015

March 26, 2015

Full year results 2014

May 21, 2015

Results for the first three months 2015

August 20, 2015

Results for the first six months 2015

November 19, 2015

Results for the first nine months 2015

All information is subject to correction and may be changed at short notice.

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You can also download all documents from this site.

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